CHAPTER

9 INDUSTRIAL SECTOR AND LIBERALIZATION

9.1 ROLE OF INDUSTRY IN AN ECONOMY

Previously, we have addressed the agricultural sector and its importance to the economy. The industrial sector plays an equally important role as it accelerates growth of economies, provides self-reliance, employment, creates a demand for the agricultural produce and creates 'ripple effect' (similar to throwing a pebble in a pond and you can see the waves moving outwards).

Industries can create townships around them thereby creating indirect employment (Jamshedpur, Rourkela, Bhilai are a few to mention here). Industrialization is all about focusing on the industries allowing them to meet the requirements of the economy besides providing linkages to the agricultural sector and also employment opportunities in the economy. This can be achieved only through higher industrial growth which can provide momentum to overall growth and also make it sustainable in future.

There has been a missing link in India of the industrial/manufacturing sector, despite policies and governmental focus, not playing its role of creating linkages with agricultural sector and also creating desired employment opportunities. The services sector becoming a major contributor to output rather than the manufacturing or the industrial sector. Such sectoral composition in favour of services does happen but once industrial sector has achieved a level of maturity emerged globally competitive and the service sector supporting higher levels of growth of economies, which has not happened in India.

Let us understand industry a bit more closely. It implies conversion of any raw material into a finished good or a manufacturing activity producing wide range of goods which is required in the economy. Industries can also be categorized across the following features:

(1) **Products**—basic industries (steel, cement), capital good industries (manufacturing of plant and machineries). Intermediate goods industries (manufacture of dyes, tools, etc.,) and consumer goods industries (manufacture of cars, scooters, fridges, TV, etc.). The consumer goods industries are also known as 'White Goods Industry'.

(2) **Ownership**—government (public sector), private and foreign (private sector), public and private sector (joint sector).

(3) **Scale of investment in plant and machinery**—large industries (investment in plant and machinery of over ₹10 crores), medium industries (₹1–10 crores), small-scale industries (₹10 lakh to ₹1 crores), village and cottage industries (less than ₹10 lakh).

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(4) **Capital/Labour intensity**—capital intensive industries (larger capital intensive in relation to labour) and labour intensive industries (larger intensity of labour in relation to capital).

Economies desirous of pushing up rates of growth of their economy, would need industrial goods for development and shift focus on setting up basic and capital goods industries commonly known as initiation of the process of industrialization.

India started its journey of industrialization during the second five-year plan (1955/56–60/61). The pattern of industrialization in India is also known as the 'Mahalanobis Model' (an Indian scientist) with the setting up of basic and capital goods industries by the government directly, strongly influenced by the Russian model of state-run industries.

9.2 PUBLIC SECTOR IN INDIA

One may ask 'why' public sector was chosen for industrialization. Post-independence India was deeply influenced by the Soviet Union which had state-run industries and was an era of 'socialism' with large role of the government in production of goods and services. 'Capitalism' was associated with exploitative tendencies and having vested interest.

Immediately after Independence, the private sector was virtually non-existent in India and whatever existed did not have the maturity, resources, technology, etc., to shoulder could get the responsibility of the industrialization. The government, at its own level technology and other such support from other countries which may not have been possible otherwise.

Even if it is presumed that the task was entrusted to the then private sector, industrialization would have required huge resources, technology support and well-trained manpower, which were not available within the then private sector. Basic/capital goods industries have long gestation period (time between investment and commercial production), high break-even point (long period before profits accrue). These could be seen as natural dis-incentives for the private sector at that time.

Setting up public sector in India for industrialization was a conscious, well thought out and deliberate decision given the magnitude of responsibility and the need for moving on a pre-determined path of industrialization. The role of public sector in India was clearly cut-out and set up with the following objectives:

(1) Create significant 'capacities' (ability to produce) in basic and capital goods.
(2) Achieve self-reliance in core areas and also facilitate import substitution.
(3) Attain commanding heights of the economy and become a driver for the industrial growth and a 'catalyst' in accelerating overall growth of the economy.
(4) Adopt pro-labour technology to create employment opportunities.
(5) Setting up industries in backward/tribal areas for their integration with the rest of the economy and also for better regional development.
(6) Provide for development of the private sector.
(7) Set up self-contained townships covering residential, schools, hospitals, transport, etc.
(8) Public sector to have regulated prices by the government given their importance to the economy and not creating an upward spiral in the prices of basic goods.

