E. C. No. 1026

ESTIMATES COMMITTEE (1982-83)

(SEVENTH LOK SABHA)

FIFTY-SECOND REPORT

ON

MINISTRY OF INDUSTRY DEPARTMENT OF INDUSTRIAL DEVELOPMENT

Industrial Policy—Productivity In Industry

Presented to Lok Sabha on 26th April, 1983

LOK SABHA SECRETARIAT
NEW DELHI.

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Corrigenda to 52nd Report of Estimates Committee on Industrial Productivity.

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CONTENTS

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INTRODUCTION

I, the Chairman of Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Fifty-Second Report on the Ministry of Industry (Department. of Industria Development)—Industrial Policy—Productivity in Industry.

2. The Committee took evidence of the representatives of the Department of Industrial Development on 8 and 9 December, 1982. The Committee wish to express their thanks to the Officers of the Department for placing before them the material and information which they desired in connection with the examination of the subject and giving evidence before the Committee.

3. The Committee also wish to express their thanks to the representatives of the National Council of Applied Economic Research and Federation of Indian Chambers of Commerce and Industry for giving evidence and making valuable suggestions to the Committee.

4. The Committee also wish to express their thanks to all other Organisations/Institutions for furnishing memoranda on the subject to the Committee.

5. The Report was considered and adopted by the Committee on 21 April, 1983.

6. For facility of reference and convenience, recommendations and observations of the Committee have been printed in thick type in the body of the Report, and have also been reproduced in a consolidated form in the Appendix to the Report.

NEW DELHI;
April 24, 1983
Vaisakha 4, 1905 (Saka)

BANSI LAL
Chairman
Estimates Committee

CHAPTER I

THE CONCEPT AND MONITORING PRODUCTIVITY IN INDUSTRY

A. Concept of Productivity

1.1 The concept of productivity refers to the efficient use of resources which help to accelerate the process of economic growth. The increase in production and productivity is the only solution to many socio-economic ills which our country is facing today. With this end in view, the Prime Minister gave a call for increased production and productivity all round, declaring the year 1982 as the "Year of Productivity".

1.2 According to a non official organisation the problem of increasing productivity in the broad sense may be said to be the problem of making more efficient use of all types of resources in employment, or using them to produce as many goods and services as possible at the lowest possible real cost. This implies a broad definition of both output and input. The concept of output will include goods and services which satisfy wants, not only industrial and agricultural products, but the services of doctors, teachers, those engaged in shops, offices, transport undertakings and other service industries. Input, when productivity is used in this wider sense, will mean the efforts and sacrifices of all those who contribute to production. Thus productivity can be defined as a ratio between the output of wealth produced and input of resources used up in the process of production.

1.3 The National Productivity Council has stated in its memorandum that :

> "Some distortions and misgivings about productivity have to be taken care of. Productivity is not labour productivity alone ; it is productivity of total factors of production. In fact, in our country greater emphasis needs to be given to the productivity of scarce resources, such as, capital, materials, energy, etc. Another distortion is that productivity is considered synonymous with higher production. In productivity we are concerned with higher production as also with minimum possible consumption of real resources or in other words higher production at minimum possible cost. While ratios measure the levels of productivity, positive and innovative attitudes contribute towards productivity improvement.

Productivity is, therefore, often reckoned as an attitude of mind which is intolerant of waste in any type and in any form".

1.4 According to the allocation of Business to various Ministries/ Departments of Government of India, the Deptt. of Industrial Development is responsible, *inter-alia* for industrial policy in relation to Productivity in Industry.

1.5 The Statement on Industrial Policy of July, 1980, specifically spells out that the socio-economic objectives include maximisation of production and achieving higher productivity. Relevant extracts from the Statement are reproduced below :

"The pattern of distribution of benefits of industrialisation should be such as to cover as large segment of the country's population, both rural and urban, while avoiding economic concentration in a few hands. New thrusts need to be made to establish a dynamic industrial economy ..... what is needed above all is a set of pragmatic policies which will remove the lingering constrains in industrial production, at the same time act as catalysis for faster growth in the coming decades.....".

1.6 The Secretary, Department of Industrial Development defining "Productivity" as adopted by the Ministry stated in evidence that :

"Being responsible for industrial policy in relation to productivity, we have taken productivity to mean higher production by optimal utilisation of the production assets installed. Therefore, our definition of productivity on which we have functioned is whether on the basis of the same assets, we are achieving higher production, higher capacity utilisation".

1.7 Amplifying his view point the witness added :—

"The scientific definition of productivity is optimal inter factor utilisation. There are four factors of production. For those four factors of production, at a given point of time, there should be utilisation to the optimal degree so that it yields the best possible inter-factor result. The new level of productivity is contingent on labour management relations ; it is contingent on the type of equipment that you use ; it is contingent on the materials that are fed into machine ; it is contingent on the manner in which the management equipment is maintained. Then we will be going into an area where no global formulation is possible. It will have to be done on unit to unit basis. That is what is called productivity optimal for a particular unit. Therefore, there cannot be industry-wise measurement of productivity, if you are talking about productivity in the correct sense of optimal inter-factor utilisation

and the relative cost reduction in the value added at constant prices. The question is you cannot achieve optimum graph in any economy schedule if all are variables. You have got to assume some variable. Then you can achieve a graph, therefore, in a manner which can be understood and operated in the government system anywhere in the world. We have tried to approach productivity in terms of optimal utilisation of the installed capacity.

So, our policy has been geared to removal of constraints, removal of bottlenecks, removal of limitations and our efforts have been to ensure that whether it is infrastructure, whether it is money, whether it is investment or whether it is proper management information, whatever is needed is sought to be provided. That is all that we are trying to do. So, when we are saying that we have no means or no organisation to measure and monitor productivity, we are acting on a different definition of productivity altogether. There, what I would like to submit is that we are monitoring productivity as it is understood in common man's parlance, i.e. higher production from the same not new capacity".

1.8 The Secretary, Industrial Development stated further that :

"When I am saying that I have achieved 75 precent utilisation, what is the unit from which I have achieved 75 per cent utilisation ? It is the same unit, but some more capacities that have been added. So, we are trying to see that we achieve better utilisation of assets. What I am trying to say is that if you are thinking of productivity in terms of a measurement of inter-factor normative utilisation, that system of measurement does not obtain globally anywhere in the world".

1.9 The Committee wanted to know whether what was being taken care of was not productivity but production, the Secretary confirmed this by saying :

"You are right".

1.10 The Committee are happy to note that the year 1982 was declared by Government as the year of productivity. This naturally raised high expectations that Government and the industries in the public and private sectors would strive to raise their productivity levels. It, however, transpired in evidence that the Ministry of Industry have taken productivity to mean higher production by optimal utilisation of the production assets installed." The Secretary, Department of Industrial Development admitted in evidence that the definition of productivity followed at present by the Ministry was what is understood in common man's parlance and not a scientific one. According to the Secretary, Department of Industrial Development there cannot be industry-wise measurement of producti-

vity in the sense of "inter-factor utilisation" because apart from efficient management productivity was dependent on a number of factors like labour-management relations, state of plant and machinery, availability of raw materials, etc. The Committee are unable to share this view because, as pointed out by the National Productivity Council, it is a distortion to say that productivity is synonymous with higher production. Higher production can be easily achieved by adding new capacities but that is not higher productivity. The Committee urge Government to evolve and follow a scientific definition of productivity in consultation with the National Productivity Council and Planning Commission.

B. Data on Productivity

1.11 It has been stated in a memorandum furnished to the Committee that the Central Statistical Organisation is presently the main source of data for carrying out the exercise of productivity measurement. However, the time lag in data availability is about five years which reduces the usefulness of this exercise. Further that the Planning Commission at the Centre and State Planning Boards also monitor the progress, but their main concern is the progress made against the Plan tasks and outlays. Administrative Ministries get sizeable data from the concerned industries and they also monitor some key industries.

