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A flawed concept

Savings generated by restructuring programmes should pay for the cost of retrenchment, says **Uttam Gupta**

THE National Renewal Fund (NRF) was launched with much fanfare in early 1992 with the objective of mitigating the adverse effects of the structural adjustment programme on the workforce engaged in the public sector enterprises. Specifically, the corpus of NRF was meant for funding voluntary retirement (VR) of workers/employees and facilitating their re-deployment in alternative occupations after suitable training and counselling.

On both these fronts, the progress had been far from satisfactory. As on December 31, 1995 the number of employees/workers securing VR from the PSUs were only 83 thousand. This is peanuts when compared to the excess manpower in the PSUs which would run into several lakhs.

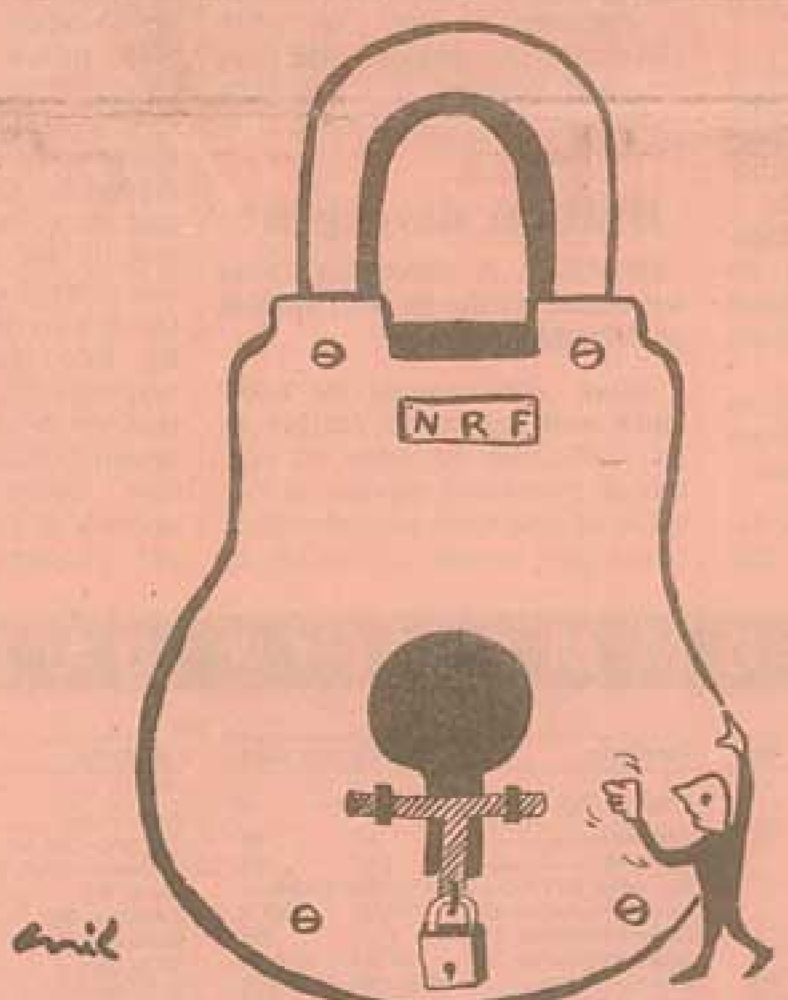
The achievement in regard to re-deployment is even worse. As against a total of 75 thousand leaving job under VRS as on December 31, 1994 those re-deployed were a meagre 104. Some 6892 workers were provided the services of employment resource centres (ERCs) set up in PSUs and 3538 counselled to set up shops on their own or re-enter the wage market. These support services do not, however, automatically ensure re-employment as there is no improvement/augmentation in the technical capabilities of the workers.

Although, 973 workers were imparted vocational training, considering the overall tight employment market, even their chances of getting a new job are bleak. Any industrial unit operating in a competitive environment would prefer fresh talent than comparatively old rejected hands.