Six decades since setting up of public sector, can it be said they have delivered or achieved the objectives?

(1) Broadly they have delivered in creating significant 'capacities' in all core areas and having achieved self-reliance in all kinds of industrial goods required in the economy.
(2) Today, India can safely claim that it is not dependent on any country for its requirement of industrial goods largely due to the public sector.
(3) They have provided gainful employment.
(4) It has also facilitated evolution of the private sector and also been responsible for the levels of industrialization and industrial maturity reached.
(5) They can also be credited for making the industrial sector a driver of growth and lifting overall rates of growth.

They have had their own set of issues too, but many of them cannot be directly attributed to them, issues of capacity utilization, technology-related, time and cost overruns but most importantly, many public sector enterprises are loss making. Of the two hundred twenty odd PSU one third are loss making with high levels of accumulated losses.

However, can we really blame the public sector for being loss making? Public sector was set up with socio-welfare considerations provided the objectives of industrialization, self-reliance, employment generation, development of backward/tribal areas. More fundamentally, government ownership and profits do not go together. Profit is a function of pure businesses and public sector by virtue of government being the owner cannot function as a pure business.

Similarly, to comment on the efficiency levels of public sector is incorrect as efficiency levels can be envisioned amongst the 'comparables'. One can comment on who is more efficient amongst say, Pepsi and Coke. However, all public sectors are operating as monopolies in terms of their scale of operations.

Whom would you compare ONGC or BHEL or SAIL with? This is true for all public sectors. It is not to say that public sector is efficient. The expression conveyed here is that it is not possible to comment on efficiency levels of public sector based on efficiency levels of the private sector.

Further comparison of the public sector is technically incorrect as private sector operates as a commercial venture with an explicit profit motive unlike the public sector which also have social objectives to fulfil. Public sector has not to be envisioned from the perspective of profit-making or efficiency levels but in the larger context of the objectives which are assigned to them when they were set up.

We would revisit public sector a bit later after developing an understanding of the industrial policies which have defined the role of public sector and also path of industrialization.

9.3 INDUSTRIAL POLICIES

The role of public and private sector, overall direction to industrial growth and the industrialization has been guided by various industrial policies of the government that has been announced from time-to-time in view of changing priorities starting from 1948 onwards.

However, clearly there are some landmark policies such as the Industrial Policy of 1956 which has given the present character of public sector. The other is the Industrial Policy of 1991 which is hailed as the usherer of economic reforms in India. It may not be required to go into each and every industrial policy since 1948, however, it would be suffice to see the salient key features of all policies pre-1991 which would facilitate a better understanding of the Industrial Policy of 1991 and the changes brought about in the right context.

Industrial Policies (pre-1991) are as follows:

(1) The industrial sector was highly regulated, bureaucratic controls and subject to strict licensing system by the government with the need for a licence for any industrial activity, besides the need for compulsory registration before commencing the business.
(2) The policy of 1956 brought the role of public sector sharply by reserving as many as eighteen areas exclusively for the public sector. In certain areas, private sector was allowed but subject to the requirement of licence and registration. However, public sector could also be set up in these areas if deemed necessary by the Government.
(3) Thus, most critical and important areas of oil, power, heavy equipments, telecom, etc., were exclusively in the domain of public sector.
(4) Bigger private companies were highly regulated through the monopolies and restrictive trade practices (MRTP) act and known as MRTP companies and similarly foreign companies were regulated through the Foreign Exchange Regulation Act (FERA) and known as FERA companies.
(5) It was believed by the government that as a company grows in size it can resort to monopolistic and exploitative tendencies. As a result even after a licence and commencing of business, the private sector had to seek approval from the government for capacity expansion, diversification and other such business decisions.
(6) The earlier policies with a view to give public sector commanding heights and control over key industries/services also paved the way for nationalization or take over from private sector. Thus, coal mining, banking, insurance, textile mills (sick industries were taken over to protect employment) earlier in the private sector, were nationalized.
(7) The pre-1991 policies had price regulation for industrial goods with prices of steel, cement and other basic goods controlled by the government.
(8) Each and every policy had stressed on the mixed economy character of the economy which is co-existence of the public and private sector but in reality it was heavily tilted towards the public sector.

To summarize, the pre-1991 policies were highly regulated and regimented oriented, near dominance of the public sector and a very limited space but with bureaucratic control over private sector companies.