It has therefore been represented that :—

> "The present system for measurement and monitoring is not adequate. NPC, being an apex body, in the field of productivity should be formally charged with this responsibility and authorised to get the required data from the Administrative Ministries, C.S.O., Industries Association, etc., for productivity improvement, measurement and monitoring are unavoidable and these can be done only when a system is formalised."

The Committee were informed by another expert Organisation engaged in economic research that the Ministry does not have an agreed index to reflect productivity, estimates are not uniform in all the sectors and that information is not being collected form the small sector. On the question of availability of data after long intervals and whether it could not be mechanised the representative of the Ministry informed the Committee that :—

> "The detailed Annual Survey of Industries figures were available up to 1973-74 only. It was not merely a question of mechanising the data compilation system. It was also a question of streamlining the data furnishing system."

He added :—

> "If respondent factories are not furnishing the data, naturally the data cannot be either compiled or analysed or produced. There-

fore, the CSO produced some figures and that was also upto 1977. After that, no figures have been made available to us. Whether sort of this data in the manner CSO has produced really serves the purpose in terms of productivity measurement. I have got my very grave doubts. Therefore, what we are doing is that we are compiling production, industrial growth data and that we are doing in terms of quarter to quarter, month to month. To my mind this is more effective because this data is compiled from secondary source ; it is not compiled from primary source. Any data which you collect from primary source will have a time-lag of three to four years. In the CSO office, I think, they have one Computer. But having a Computer with the NPC is not going to help unless the software comes from the respondent factories."

1.12 Asked if he would agree that primary data should be available as quickly as possible, the Secretary, Industry replied :—

"This primary data which is needed to make any assessment with regard to value added in terms of input is not being collected. The CSO collects the data with regard to production from DGTD, from the Department of Mines, Steel and power and then compiles it and prepares the index etc. As far as this data which you have mentioned is concerned, after 1977 it is not available."

1.13 The Committee have been informed that Institutional arrangements to monitor productivity in the public sector undertakings attached to the Department of Industrial Development have been evolved. These arrangements include periodical performance review meetings taken by Secretary (ID) at the level of Chief Executive Officers and a system of monthly reporting against predetermined productivity objectives. Guidelines have also been issued to the Chief Executives for achieving the target and ensuring higher productivity. Chief Executives have been informed *inter alia* that labour should be made aware of its productivity with reference to bench marks in similar industries. Productivity and efficiency of the units should be discussed at plant and shop level and labour should be made aware about its productivity and performance.

1.14 During evidence, the Secretary, Industry explained that :—

"We monitor industrial production growth monthly and also higher value added in terms of installed assets. We have not evolved indices to measure productivity. The Chiefs of the public undertakings under my Ministry have to report to me personally about the target percentage achieved, the incremental value and also show how much of the incremental values have been achieved in terms of assets installed and how much are attributable to new

assets so that on that basis we know how the production which was 'X' with the installed assets of 1981 has gone to 'Y' with the installed assets of 1982. Even that is very unscientific method. This is all that we can do in the Government because that sort of scientific method in terms of high degree model to judge productivity is not available ; and this has been done not only by us but by all Administrative Ministries."

.....So, this is being done for public sector undertakings in all Ministries and it is being centrally done by the Bureau of Public Enterprise. They collate these figures for all the Ministries and submit a final sort of picture to the government so that they give a global picture in terms of all the public sector undertakings."

1.15 When asked if no attempt had been made to go towards more sophistication in productivity measurement the Secretary informed the Committee that the NPC had already selected 8 industries where they were going to do those productivity normative studies through interfirm comparison methods. They would select a cross sample of units for each category and then possibly they would come to an average of productivity sort of measurement activity. He informed the Commitee further that in the Central Council of Industries a decision had been taken that some efforts should be made on a tripartite basis to have small productivity organisations which would overlook productivity situation. In pursuance of that at the moment a discussion was going on as to whether for these 8 or 9 selected industries tripartite Productity Boards should be set up which, in conjunction with NPC, would be able to evolve over a period of time certain productivity neasurement econometrics and certain productivity norms which could be taken as reference norms in order to judge the performoace of an Industry.

The industries selected for productivity study are :—

1. Cement
2. Coal
3. Paper
4. Fertilizer
5. Thermal Power Generation
6. Road Transport (Passenger)
7. Sugar
8. Heavy Engineering

1.16 The selection was made on the basis of the importance of these industries to the economy and feasibility of undertaking unambiguous measurement of the following productivity indices :—

1. Capacity Utilisation
2. Energy Productivity

3. Materials Productivity
4. Labour Productivity
5. Maintenance Productivity

Other indices depending upon their significance in specific industries have also been included in the Productivity Awards Scheme. As the productivity awards scheme was instituted for the first time by the National Productivity Council, the number of industries was kept as eight which was considered manageable.

1.17 The comparison of performance of the units within each industrial group will, it has been stated, facilitate :—

1. Analysis and development of data bank for inter-firm comparison.
2. Compilation of productivity indices based on individual and multi-factor basis.

1.18 The Committee find that no system of measurement of productivity industry-wise has been evolved as yet. Ministries which oversee industries in public and private sectors do not have an agreed index to reflect productivity. Central Statistical Organisation is presently the main source of data for carrying out exercise on productivity measurement but there is time lag of 4 to 5 years in compilation of such data, the latest data available being for 1977. About data compiled by CSO, the Secretary express grave doubts in evidence and wondered if such data really could serve the purpose of productivity measurement. The Committee cannot but deplore a complete lack of system of measurement of productivity.

1.19 The Committee, however, note that recently the National Productivity Council has selected 8 important industries viz. **Cement, Coal, Paper, Fertilizers, Thermal Power Generation, Road Transport (Passenger), Sugar and Heavy Engineering for undertaking "Productivity normative studies through inter-firm comparison methods." The Committee understand that there is also a move to set up tripartite productivity Boards for these industries. The Committee recommend that once this system is set in motion, it may be extended to more and more industries so that in not too distant a future all the major industries are covered.**

C. Promoting Productivity Consciousness

1.20 The National Productivity Council (Headquarters, New Delhi) under the Ministry of Industry is concerned with productivity in industry. This Council is an autonomous body registered as a society. It conducts various training programmes and seminars for propogating extension of productivity techniques to new areas of economic activity and to popularise new concepts of management and productivity. Its role is that of a publicist, and

in fulfilling this function it undertakes study of units where requested and provides suggestions for improvement in productivity and in developing management skills. It operates through two regional directorates and three sub-regional directorates. There are 48 local Productivity Councils associated with the National body.

1.21 It has, however, been represented to the Committee that lack of consciousness and non availability of productivity techniques are among the major constraints in raising productivity. It has been stated that there is almost a complete absence of consciousness of productivity in industry. Organisations often try to maximise profit regardless of production and productivity.

1.22 It has been suggested to the Committee that to develop awareness for improving productivity amongst entrepreneurs, workers, and union leaders, publicity measures may have to be undertaken.

1.23 Describing the role of the National Productivity Council, in promoting consciousness, the representative of NPC stated during evidence before the Committee that NPC was an apex organisation engaged in promotion of productivity consciousness in the following broad areas :—

(i) through organisation of seminars, taking it at the educational level, going to various organisations and agencies, through the composition of the Council with 75 members, regional officials and local productivity councils.

(ii) Dissemination of productivity knowledge through various publications. NPC have already brought out about 220 publications.

(iii) Training of top management, professionals and technocrats. One such area which clicked in sharp focus was energy. They have an institute at Madras for two years training progromme in energy area.

(iv) By seeking cooperation and involvement of workers in cooperation and collaboration with Labour Ministry and feeding them with information.