These results are not worth the money spent under the NRF which during 1993-94 and 1994-95 was about Rs 800 crore. Apart from paying compensation to the employees/workers for taking VR, this includes a significant amount on establishing and running the administrative infrastructure associated with the scheme. While the latter is clearly unproductive, even in regard to the former, a fundamental question that arises is whether only the really surplus workers were given VR or the concerned PSUs granted VR to anyone coming forward to avail of the facility.

The first possibility automatically implies that the surplus workforce has been identified as part of the overall restructuring plan for the undertaking. Needless to say that this would enable improvement in the productivity and profitability of operations. This, in turn, implies that the PSUs, on their own, can pay for the cost of VR and financial support from the government is totally unwarranted.

Apart from the direct payment, the aspect of re-training and re-deployment needs to be tackled. There is no reason why the undertaking should not meet the cost out of the profitability gains. The management may, however, keep the cost low by restricting the support for re-training only to the lay off workers in the younger age group. The workers who are only a few years short of the retirement age at the time of laying off do not really need a fresh job. In fact, in such cases, the compensation under the VRS together with normal retirement benefits should be adequate to generate a reasonable income stream needed to support worker for the rest of his life.



All this, however, sounds hypothetical. Generally, the PSUs have had no restructuring plans and in granting VR, the management have been guided by ad hocism and arbitrariness. In fact, in some PSUs, employees at fairly senior levels have got VR and thereafter taken up lucrative jobs in private establishments or started their own consultancy services. Clearly, far from saving money, the PSUs may even have incurred loss of efficiency and profitability even as the problem of surplus/unproductive labour continues. Funding of such VR is outright wastage of public money and is far from the objectives of NRF.

While the government is currently reviewing the NRF, no attention is given to the flaws in operation of the scheme. All that it proposes to do is to provide soft loans to private undertakings besides state units and cooperatives out of the NRF corpus.

The very concept of funding whether for undertakings in public or the private sector, is seriously flawed. This approach must be abandoned; instead, the government should insist on PSUs implement comprehensive restructuring programmes which need to be self-supporting, i e consequential savings should fully pay for the cost of retrenchment. The PSUs may be given the necessary freedom of actions as long as they do not come to the government for financial support and fully meet the reasonable concerns of the retrenched workers.

The government also needs to make sure that the policy changes do not lead to unemployment on a large scale. While, there can be no sympathy with a unit which is inefficient and employs excessive work force leading to high cost, efficient and low cost units have every right to exist. From this angle, the experience of reform years has not been too good.

About 250 thousand jobs have been lost in the small scale sector alone. It cannot be anybody's case that the manufacturing operations in the concerned SSI units were inefficient; that these were high cost and, therefore, had no reason to exist. It happened because there was large scale entry of the multinationals into areas reserved for the SSIs.

Whereas, the MNCs have so far entered the SSI sector through the "backdoor" talking advantage of the exceptions to the rule (eg 75 per cent export obligations), their entry through the "front door" ie by doing away with the policy of reservation, could play havoc with the SSIs.

The entry of MNCs into areas hitherto reserved exclusively for the PSUs has affected latter's survival chances including some of the efficient undertakings.

The government wants the PSUs to compete with the multinationals on equal terms without even giving the managements the autonomy and necessary freedom of action. This will inevitably lead to loss of jobs on a scale which no scheme of rehabilitation can cope up with.

The present bias in the policy in favour of equity investment by the MNCs has led to fears of even the private corporate sector being seriously affected with attendant risk of large scale unemployment.

The government should put an end to these policy distortions without further loss of time. While it may allow MNCs, their entry should be on our terms. These terms need to be clearly laid down and not left to the discretion of the FIPB.

Concurrently, the government should take credible steps to speedily carry out pending reforms especially in the infrastructural sector, financial sector and the fiscal sector including rationalisation and simplification of the state level taxes and duties. This is necessary to enable our industries stay competitive and grow which alone can be the viable basis for maintaining high levels of employment.