9.4 NEW ECONOMIC POLICY 1991

As mentioned previously, this policy is known to be the beginning of economic reforms in India. Though reforms were there before this also but they were as changes being effected but not seen as reforms made as explicit in the policy of 1991. It is also known as the New Industrial Policy or the New Economic Policy, and also known as the policy of liberalization or end of licence/permit raj or even end of bureaucratic control over functioning of the industrial sector, particularly private sector.

The policy aimed at greater freedom for doing businesses outside the government control, reduced the role for public sector, de-reserving areas and larger role for the private sector, doing away with MRTP/FERA act and dispensing with MRTP and FERA companies. This lifted all bureaucratic control on their functioning. Price regulation paved a way to the market determined prices for most of the industrial goods. The policy emphasized on greater competition and level playing field for all players.

It advocated liberal foreign investment policies to attract foreign investment in the country (more about this in upcoming sections). Broadly, the New Economic Policy or the Industrial Policy 1991 has three broad areas which are as follows:

(1) Liberalization.
(2) Public sector.
(3) Foreign investment.

Liberalization

Liberalization as a policy basically dispensed with the earlier licensing and the registration system providing the freedom to private sector to set up industries without either the need for a licence or a need for registration. De-licensing was the most important aspect of the policy of liberalization. Two areas, atomic energy and railways would not be open for private sector participation. Even while doing away with the licensing system certain critical areas still require a licence but opened up for private sector participation which are as follows:

(1) Any kind of fire arms and ammunition, explosives.
(2) Drugs and pharmaceuticals.
(3) Coal mining.
(4) Defence equipments.
(5) All kinds of wines, cigarettes and spirits.
(6) Hazardous chemicals.

Any environment degrading and polluting industries would not require a licence but an administrative clearance from the respective ministries of central/state government before investment. Further, as a part of liberalization there was now no restrictions on capacity expansion and diversification by the private companies. The policy thus allowed the private sector to operate as pure businesses with minimal bureaucratic control and be driven and expand operations largely by demands in the markets and opportunities available.

Why was this done? It is important to understand that even before reforms, despite the regulations, the private sector struggled, operated within the constraints of the government but survived and was not completely eclipsed by the public sector. The changing economic scenario required a different orientation focused on efficiency, productivity and profitability.

A time had come to acknowledge maturity of the private sector, their resilience, their fighting spirit and that they could now share and shoulder larger responsibilities. In fact, on the contrary, the regulations had given them the maturity of operating in a constrained environment.

It also distinguished a fundamental shift in the mindset of the government of the clear distinction between production and governance, and a separate role for both the private sector as well as the government. It also marked the shifting of responsibility of incremental investment and growth to the private sector, leaving the government freer to concentrate on addressing the larger social issues of the economy and better governance. It was also an acknowledgement of the objective of a mixed economy. It should not be seen as undermining the importance of the public sector but giving due credibility to the private sector in the economy.

Public Sector and Economic Reforms

It is widely perceived that the policy of 1991 has clipped the wings of the public sector by opening the areas which are reserved exclusively for public sector to private sector. This is not from a negative sense, but there would be a larger role for the private sector in the areas which were reserved earlier for the public sector.

The policy of 1991 reduced the areas reserved for public sector from 18 to 5 and subsequently in later years more sectors were thrown open for private sector participation, except for atomic energy, railways and those requiring a licence. Further, no new public sector would be set up and investment limited to existing companies and that to from the internal accruals or accumulated profits of public sector. No fresh budgetary allocations would be made in public sector except for loss-making and 'stressed' public sector companies.

There was a requirement for greater professional character by the public sector. Appointments to the Board of Directors of public sector would only be of professionals. The Chief Executives of public sector were made accountable for their performance. Performing public sectors were to be given greater autonomy in their day-to-day operations. First through the concept of execution of Memorandum of Understanding of commitments of performance and operational flexibility. Later giving status of Maharatna, Navrattan and Mininavrattan, of varying degree of taking investment decisions to well run PSUs.

The policy has taken a complete 'U' turn from the previous policies, in announcing that there would be no further nationalization of the private sector unless there are compelling exceptional circumstances.

On the contrary, the policy for the first time, talked of disinvestment and privatization of public sector. The third element of the New Economic Policy was the reforms in foreign investment which will be discussed in a later section.