1.24 Insofar as productivity literature was concerned, the representative of NPC stated during evidence that 'because of very limited resources of the NPC, we have not been able to do much'. The representative added :—

> "I submit that we get from the Government just Rs. 120 lakhs out of which half of the amount is Non-Plan and the other half is under the Plan schemes. There are specified schemes which we have to undertake to show the results there. Therefore, for the rest of the resources, we have to muster up ourselves by providing

professionalised service to industries. There of course, I must mention that we run exclusive programme for workers and trade unions for which we do not charge any fee. It is a social cause which the NPC is taking up. From large industries, we charge more and from small scale industries, we charge a very small portion."

1.25 The representative informed the Committee that insofar as productivity services to the small sector was concerned 75 per cent subsidy was given by the State Governments and the rest 25 per cent was charged from small industries. In this effort some State Governments had responded favourably while others were being persuaded.

1.26 The representative added that :

"So far as the local Productivity Councils are concerned, they are definitely facing financial difficulties. Our hon. Minister who is the President of the NPC has requested the State Governments to give necessary assistance because ultimately whatever is being done at the State level will benefit the States and, therefore, the State Governments must share equal responsibility in the productivity movement. This has been an area which has not been appreciated so far and which we have been trying to emphasise. I would submit that the State Governments and the local Productivity Councils also start taking interest, at least a reasonably good interest, then only our efforts at the national level will bear fruit and fructify better. Otherwise, the generation of productivity consciousness, which is a very massive activity which cannot be merely subserved by the NPC or by its 14 regional offices or even by the network of 48 local Productivity Councils, will not take place. It has to be taken up at the State level by various agencies and organisations and a massive involvement has to be brought about."

1.27 When asked if the main constraint was the fund, the representative stated :—

"We have to operate within the limited fund we have and that is the restricting force for the expansion of our activities."

1.28 When pointed out that there was need to strengthen NPC which was the main organisation engaged in the work of increasing productivity, the Secretary expressed the view as follows :—

"This phenomenon of productivity consciousness is a very complex phenomenon. It does arise at the stage of growth of economy when under environmental pressure you are compelled to think in terms of optimising productivity of the different factors. We have been able to produce ; we have been able to sell ;

we have been able to derive a good price. Profits have been made. Some part of it has been paid to the government and some has been retained. In-sofar as productivity is concerned, a low level of equilibrium has reached. You cannot change business any more unless you, optimise the productivity aspect of the different production factors. This situation is prevailing in the Indian scene now. It is now that we come to a stage where we have to produce in bulk, in quality and at a price at which we can sell and also export."

1.29 The Committee note that the National Productivity Council, an autonomous body, under the Ministry of Industry is, through its net work of 14 regional offices and 48 local Productivity Councils, engaged in the promotion of productivity consciousness in the country. The Committee are concerned to find that the Council is feeling handicapped in moving faster and undertaking expansion of its activities in this vital field because of paucity of funds. The Committee feel that unless the State Governments extend their whole hearted cooperation, efforts for generation of productivity consciousness in the industries cannot succeed. The Committee would urge that Productivity Councils should be provided with adequate funds to carry on their activities aimed at raising productivity levels in the industries.

D. Monitoring of Productivity

1.30 The Department of Industrial development has intimated that the following industries are reported to have been selected for monitoring productivity :—

Deptt. of Heavy Industry

1. Commercial Vehicles
2. Agricultural Tractors
3. Jeeps
4. Mopeds and Scooters
5. Cars
6. Railway Wagons
7. Public Sector Undertakings under the Deptt.

Department of Industrial Development

1. Cement
2. News Print
3. Paper and Paper Boards
4. Automobile Tyres and Tubes

Ministry of Chemicals and Fertilisers

1. Fertilisers

Deptt. of Steel

Steel

Deptt. of Petroleum

Crude oil and refinery Crude.

1.31 The Deptt. of Heavy Industry selected the industries mentioned in the relevant column above for monitoring during the Productivity year 1982. The production performance of these industries was monitored on a monthly basis, with respect to targets and performance in the previous years and was sent to the Cabinet Secretariat regularly every month for monitoring at the national level by the Secretaries Committee.

1.32 Productivity of fertiliser industry is being monitored under Management Information System since January, 1979. Under this system, production of fertiliser is monitored on weekly, fortnightly, monthly and quarterly basis.

1.33 Production and Productivity in the steel sector is being monitored on a regular basis both at the level of Steel Authority of India and at the Government Level. Deptt. of Petroleum is monitoring on a monthly basis the capacity utilisation and production of crude oil and refinery crude.

1.34 The Committe were informed by the Deptt. of Industrial Development that a control room has been set up to deal with problems relating to production constraints in respect of 20 selected industries which includes basic metals, fertilizers, caustic soda, commercial vehicles, cement industrial machinery including machine tools, railway wagons, electric generation, transmission and distribution equipment.

1.35 When the Committee pointed out that productivity had not picked up in all these 20 selected industries, the Secretary, Industry stated that the control room operation was not expeeted necessarily to show higher level of production in all the 20 industries. But what was certainly attempted and which had significantly been successful, was that whatever constraints were there in terms of infrastructure were removed by direct contact with the agencies concerned and to that extent the industries were helped to function.

1.36 The Committee wanted to know if apart from the limited arrangement of having control on 20 selected industries, Government followed any inter-disciplinary approach in monitoring of productivity. In reply, the Secretary, Industrial Development added :—

> ".....as far as this particular aspect of full utilisation of installed assets as also higher production is concerned, I would like to submit in all humility that complete framework in terms of policy, monitoring, implementation and controls has been evolved and it is being worked out from day-to-day under my personal supervision."

1.37 Asked, if there was an inter-disciplinary approach in the formulation of policies, fiscal, economic and monetary etc., calculated to step up productivity without sacrificing other desirable goals and if so, who was responsible for coordinating the various policy disciplines, the Secretary, Industrial Development explained :

"You are covering a very vide ground, not only production monitoring. As far as fiscal, economic and monetary policies are concerned, an inter-disciplinary approach in terms of consultation is definitely there. Not only that. As you may be aware, the Government has recently appointed a small group to go into the question of imports which is an inter-disciplinary group, before budget policies are framed. The Ministries which are concerned with imports are consulted. So, there is an inter-disciplinary approach in terms of consultation. But to what extent it is institutionalised particularly in matters of monetary, economic and fiscal policies, it is very difficult to say that, because these are matters where a certain element of secrecy has to be maintained."

The witness added :

"I do not think it is either necessary or desirable to institutionalise inter-disciplinary consultation in matters of economic, fiscal and monetary policies of the Government."

1.38 Asked if it was not necessary at least to try to have that inter-disciplinary type of approach and see what results were achieved, the Secretary replied :

"We consult them, as far as physical monitoring and economic policies are concerned. But it is not desirable that this inter-disciplinary consultation should be institutionalised in matters like fiscal monitoring and economic policies ; and this decision should have a certain element of privacy, secrecy. Otherwise, it can have very serious aberrations."

1.39 The Committee note that a control room has been set up in the Department of Industrial Development to deal with problems relating to production constraints. They find, however, that this arrangement for monitoring productivity in a limited number of industries had not met with much success as productivity had not increased in all the selected industries. The aim of control room in fact is limited to removing various constraints with Ministry's intervention at various levels. While the Committee do concede the usefulness of the machanism of a control room they feel that this mechanism needs to be made more broadbased to cover a larger number of industries with a view to cover gradually the complete gamut of industries for centralised monitoring. Furthermore while the existing mecahnsim provides a framework for implementation of policies and removal of constraints in production, as experience shows, it cannot go far enough in monitoring and achieving higher productivity in various industries unless such efforts are supplemented by an inter-disciplinary approach to the formulation of policies, fiscal, economic, monetary etc. calculated to step up productivity. Government might, therefore, consider the desirability of setting up of an inter-disciplinary group for policy formulation to achieve positive results.

CHAPTER II

CAPACITY UTILISATION

A. Analysis of Under-utilisation of Capacity

2.1 According to the data furnished by the Ministry of Industry about capacity utilisation in 48 industries during the last 5 Years (1978 to 1982), the range of capacity utilisation each year was as under :—

Year	Number of Industries where capacity utilisation ranged between					
	Above 90%	80% to 89%	70% to 79%	60% to 69%	50% to 59%	Less than 50%
1978	7	6	9	11	10	5
1979	10	8	9	9	8	4
1980	13	5	9	7	9	5
1981	11	4	14	8	6	5
1982	9	7	12	11	4	5

2.2 The following industries achieved more than 90% capacity utilisation during each year of the five year period :

Industry	1978	1979	1980	1981	1982
1. Beer	92.42	121.0	117.5	124.5	132.8
2. Soaps	140.2	128.2	149 2	142.6	96.5
3. Tooth Paste	257 61	241.2	277.3	319.0	276.3
4. Tooth Powder	214.6	246.7	338.3	340.0	315.5

2.3 While aforesaid consumer industries worked in excess of their installed capacity, the capacity utilisation showed a downward trend in the case of following basic industries :—

Industry	*1978*	*1979*	*1980*	*1981*	*1982*
1	*2*	*3*	*4*	*5*	*6*
1. Cement	22.28	24.09	26.29	29.25	30.28
(Million Tonnes)					
Utilisation	88	76	69	71	75
2. Zinc					
Capacity	92.0	92.0	92.0	92.0	92.0
(Thousand Tonnes)					
Utilisation	64	69	47	62	57
3. Nitrogen					
Capacity	3028	3259	3891	4575	4719

1	2	3	4	5	6
(Thousand Tonnes)					
Utilisation	69.0	71.2	26.2	52.8	66.9
4. Phosphatic					
Capacity	915	1080	1230	1282	1408
(Thousand Tonnes)					
Utilisation	73	80.5	67.3	65.9	67.4
5. BHC (Tech)					
Capacity	31.9	37.9	37.9	37.9	37.9
(Thousand Metric)					
Utilisation	84	88	90	75	71
6. D.D.T.					
Capacity	4.2	4.2	4.2	4.2	4.2
(Thousand Metric Tonnes)					
Utilisation	100 (over)	100 (over)	100 (over)	97	75

2.4 As regards the industries engaged in manufacture of vehicles, the position is that capacity utilisation has improved in the case of Commercial Vehicles from 65.18% in 1978 to 65.8% in 1982, cars from 66.08% in 1978 to 80.45% in 1982, Jeeps from 84.69% in 1978 to 100% in 1981 and 1982, Motor Cycles/Scooters from 75.28% in 1978 to 91.4% in 1982, Mopeds from 54.08% to 100% in 1980, 1981 and 1982, three wheelers from 66.03% in 1978 to 95.73% in 1982. The capacity utilisation in respect of Tractors and Diesel Engines has, however declined-after recording some improvement in certain years as per details given below :—

	1978	*1979*	*1980*	*1981*	*1982*
Tractors					
Capacity	58.9	61.5	70.0	90.0	90.0
(Thousand Nos)					
Utilisation	90.06	97.8	96.61	93.68	75.83
Diesel Engines					
Capacity	337.0	313.3	313.3	313.3	313.3
(Thousand Nos)					
Utilisation	41.59	46.25	56.33	56.17	50.63

2.5 In the following industries capacity utilisation was less than 50% in the years mentioned against each :—

Industry	*1978*	*1979*	*1980*	*1981*	*1982*
1. Rubber Machinery					
Capacity (Rs in lakhs)	1500	1500	1500	1900	1900
Utilisation (in %)	52.6	40.2	50.0	54.0	49.0
2. Sugar Machinery					
Capacity (Rs. in crores)	51.8	51.8	53.0	57.0	N.A.
Utilisation (in %)	64 2	61.7	45.9	48.9	N.A.
3. Diesel Enginee					
Capacity (Thousand Nos)	337.0	313.3	313.3	313.3	313.3
Utilisation (in %)	41.59	46.25	56.33	56.17	50.63
4. Mining Machinery					
Capacity (Rs. in lakhs)	4000	4000	4000	4500	5000
Utilisation (in %)	42.5	56.3	75.0	78.0	78.0
5. Road Rollers					
Capacity (in Nos.)	1500	1500	1500	1500	1500
Utilisation (in %)	44.66	54.26	62.4	69.8	72.0

2.6 The Committee wanted to know whether reasons for under-utilisation of capacity have been analysed. In reply, the Minister of Industry have, in a note, intimated that in the 20 industries where capacity utilisation has been analysed by them the reasons were as under :—

(*a*) *Fnergy Constraints* (*Power/Coal*)

1. Aluminium, 2. Lead, 3. Cement.

(*b*) *Sluggishness in demand of shift in Customer's preference*

1. BHC (Tech), 2. DDT, 3. Industrial Explosives, 4. Viscose Tyre Cord, 5. Viscose Filament Yarn, 6. PVC Resins, 7. Polystyrene 8. Synthetic Rubber.

(*c*) *Lack of orders particularly from State Electricity Board*

1. Power and Distribution Transformers.
2. Transmission Towers,

(*d*) *Increased Contribution from Small Scale Industries Sector.*

1. Bicycle Tyres, 2. PVC/VIR Cables, 3. Rubber Footwear
4. Sweing Machines, 5. Structural Fabrication.

2.7 Asked to what extent each factor had been responsible for under utilisation of capacities in these 20 industries, the Ministry of Industry explained in a Note that :—

> "Capacity utilisation is a function of variety of factors and it would be difficult to attribute to what extent each of them have contributed towards lower utilisation. Broadly speaking, the causative factors for low capacity utilisation relate to infra-structural constraints viz. shortage of power or coal, transportation, sluggishness in demand, inadequate credit, increased contribution by small scale sector and industrial relations. Certain industries where productive capacities have recently been established, it would take some time before they could achieve optimum utilisation of the said capacities, which in turn, would indicate a lower capacity utilisation while production has in fact increased".

2.8 The Committee pointed out that if there was under-utilisation of capacity in tractor manufacturing industry, it would lead to scarcity conditions, push up its price, and adversely affect poor farmers. In reply the Secretary industrial Development explained that :

> "You have to approach from two sides. One is to reduce the cost of the tractor and second is to expand the volume of buyers' credit. On both sides we are considering. As far as reducing the excise duty is concerned, an exercise will be done before the Budget. As for as expanding the volume of buyers credit is concerned, we have moved the matter and it has been accepted by Reserve Bank. You have seen the new credit policy of 25th October. In the buyer's credit, the marging which has to be provided by the buyer, all have been settled and the tractors have started moving".

2.9 Asked if there was any proposal to remove the excise duty on tractors, the witness stated that several questions regarding the extent to which the excise duty should be modulated, reduced or enhanced were being considered.

2.10 Regarding availability of spare parts of those models of tractors which were no longer being produced the Secretary, Industrial Development assured the Committee during evidence that the tractor was properly serviced during its life time.

2.11 As would be seen from the data furnished to the Committee in respect of 48 industries the capacity utilisation was less than 70 per cent in 20 industries during 1982 as against 19 industries during 1981. In the case of basic industries like cement, zinc and fertilizers distinct downward trends are noticed compared to some earlier years. Downward trend is also seen in case of tractors. Similarly in case of industries like rubber machinery, sugar machinery and Diesel engines, capacity utilisation has been poor being just around 50 per cent in all these cases.

What concerns the Committee is that unsatisfactory or poor performance is noticed in the basic and machinery industries which have a vital bearing on the economy of the country. The Committee would, therefore, urge Government to look into the demand and production constraints in regard to fuller utilisation of capacities in these industries and initiate measures to atleast halt the downward trend.