Disinvestment and Privatization

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Disinvestment and Privatization

Both disinvestment as well as privatization is the reverse of investment. For setting up public sector, the government had to invest by subscribing in shares of the new public sector from budgetary resources. Thus, disinvestment and privatization both imply 'selling of shares of public sector by the government'. We all know that shares are traded at the stock market and the traded value of each share is decided by the buyers and the sellers in the market.

If buyers of shares of a particular company are more than the sellers of the same, the traded value of the shares would be at a 'premium' or otherwise it would be at a 'discount'. Thus, in both the cases of disinvestment as well as privatization, selling of shares of public sector would be at a premium.

To distinguish between both, ownership of companies would need to be understood. Who is the owner of a company? He/She is a person who holds majority of the shares, that is, 51 per cent. Technically, ownership is with the person holding a minimum 51 per cent shares, or even a person enjoying support of 51 per cent shareholders. This can be explained as: If you are holding 10 per cent shares of a company and you are able to convince 41 per cent shareholders to support, then you will become the owner of the company (similar as governments are formed). Hence, disinvestment is defined as selling of shares of public sector at a premium, to the public, by the government without losing ownership of the public sector. The objective here is to raise resources for the government. These shares are sold to the public as the preferred and first option of making them partners in public sector.

We have talked about ownership earlier. At a still deeper level ownership of business being done, as companies having shares, is always with shareholders and management is with the person having support of 51% of the shareholders. Privatization is transferring management control to the private sector by selling 51 per cent shares of public sector to the private sector or even lesser but transferring management control to a group or to a company. The objective is not so much to raise resources in as much as transferring management control from the government to the private company. It is not a logical extension of disinvestment. That is, having disinvested in a public sector does not necessarily imply that it is going to be privatized.

Why did the policy of 1991 favored privatization? The policy took a mature decision in seeking privatization of the public sector for the following reasons:

(1) The public sector as mentioned earlier had broadly delivered in terms of creating significant capacities in key areas such as self-reliance, substituting for imports of industrial goods, created the platform for further industrialization and industrial growth. There is a requirement now to moving into higher gears and look at issues such as developing greater capabilities, improving productivity and efficiency, shift focus on profitability.

(2) The policy of liberalization has opened the gates for liberal private sector investment in key areas and competition would only intensify. This requires the public sector to now run as pure businesses, as a commercial venture which is possible solely by private sector. As a public sector, there will always be a limitation of not being able to operate as a pure business in the same way as their counter parts in the private sector.

(3) The role of the government as a producer of industrial goods is always intermittent, short-term and never permanent. It can be permanent producer only of those which

direct welfare of people is affected like railways or in the national interest like atomic energy.

(4) It is also about the mindset of the government of the maturity of the private sector and their ability to deliver the requirements better than the government.
(5) As a government, it has larger responsibilities of providing good and efficient governance, creating enabled environment, addressing the welfare of the masses, which are far more important than running public sector. Especially, when today there is a maturity and competence in the private sector.
(6) Why privatize a profit making public sector? Privatization is not about profit making but for a larger reason of whether it will continue to remain profitable in future with intense and fierce competition.
(7) Thus, privatization is not for today but for a brighter future of the public sector in a privatized environment equipped better to meet the challenges.
(8) Any business requires the ability to take prompt business decisions, it is not about whether the decision was right or wrong. Such decisions will always have business risks but what is required is the ability to take the decision quickly. The structure of public sector globally is such that it suffers from delays in decision-making.
(9) Privatization is also about handing public sector to a 'visionary' who understands business, understands priorities and knows how to make the public sector grow to greater heights and help it to emerge as a global company.

Keeping the above facts in view the government went for some big ticket privatization like that of BALCO (Vedanta Group), VSNL (Tatas), IPCL (Reliance Industries), Modern Foods (Unilever), and Maruti (Suzuki). Even Round 1 of privatization was performed amidst lot of controversy ranging from the need to issues of valuation.