B. Infrastructural Gaps

2.12 It was stated in the Industrial Policy statement made by the Minister of State for Industry in July, 1980 that : (i) "first task before us is the revival of the economy which is presently inhibited by infrastructural gaps and in adequacies in performance. This put the economy into a vicious cycle of shortages of major industrial inputs like *energy, transport and coal.* To normalise the situation, Government are working on war footing to break this vicious circle and to put the economy again on its feet". (ii) "Such industrial processes and technologies as would aim at optimal utilisation of energy or the exploitation of alternative sources of energy, would be given special assistance, including finance on concessional terms."

2.13 In the statement made by the Minister of Industry in Rajya Sabha during the last session he stated that loss in industrial production due to power shortage in 1980-81 was estimated to be Rs. 2500 crores as against Rs. 400 crores in 1978-79 and 2000 crores in 1979-80.

2.14 A statement showing the total installed capacity, anticipated requirement, actual generation, and plant load factor during the last five years, furnished by the Department of Industrial Development is given below :—

Year	Capacity	Requirement	Actual Generation (GWH)	PLF %
1978-79	26064	108535	103328	48.4
1979-80	26948	125472	105532	44.7
1980-81	29533	127325	111572	44.6
1981-82	31535	137000	122925	46.8
1982-83 (April, January)	33875	120448	109727	49.0

2.15 It has been stated in a note that the utilisation of capacity in thermal power stations has been showing a deteriorating trend since 1976-77 and the PLF of thermal power stations declined from about 56 per cent in 1976-77 to 44.7 per cent in 1979-80. This deterioration in the utilisation of capacity in thermal power stations has been the major contributing factor to the power shortage experienced in the country during the last 5 years.

2.16 Department to Industrial Development intimated, in a note, that some of the factors responsible for low capacity utilisation in power sector are stated to be :

1. Increase in proportion of indigenously built equipment which has been taking longer time to stabilize.
2. Lack of quality control in manufacture, installation and commissioning.
3. Inadequate standard of maintenance and lack of availability of expertise in the country for larger units.
4. Unsatisfactory performance of indigenous manufacturers in supply of spares in time and as per desired quality.
5. The quality of coal made available to the power stations does not correspond to the design of the boilers.
6. Shortfall in generation due to backing down on account of non-availability of stock of coal at thermal power stations.
7. Other internal and external operational bottlenecks like grid condition and load pattern etc. resulting in lower PLF.
8. Apart from the factors mentioned above one of the main reasons responsible for deterioration in the PLF of thermal power stations during the last couple of years has been the inadequate preventive maintenance and frequent failure to maintain major items of equipment such as boilders, turbines and generators eventually resulting in planned outages and lower plant availability.

2.17 The Ministry have, in a note, stated that there are a number of changes that can be undertaken in industries like replacement of inefficient boilers, installation of waste heat recovery devices, improvement of steam condensate recovery systems, co-generation systems, etc., which could lead to greater efficiency in utilisation of energy in industries. These changes, however, involve considerable capital investment on the part of the industrial units. A scheme for granting loans for financing replacement of boilers has already been drawn up. It is, however, considered that certain fiscal incentives would also have to be given to encourage industries to instal such energy saving systems. The Bureau of Industrial Costs and Prices, which had examined this, have made some suggestions. The suggestions of BICP are being examined by the Ministry of Energy in consultation with the Ministry of Finance and concerned Technical Authorities.

2.18 A leading Chamber of Commerce and Industry has stated in its memorandum that "Coal production has of late increased and the performance of railways in terms of freight movement has also improved but despite all efforts by Government, power continues to be the main constraint to higher capacity utilisation and increased productivity. The problem is endemic in certain parts

of the country as in the eastern region. Apart form low capacity utilisation of power generating plants, management and maintenance problems persist leading to forced outages, frequent tube leakage and erratic loadshedding. Operation and maintenance of high capacity thermal plants need constant care and technical support and therefore it is worth considering whether technical cells should be set up by the CEA in various regions to give advice and guidance to the State Electricity Boards. Moreover, in view of the continuing shortfall in power, the higher capacity utilisation industry cannot be achieved without the support of captive generating sets.

2.19 Clearance for a total of 1607 MW of captive power is stated to have been accorded since the beginning of the Sixth Five Year Plan. Explaining the policy of Government about captive Power generation, Department of Industrial Development has stated that the present policy of the Government does not pre-clude the possibility of captive power generating sets being installed by various industries. The existing policy in respect of captive power plants is as follows :—

(1) Industries where process steam is required or where waste heat is available captive generation capacity is encouraged in accordance with the "Total Energy Concept" and sanction for such schemes is accorded by the Ministry of Energy (Department of Power).

(2) Industries which require stand by diesel generating set are free to instal these sets as necessary but import of diesel generating sets would be processed in accordance with the prescribed rules and procedures.

2.20 A non-official organisation stated during evidence that :—

"The planning exercises provide the proper match. also with regard to the availability of infrastructural facilities. They also estimate what level of investment would be required in order to make this matched availability possible. Matching is not a problem. The problem consists in the infrastructure falling behind what has been planned for.

I think in the power sector there is need for doing almost everything that one can think of; it is not merely a question of putting in more investment; it is a question of organising the whole sector in a better way. Many reports have been written on this sector and show that its efficiency is low. There is a policy involvement here which makes the functioning of electricity boards less efficient. There is a question of wastage of power, pilferage of power and so on. But the basic question is of management for which we must make a beginning."

2.21 The representative of the Department of Industrial Development stated during evidence that :—

> ".....we not only have an interlinked planning between industrial inputs and transport but, as a matter of fact, that is being monitored at the highest level. There is a Cabinet Sub-Committee on Infrastructure which monitors the production and distribution of the essential infrastructures from month to month. Whether it is power, coal or transport, that is monitored by that sub-Committee. There is not only a Plan target of production in each sector but there is a also a monitoring system in terms of which the optimisation of production can be effected When it is a question of coal, the coal linkages with transport are worked out from coalfield to coal-field. For example, the allotment of wagons for eastern coal fields, for Singreni coalfields are all worked out in precise details on a daily basis, from month to month."

2.22 The Industrial Policy Statement of July, 1980 had acknowledged the fact that our economy is "presently inhibited by infrastructure gaps and inadequacies in performance." It was stated that to normalise the situation, Government are working on "war footing." The Committee were informed in evidence that there is now a Cabinet sub-Committee on infrastructure which monitors the production and distribution of the essential infrastructure, viz. Power, Coal or Transport. It, is, however, a matter of concern that power situation continues to be critical, if not grave. The Plant Load Factor which is an index of c.pacity utilisation in the power sector shows a deteriorating trend. The PLF of thermal power stations has declined from about 56 per cent in 1976-77 to 46.8 per cent in 1981-82. This deterioration in the utilisation of capacity in thermal power stations has been the major contributing factor to the power shortage experienced in the country during the last five years. Needless to point out that this results in colossal wastage of investments in this sector as also in consequent production losses in the Industrial Sector. The loss in industrial production due to power shortage in 198.-81 is estimated to be Rs. 2,500 crores as against Rs. 400 crores in 1978-79 and Rs. 2,000 crores in 1979-80. The Committee, therefore, are of the considered view that nothing short of a total reorientation of the policies and programmes aimed at optimal utilisation of capacity of power plants and exploitation of alternative sources of energy would help improve our economy.

2.23 The Committee have already examined the subject in great detail and submitted their 13th Report (1980-81) on generation of Power and made a number of recommendations. They are confident that implementation of these recommendations would help in administering the power sector in a better way.

C. Lack of Demand

2.24 As already stated, 8 industries have been facing sluggishness in demand or shift in customer's preference. These are (i) BHC (Tech), (ii) D.D.T.

(iii) Industrial Explosives (iv) Viscose Tyre Cord (v) Viscose Filament Yarn (vi) PCC Resins (vii) Polystyrene (viii) Synthetic Rubber.

2.25 The Committee enquired whether wherever diversification was possible it was being allowed. The Secretary, Industry admitted that diversification was certainly a method to mitigate the demand factor, which might arise in the economy from time to time. He claimed that since 1975, till date most wide flung diversification had been allowed by Government of India. He stated that there was no area where no diversification was being allowed. He added that there was hardly any possibility of extending this diversification scheme at all because practically the entire gamut had been covered.

2.26 Asked if demand constraint could not be eased by maximising exports. The Secretary, Industry stated that continuous efforts to set up facilities for exports were going on.

2.27 It has been reported that capacity under-utilisation in 8 industries, namely BHC (Tech), DDT, Industrial Explosives, Viscose Tyre Cord, Viscose Filament Yarn, PVC Resins, Polystyrene and Synthetic Rubber is due to sluggishness of demand. There are two ways to fight this trend, *viz.* diversification and export. The Secretary, Department of Industrial Development pointed out that Government had been so liberal in allowing diversification that hardly any area had been left out. As regards exports, he stated that it was a continuous process. The Committee recommend that reasons for recession in these 8 industries may be probed further and suitable remedial measures taken.

D. Protectionist Policies

2.28 A view has been expressed before the Committee that over two or three decades forces conductive to increase in productivity in India have been weak in operation. Often policies of Government led to protect the weak and shield the inefficient. A sheltered market is the result of protectionist policies. As a result in monopolistic public sector corporations, automobile industry and several others, we have obsolete products, inefficient processes, complacent management consistently preserving sellers market which breeds nothing but low productivity, inflation and unemployment.

2.29 It has been added that today when Government has taken a decision towards more liberal or less restrictive policies, the steps taken are hesitant and halting, and industry is found to be unprepared to confront the consequences of liberalisation and continues to turn to Government for help, instead of looking inwards to find a new approach to deal with changing environment.

2.30 The Secretary, Industry made the following observation in this regard during evidence :

"You are opening up the Indian economy to progressive imports, progressive competition so that there can be greater technological development, greater accent on productivity and greater accent on cost consciousness. But this cannot be done all in one stroke because our entire industrial fabric will collapse. That being so, the Government has been following a progressive and very well-considered policy of exposing the Indian industry to tacit competition on a selective, discriminatory and calculated basis.....our policy is a part of the economic policy which is governed by declared socio-economic objectives and therefore it is not possible for us to have policy of laisez-faire or total open policy to import. At the same time, we are doing it progressively not at the cost of—or not at the grievous cost of the local industry. As a matter of fact, Government has appointed a high-powered group of officers to go into the question as to in what manner import liberalisation has affected local production and whether we should raise the tariff barrier or we should exclude imports so that our industries can function."

2.31 The Committee pointed out that if the cost of Steel and cement continue to be Rs. 5,000 per tonne and Rs. 70 per bag respectively, not a single person would be for able to build even a small house. Keeping in view the economic conditions in the country and the prevailing per capita income of the people, the prices of scarce items like steel and cement, which were required by the common man had to be far lower so that they could make use of them :—

2.32 The Secretary, Industry stated that :—

"As far as cement and steel are concerned, the cost of cement in India is lower than the import price. That is the reason why despite the fact that anybody is free to import it, there is no rush for import of cement. As far as steel is concerned, we have been having continuous meetings and today the position is such that the Steel Ministry tells us that they will be able to offer to REP holders as also those who are eligible for advance licensing for export, steel items at international prices. As far as cement is concerned, they are free to import ; there is no restriction. As far as steel is concerned, even assuming that our local prices are higher, I would certainly say that if we have to develop our steel industry which we must, not only as a matter of developing the industrial infrastructure but as a matter of giving primary strength, we must develop our capability in steel."

2.33 The Committee note that Government so far have rightly followed a cautious approach in regard to exposing indigenous industry to competition from outside. We are now having industries, some of which exclusively in the Public

Sector, spread all over the country producing a variety of goods of varying qualities. This has, however, also created a sense of complacency at least in certain industries where there is virtually no competition both from within and outside. Costs and efficiencies have consequently been affected adversely. Automobile is an outstanding example of this state of affairs. No worthwhile progress is seen in automobile industry in the matters of quality or design for the last 3 decades while costs have gone up considerably. The Committee feel that there is greater need to selectively relax the industrial economic and fiscal policies gradually in non-strategic sectors so that at least in the long run the economy can derive the benefits of international competition and within the country there is healthy competition between the public and private sectors.

E. Imports Affecting Productivity

2.34 The Committee have been informed that availability position of Soda Ash has changed from shortage to comfortable supply. This has been the result of various measures taken by the Government. During the year 1981-82 there was a distinct improvement in production. Capacity utilisation increased from 81% in 1980-81 to 91% in 1981-82. However, during the current year 1982-83 production is adversely affected due to accumulation of stocks with the manufacturers, stocks have accumulated with the manufacturers including their depots to the tune of about 80,000 tonnes in June, 1982.

2.35 It has been stated on behalf of an organisation of Chambers of Commerce and Industry in this connection that in the case of an item like soda ash, where we have enough of indigenous production which we cannot dispose of within our own country, other countries faced with recessionery trends are permitted to dump it into our country at prices 50 per cent lower than Indian cost. Similarly imports have affected other indigenous industries like steel, Aluminium and polyster fibre.

2.36 The Secretary, Industry stated during evidence that there were four units in the country manufacturing soda ash in the country and between the requirement and production of soda ash there was certain gap. He added that soda ash was one of the items which was used by a large number of silica manufacturers in the small scale sector and also dobhis. This was also used extensively by large number of people belonging to weaker sections. He stated that price of soda ash price had been for some time going up for a variety of reasons. There had, therefore, been a substantial demand that soda ash which was available abroad more cheaply and when particularly this had been used by weaker sections of people, should be allowed to be imported. The Secretary pointed out that "Government had adopted import as a route to price stabilisation." He reiterated the Government's resolve not to allow the soda ash manufacturers to raise their prices. The policy of Government, he informed the Committee, was to keep the price of imported Soda Ash 10% lower than the local prices so that there was an incentive to reduce the price to that level.

2.37 In a note furnished after evidence, Department of Industrial Development intimated that demand, installed capacity, production and input of soda ash during the last three years had been as follows :

	Demand	Installed capacity	Prods.	Import
1979-80	620	618	542	81
1980-81	640	680	558	116
1981-82	690	680	632	NA

2.38 Production during January—September, 1982 was of the order of 159000 tonnes against a capacity of 325000 tonnes which works out to 49 per cent of capacity.

2.39 The objective of keeping prices of imported Soda Ash at 10% lower than the local price so that there was an incentive to reduce the price to that level particularly when this commodity was being used by weaker sections of the people was laudable. The Committee are, however, concerned at a considerable fall in the indigenous capacity utilisation from 94% in 1981 to 49% in January—September, 1982. They would, therefore, urge Government to examine the matter in this context and also ensure that this opportunity is not utilised by foreign companies to dump their excess production into this country to the detriment of local industry. Other indigenous industries like steel, aluminium and polyster fibre are also reported to have suffered from this policy of Government. Government would do well to review their import policy in respect of these industries as well.

F. Government Regulations

2.40 Indian Institute of Public Administration has stated in its memorandum that Government regulations like MRTP, IDRA, Licencing, FERA, Factory Act etc have grown very large in number. They have their own social and other objectives. However, in their implementation it is observed that productivity gets adversely affected.

2.41 It has been suggested that like the modification in Licencing policy announced on 21 April, 1982, Government should re-examine its all other regulations and revise them, if necessary, to reduce constraints on productivity.