Why the opposition to privatization? The reasons are detailed as follows:

(1) It was feared that government owned monopolies would be replaced by private sector monopolies and could result in exploitation by the private sector. The government has clarified that no public sector operating as a monopoly would be privatized. Only those which are operating in a competitive environment would be privatized. Until they are able to operate in a competitive environment there would only be disinvestment of such public sector.
(2) It is also feared that privatization would result in a large number of workers laid off or would lose their jobs thereby adding to the pool of unemployment. It needs to be understood that public sector being specialized in nature, the workers by virtue of experience have acquired a skill set which no owner would like to lose. Rather than retrench they would be redeployed.
(3) It is also widely believed that proceeds received from disinvestment and privatization would be used to meet the budgetary deficit and not used for the benefit of the masses or used to create social assets in the economy.
    (a) The government has already set up the National Investment Fund (NIF) for parking of funds received from disinvestment.
    (b) Further, the corpus would not be used but the returns from the corpus by their investment in profitable avenues, would be used 75 per cent for creating social

assets and the remaining 25 per cent in revival of loss making public sector units and also meeting the expansion needs of the profitable public sector units.

(c) The corpus of the NIF would be managed by UTI mutual fund, SBI and LIC.

(4) Given the high level of fiscal deficit it would be difficult for the government to desist from reducing the deficit through proceeds of disinvestment and privatization.

Despite the merit and the need for privatization the government rightfully is not considering any further privatization and would rather wait for consensus building amongst political parties, trade unions before privatization as it is a long protracted process spanning several decades.

Both liberalization as well as privatization are the major planks of the economic reforms. The government by pressing the 'pause button' on privatization is being criticized as slowing down of reforms or of having gone 'soft'.

Privatization should not be seen as the only aspect of reforms. Neither should one expect an end of all economic problems through privatization. A similar misplaced belief was there when public sector was set up. Privatization at its best provide only for an efficient and competitive domestic industrial base and cannot be said as the 'only' aspect of reforms. There are so many other softer reforms (relatively easy to implement through an executive order of the government), which could have been done. Despite the policy of liberalization there are still bureaucratic hurdles.

In terms of World Bank survey, on the relative ease of doing business outside government approval, regulatory clearances, India's rank is a low of one hundred and thirty-four out of one hundred and eighty-three countries. Singapore is ranked as number one among all other countries.

Similarly, 'Licence Raj' has paved way to 'Inspector Raj'. Today, as many as thirty different inspectors visit the factory premises under various Acts as against 2–3 in China. Getting an electricity connection or a no objection certificate from pollution control board is still difficult. Collection of excise duty is cumbersome.

There is still a lot of bureaucratic interface for performing business in India and that is where the government needs focusing. Thus, liberalization has helped but not to that level by global standards. It is rightly said that what India needs is 'thousands of smaller reforms' and 'big bang reforms' can wait till acceptable or till a need for them is felt.

9.5 ROLE OF PUBLIC SECTOR IN FUTURE

The NEP 1991 has given rise to certain wrong perceptions about the public sector, mentioned earlier, 'clipping of their wings', or 'diluting the status of public sector'. It needs to be clarified first that it is not the clipping of wings but only a larger role for private sector. Neither is the status being diluted given the huge investments and asset base of the public sector in the country. The policy should not be seen as undermining the importance of public sector, but role of public sector would undergo a change as mentioned below:

(1) From a welfare orientation they would shift to function as a commercial venture with profits as an objective to the extent feasible as a public sector.

(2) From production-oriented they would become productivity-oriented.

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(2) From production-oriented they would become productivity-oriented.

(3) They will operate with greater professionalism and well run public sector would operate with greater operational and functional autonomy to the extent feasible.
   (a) Many more public sector would acquire the status of 'Mini-navrattan, Navrattan and Maharatnas', yielding them a greater degree of freedom for taking investment decisions by the respective boards of public sector and not requiring government approval.

(4) There would be consolidation and likelihood of mergers amongst public sector such as oil companies, nationalized banks to enable them to achieve greater economies of scale and help them to compete with global companies.

(5) Many public sectors may opt for overseas acquisitions paving the way for public sector to become global players.

(6) There is a likelihood of public sector getting into joint ventures with private sector and greater joint participation in key areas.

(7) The chief executive officer of public sector would be considered for appointment based on merit and competence both within as well as outside the government.

(8) There would be a level playing field with the private sector allowing for healthy competition.

(9) Gradually, their monopoly status would get diluted with entry of private and foreign companies and they would not be at 'commanding heights' of the economy but operate along with private and foreign companies.

(10) Efforts would be made to address the loss making public sector by exploring all avenues for their revival through capital infusion, waiving off accumulated losses so that they can start afresh on a clean slate. However, all such revivals of the loss making public sector may come with a 'rider', that this revival would be subject to privatization subsequently.

(11) However, the biggest challenge before the profitable public sector would be their ability to be competitive, productive and efficient and remain profitable in future.

9.6 EMERGING ROLE OF PRIVATE SECTOR

The most notable feature of the Industrial Policy of 1991 is the acceptance of the maturity and the ability of the private sector and their capabilities to shoulder higher responsibilities. It can be said that the emerging role of the private sector has been crystallized by the Industrial Policy 1991.

Already, since the last two decades of reforms there have been an increased number of companies, expansion and diversification by existing companies, entering into key areas. They have been responsible for raising industrial growth and also lifting India's growth in recent times. The future will thus witness the following:

(1) A larger responsibility on the shoulders of the private sector for increasing investment, diversification, taking industrialization forward and furthering industrial growth.

(2) They will have presence in all core/critical areas which were previously reserved for the public sector such as oil, power, etc., and now provide competition to them thereby eroding their monopoly status besides putting pressure on them for being competitive.

(3) They will command greater respect from the government and have say in policy matters concerning the industrial sector. Already, they are known as the corporate sector.

(4) Traditional family run businesses would pave way to greater professionalism.

(5) Segregation of ownership from management and gradually to holding companies like Tata Sons as a holding company and other Tata companies operating independently such as Tata Motors, Tata Finance, TISCO, TELCO, etc., under a professional and not promoters/owners.

(6) Many private companies have already gone for big ticket global acquisitions. The future would envision more such acquisitions and help Indian private companies to emerge as global companies.

(7) The government having realized the competence of private sector especially in execution of projects has recently resorted to the public private sector partnership (PPP) model for infrastructure development.

(8) There would be an increasing trend towards 'corporate governance' which is complete transparency in operations, working in the interest of the company (not only owners) and seeking to maximize 'value' to the shareholders. It is also about broader overview and greater professionalism by having independent board members in the board of directors of companies, not related directly or indirectly either to the company or to the owners. Already, SEBI has made corporate governance mandatory for all listed companies and a stipulation of companies to have at least one-third directors as independent.

(9) The private sector would operate with greater responsibility with moral and ethical values towards their company, society and the country as a whole, referred in the corporate world as corporate social responsibility (CSR), of businesses cannot be confined to the realms of business only and will have a spill-over in the society.

(a) It is self-consciousness realization, of the companies of the need to reciprocate by fulfilling the societal responsibilities, in any manner, as deemed appropriate by the company, but without any compulsions or directives from the government. Through a recent amendment to the Companies Act, CSR has been made mandatory for all listed companies,The Companies Act, 2013, has called upon companies having a net-worth of ₹500 crore or more; or a turnover of ₹1,000 crore or more; or a net profit of ₹5 crore or more to have a CSR spend of at least 2% of their average net profits of past three years.

(b) There will be a growing realization on the part of the private sector that growth of businesses and moral responsibilities will go together in future, as distinct from the earlier perception of driven only for benefit of self.

(c) It is hoped that the unethical operations and frauds of M/s Satyam Computers was more in the nature of an exception and not repeated by other companies.

(10) Many business houses may become philanthropic, giving their due share to society by setting up charitable trusts, hospitals, etc.

(a) They would demonstrate to the government that the private sector can contribute in its own way towards welfare of the people and social development.

(11) Finally, the 'mixed economy' character would get further entrenched in future with co-existence of both the public and private sector working shoulder to shoulder in all the key areas and jointly increasing industrial and overall growth of the economy.

The mixed economy character has always been an avowed objective of the government since the first Industrial Policy of 1948, however, it was only seen as an intention of the government, more on paper. The future is likely to see the true emergence of the mixed economy character. The policy of liberalization has imposed great confidence on the private sector, as becoming partners to the government in developmental efforts, operating with a code of ethics, business and moral responsibilities, transparency in operations.

It is up to the private sector to rise to the occasion, meet the expectations of the government and the people and ensure that the confidence reposed is never let down. However, for the private sector to truly emerge as visualized in the policy would require the government change from a direct provider of goods and services in creating that enabling environment, to 'permit rather than prevent', to 'allow rather than stop'.

The challenge before the private sector is not only to deliver, but in a more responsible manner realizing that business and moral responsibilities go together.

Exit Policy

'It is often said that absence of an exit policy is a cog in the wheels of liberalization.' What is an exit policy? The policy of liberalization has given the freedom of entry but also given the risks of businesses that it is not necessary for all to survive, some may die a natural death, some industries may need to reorient into different businesses by closing down existing businesses and there lies the need for an exit policy.