2.42 Asked if Government considered that a review of the existing regulations was desirable in the context of the need to enhance productivity, the Secretary, Industry stated during evidence that as far as MRTP was concerned some very important amendments had been worked out in the monoplies law, which had been passed by Parliament, in terms of which substantial expansion, not amounting to more than 25 per cent new investment, had been exempted. This would also include replacement and modernisation. The

definition of 'dominance' had been substantially changed ; a new section had been introduced in terms of which Government would notify some national priority industries, which might be exempt from the operation of the MRTP Act.

2.43 As far as FERA was concerned, the representative stated that those companies which reduced their foreign equity upto 50 per cent were allowed to stay on. Therefore, the FERA regulations *per se* were not active. That being so, MRTP, licensing and FERA were all under extremely careful scrutiny, and they had all been modified progressively, in order to see that they did not act as a constraint on production.

2.44 As regards the question of Factories Act impairing productivity, the representative of the Labour Ministry observed that the Factories Act, on the other hand was supposed to provide better working conditions for labour, and therefore should contribute to productivity. Even otherwise, the Act was designed for the welfare of the workers. Productivity could not be at the cost of the workers, he added. As to the observation that with all these restrictions, when an entrepreneur wanted to start an industry, he had to make more than 60 applications, the Secretary stated that only 23 applications were required to be filed and these were being consolidated into 10 or 11.

2.45 Asked if issue of letters of intent took an unduly long time, the representative claimed that :—

> "I do not want to comment about last year. Today a letter of intent for a non-MRTP company did not take more than 60 to 90 days."

2.46 The Committee recommend that a critical review may be undertaken in the context of the accent on improving Productivity to see if any provisions of MRTP, IDRA, FERA, etc. and the rules or regulations made by Government there under had acted as a constraint on productivity, and if so, to what extent ; and in the light of such a study, the relevant provisions may be suitably modified without sacrificing the essential socio-economic objectives underlying these regulations.

G. Regularisation of Excess Capacity

2.47 In the context of 1982 being declared as 'Productivity Year', Government have announced a Scheme for increased utilisation of installed capacity. The salient features of the scheme are as follows :

(a) All Industrial units wishing to avail of the scheme should report their best production in the five financial years ending and including 1981-82. On receipt and scrutiny of such production data, where production plus 1/3rd thereof in any year is higher than the licensed capacity plus 25%, capacity shall be re-endorsed on the licence to the extent of best production achieved plus 1/3rd thereof.

(b) In case production of units is higher than the capacity thus re-endorsed, they would be free to submit their licences for further re-endorsement on 31-3-1983 whereupon the capacity would be further enhanced on the basis of best production on 31.3.1983 plus 1/3rd thereof.

(c) The facilities mentioned in (a) and (b) above are not available to :—

(i) Industries reserved for the small scale sector.

(ii) Industries which are subject to special regulation and licensing because of shortage of raw material as also structural policies of the Government as in the case of vanaspati, milk food etc.

(iii) Pesticide formulation.

(d) All applications for re-endorsement of capacity in respect of non-MRTP and non-FERA companies will be received in the Secretariat for Industrial Approvals and enhanced capacity will be re-endorsed within fifteen days of receipt of the application.

(e) Applications from MRTP/FERA companies will be received and disposed of by the administrative Ministries. The decision in each case would be taken on the recommendation of a Task Force, with a representative of the Department of Company Affairs within one month of receipt of the application.

(f) For MRTP/FERA companies, the facilities mentioned in (a) and (b) above will only be available in relation to items included in Appendix-I to the Press Note of February, 1973 subject to the further condition that in the case of a dominant undertaking, if as a result of higher production their dominance will increase further, such re-endorsement will not be permitted.

(g) These facilities will also be applicable to the drugs and pharmaceuticals industry subject to the conditions stipulated in the Drug Policy (Press Note dated October 17, 1981).

(h) All units will be freely allowed to add balancing equipment subject to the condition that it does not result in increase in capacity by more than 25%.

(i) On endorsement of enhanced capacities as above, units will be permitted to produce 25% in excess of such re-endorsed capacity. They will also be eligible to avail of the 25% automatic growth on the re-endorsed capacity.

(j) Application for re-endorsement of capacity as on 31.3.1982 shall be submitted to SIA in respect of non-MRTP and non-FERA companies and to the administrative Ministries in the case of MRTP and FERA companies, latest by 30th June, 1982.

2.48 The policy statement says that scheme will be subject to review one year after it is put into effect.

2.49 It has been represented to the Committee in a number of memoranda that automatic expansion of capacity which is now restricted to 34 industries should be allowed to every industry and in any event this facility should be available in respect of industries, the products of which are in short supply and the demand for which could not be fully met.

2.50 The scheme for regularisation of excess capacity is subject to review one year after it is put into effect. It has been represented to the Committee that this concession should be granted for a minimum period of three years instead of one year as has been proposed. Unless there is an element of continuity, entrepreneurs will not be induced to maximise their production, particularly, where there are so many contraints in achieving higher production.

2.51 The Secretary, Industry stated during evidence in this connection :—

> "The Government's reaction is very positive. Even today it is available upto 31.3.1983. It is valid really for three years. If, after 31.3.1983 we find that there is a substantial response to it, certainly the Government will be prepared to extend it."

2.52 Upto 30 June, 1982 which was the last date for submitting applications for re-endorsement of capacity 192 applications were received and disposed of. From the MRTP Houses, 40 applications had been received out of which 28 been allowed, 5 had been sent back to the Administrative Ministry for reconsideration, four were under consideration and three had been rejected

2.53 It has been represented to the Committee that the benefit of the scheme could not be availed of in view of coal and power shortage in U.P. During evidence also it was pointed out that some States did not enjoy the natural benefits. Those States where the energy resources were easily available could avail of this Scheme. Asked if these factors had been taken into consideration, the representative of the Ministry stated :—

> "This is the inherent infrastructure and of course there are some other factors. From State to State they do vary. But they do not vary uniformly; over a period of five years. The question is, we have given them a 5 year period. While a unit in a particular State may go on the basis of the production in 1981-82, it was a different matter with another unit."

2.54 The incentive announced by Government by way of endorsing in the licence the higher capacity level over and above the best production of a unit during the last 5 years and further-re-endorsement of enhanced capacities at the end of March, 1983, though welcome, have not been able to attract a significant response. This is because the scheme suffers from a number of deficiencies. First, the scheme of automatic expansion is at present restricted to 34 industries.

No specific reasons have been assigned for this restriction. Secondly, the scheme being restricted to one year lacks a sense of continuity which inhabits the enthusiasm on the part of industrial units to avail themselves of this facility. Thirdly, and most important, for want of adequate infrastructure, it will be extremely difficult for all the industrial units to make the best of this offer. In some States like U.P. the industrial units have not availed of the benefit of the scheme on account of persistent shortage of power and coal. While the Committee would urge Government to review the scheme in the light of the aforesaid deficiencies, they would strongly recommend specifically to relax, if not remove, the condition of limiting the scheme to only 34 industries. The Committee see no reason for disagreeing to the suggestion that it should be extended atleast to such industries where shortage in respect of related commodities exist. They would, therefore expect Government to review the scheme from this angle and allow automatic expansions in all such cases.

The Committee would suggest further that in all applications under automatic expansion scheme, due consideration should be given to lack of infrastructure facilities in specific areas so that the units do not stand to lose due to reasons beyond the control of the units compared to those which are better placed in this respect.