An exit policy thus facilitates companies to close down their businesses, allowing them to reorient, restructure operations, in terms of market needs, with minimum restrictions from the government and in a quick time frame. At present, in India there is no exit policy and closure of companies is complex and cumbersome with multiple government bodies and 'acts' making closure extremely difficult and can take over several years.

Realizing its importance the government has set up the 'National Company Law Tribunal' as a one stop shop, single reference point for all sick companies either seeking revival or closure within a period of twenty-four months of the case filed with NCLT. This would bring under one roof all the multiple bodies together to work in a coordinated manner either for revival or for the closure of companies in a time bound manner. The NCLT is yet to become operational as it requires amendments to various 'acts' and also compliance of legal formalities.

An exit policy also has a ticklish issue which is labour-related and is a larger freedom to the management of companies in addressing labour-related issues. That is, if there is freedom to recruit there should also be discretion to a company to dismiss in the larger interests of the company. Unfortunately, all the labour laws have been enacted during 1920s and 1930s to protect the interests of the workers in the industrial sector and making dismissing labour as virtually impossible with fears of strikes and labour unrest.

This has given rise to complacency, non-productive workers and a complete mismatch between salaries paid and the output of workers. As long as the Indian market was sheltered, large role of public sector these could be tolerated but in today's environment with increased competition productivity and efficiency have become critical for survival of companies.

Labour has to realize that 'in the growth of the companies lies their future' and not the other way around. Thus, labour reforms would involve factoring in productivity and linking salaries to productivity. Many feel that this will bring back the 'hire and fire' policy which had forced the government earlier to enact labour laws to protect interests of labour.

Labour reform is most controversial and no political party would like to touch given the likely fall-out, even going out of power. Let us get the facts straight first. All labour laws are there to protect the interest of 6–8 per cent of the workforce in the organized sector while the remaining 90 per cent and above engaged in the unorganized sector are outside the purview of labour laws.

Which sector needs protection: the organized or the unorganized sector? Clearly it is the vulnerable unorganized sector. Second, employment in the organized sector is 'skilled' and today most economies including India are feeling the pinch of shortage of skilled manpower. Companies would like to preserve the skill set acquired out of experience. If the labour has the skills and a willing worker why will be he thrown out? Times have changed and employee retention instead is a big challenge for companies today.

Thirdly, all the labour laws have been framed much before Independence and surely working environment has undergone a sea change which is not captured by these laws. Further, there is confusion over basic definitions, such as workmen, wages, employee, etc. Factory, etc., are all defined differently in different 'acts'.

Provisions under factories act do not match provisions under minimum wages act. In fact, all these acts are not only out of time but provided for rigidity and excessive regulatory legislations in the economy and as mentioned previously only for 6-8 per cent of the workforce in the organized sector.

Fourthly, has it occurred that despite the increased industrial growth it has not led to increased employment opportunities in the organized sector as the prevalent stringent labour laws have forced the companies to substitute labour with labour displacing capital, greater automation which is ironical for a labour surplus country like India.

Fifthly, realization is required amongst labour that the priority is to first protect the interest of the company and if that is protected their interest would also get protected. Labour and management have to become partners in the process of improving productivity as well as protecting the interests of the company.

Agreed, no matter how much be the compulsion for labour reforms in the larger interest of the economy, it may be difficult to attempt given the democratic framework and fragile political set-up and cannot be pushed down as done in China.

However, at least a beginning can be made by reviewing the different labour laws, making them more comprehensive, removing duplications and ambiguities in different acts, having a uniform definition of a 'worker or labour'. That should not be difficult. The government can also initiate dialogue with political parties and representatives of various

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trade unions emphasizing upon the need for such reforms and arriving at a broad-based consensus.

What is appalling is the government disinterest to even start thinking on these lines. Labour reforms in India is the hardest of reforms and has the potential of unleashing a storm, a great upheaval, and can have a grave political fallouts and has to tread carefully and gradually by building consensus step-by-step. Until such a time it may delay further reforms and the correct way for going ahead is to make a modest and acceptable beginning. At the same time it should also be kept in mind, that without changing the labor environment and with present levels of protection through multiple trade unions, would only imply not getting full benefits of reforms for which reforms cannot be blamed.