CHAPTER III

LABOUR PRODUCTIVITY

A. Labour Productivity

3.1 A statement showing the growth rate of indices of labour productivity in the mining and manufacturing sectors expressed as per cent per annum during 1951-52 to 1975-76 furnished by the Department of Industrial Development is given below :

	1951-52 to 1975-76
Manufacturing Sector	*Net value added per employee*
Food	0.41
Beverages and tobacoo	2.22
Textiles	0.31
Leather and Leather Products including footwear	(−)1.81
Wood & Wood Products including furniture and fixtures	1.30
Paper and Paper products, including printing and publishing	1.10
Rubber and rubber products including products for petroleum and coal	1.74
Chemical and chemical products	1.23
Non-metallic mineral products	1.47
Basic metal industries	0.71
Metal products except machinery and transport equipment	(−)0.45
Machinery except electrical machinery	3.49
Transport equipment	1.01
Electrical machinery	1.48
Miscellaneous industries	4.25
Electricity, gas & Water supply	2.70
Total Manufacturing Sector	1.34
Gross value added (total manufacturing sector)	1.44

Mining Sector	*Gross value of output*
Coal and lignite	1.37
Iron Ore	3.08
Manganese Ore	2.04
Copper	0.75
Gold	(−)0.52
Limestone	1.88
Mica	0.61
Other minor mines	3.23
Total mining sector	1.92
	Gross value added
Coal and lignite	1.99
Others	4.11
Total Mining sector	2.68
	Net value added
Coal and lignite	1.34
Others	2.58
Total mining sector	1.80

3.2 The Committee have been informed that labour productivity in the total manufacturing sector has grown at the rate of about 2 per cent per annum during the period 1960—77. However, available data indicates that the rate of growth in labour productivity fell from 2.7 per cent in 1960—65 to 1.36 per cent during 1970—76.

3.3 Asked what specific reasons could be assigned to the fall in productivity of labour during the period 1970-76, the representative of the Ministry of Labour stated during evidence that the productivity varied according to the sectors and more so according to the enterprises. Several factors were involved which affected productivity.

3.4 The Central Statical Organisation had conducted a study of 20 industries where they had pointed out that the indices of labour productivity expressed in terms of value added per employee had increased in some industries while in others it declined. In case of machinery except electricals it went up from 100 to 231 ; in Chemicals from 100 to 154 ; in metal production from 100 to 120, in textiles it went up.

3.5 The representative of the Ministry of Labour added :—

> "What I have to submit is that a generalisation of any kind for the whole economy may not lead to a meaningful conclusion. We have to take up the issue industry by industry and enterprise by enterprise and examine if productivity has declined and if so, why and where. I should also like to confess that we have not made

any study about productivity as to why it has fallen during any period. If you identify a particular industry or a particular enterprise and ask, I may go into it and say something. We have not undertaken a study of this kind envisaged in the question."

3.6 The representative of the Ministry of Labour revealed in evidence that it had been decided to set up industrial Committees for certain industries. It had also been decided to set up Productivity Boards. He indicated that the textile industry was likely to have a Productivity Board.

B. Industrial Relations

3.7 Under the Industrial Disputes Act, the Ministry of Labour is responsible for industrial relations in the Central sphere, while the State Governments are the competent authorities for disputes falling under the State sphere. The Central sphere includes banks, insurance, airlines, mines, oil fields, railways, defence establihments atomic energy etc. The State sphere covers a much wider area and includes such vital sectors like power, iron and steel, engineering electronics, textiles, transport and chemicals, Most of the public sector undertakings, therefore, fall within the jurisdiction of the State Governments in-so-far as industrial relations are concerned. Although in law, industrial relations in the State sphere are the immediate concern of the State Governmenst in practice because of the vital areas to which these industries belong and also due to the overall responsibility of the Central Government to ensure industrial peace, matters concerning the State sphere often become the predominant concern of the Central Government.

3.8 As regards institutional arrangements for resolution of disputes, the Ministry of Industry have intimated as under :—

(i) the Central Industrial Relations Machinery (CIRM) has made sustained efforts to minimise work stoppages and the industrial relations situation in key sectors has been constantly monitored and remedial measures taken, wherever necessary. During 1981, the CIRM could dispose of 82% of the disputes and avert work stoppage in 92% of the cases reported to it.

(ii) A labour Relations Monitoring Unit has been set up in the Ministry of Labour for taking timely action throgh preventive mediation to forestall industrial disputes. Monitoring Unit in the Labour Ministry was able to resolve disputes in 194 cases and prevent strikes/lockouts in 354 cases reported to it.

3.9 A Statement showing the number of mandays lost due to strikes and lockouts and value of production lost during 1977-1981, year-wise is given

below :—

Year	No. of Mandays lost	No. of Mandays lost in Manufacturing	No. of Mandays lost in Textile Industry	Value of Production loss (Rs. in crores)
	(All India)			(All India)
1977	25,320	20,275	8.912	284,48 (2.227)
1978	28,340	23,115	9,787	285.32 (2,265)
1979	43,854	38,891	23,169	443.02 (1,890)
1980	21,925	17,221	6,405	297.14 (1,923)
1981 (P)	26,464	N.A.	N.A	334.13 (1,305)

P—Provisional

N.B.—Figure in brackets indicate the No. of cases to which the data relate.

3.10 The percentage of man-days lost in textile industry to total man-day lost in all industries works out to 35% in 1977 and 1978, and 53% in 1979 and 29% in 1980.

3.11 It has been stated in a Memorandum that the State of industrial relations in the country may be viewed by the following factors :—

(i) Number of days lost due to strikes and lock outs was on the increase throughout the Sixties and early Seventies reaching all time high of 40 million in 1974. It showed a decline during the subsequent years and then again increased to 44 million in 1979 followed by a sharp decline to 13 million in 1980.

(ii) The severity ratio (ratio of man days lost of one lakh man days scheduled to work) touched an all time high of 2889 during 1979, indicating colossal waste of labour resources in industries.

(iii) The value of production lost due to strikes and lock-outs reached a figure of Rs. 443 crores during 1979, of which Rs. 385 crores was in private sector, the balance being in public sector.

(iv) A significantly large proportion of the number of workers involved and man days lost is accounted accounted for by one single industry viz. manufacture of textile.

(v) A large majority of disputes were ralated to wages, allowances and bonus (40% in 1979).

3.12 The Committee desired to know how was it that despite the role played by the two organisations, Mandays lost during 1981 had been of a substantial order i,e. 27 million as against 22 mlilion in 1980. In reply, the representative of the Ministry expressed the view that the increase in mandays lost in 1981

over 1980 was due to loss of 6 million mandays in the Bangalore based public undertakings which remained strike-bound for as many as of 77 days from December, 1980 to March, 1981. The number mandays lost in the Central sphere for which CIRM is responsible are as follows :

1980	2.16m
1981	2.76m

3.13 The Committee wanted to know if States had been sending feed back on industrial unrest, so as to facilitate preventive action being taken. In reply the Ministry of Labour have reported that the follow up of individual cases has become difficult because of the fact that a number of States have raised operational problems/difficulties in sending daily reports. Some others are stated to have pleaded that in the absence of a proper field organisation, it has not been possible for them to get a daily feed back of information relating to industrial unrest in their States. In the process, considerable time is spent in seeking and obtaining information relating to the action taken in dealing with the disputes resulting in strikes, and lockouts. Efforts are being made to improve the system of reporting and flow of information by utilising the services of the field officers of the Central Industrial Relations Machinery even in respect of incidents of industrial unrest in establishments falling in the States' sphere.

C. Adjudication Delays

3.14 It has been stated by the Ministry of Labour that there has been dissatisfaction among the workers about the delays involved in the adjudication of industrial dispute cases by labour courts and industrial tribunals. To improve the situation, a norm of 6 industrial dispute cases has been fixed in October, 1981 for disposal per month by each Central Govt. Industrial Tribunal-*cum*-Labour Court. Most of the Presiding Officers of the Central Government Industrial Tribunal-cum-Labour Court are adhering to these norms. Some have even exceeded these norms. The actual disposal is reviewed every month and a close watch is maintained on the pendency of cases. An official committee is examining the changes needed in the Rules to simplify the procedures being adopted by Labour Courts and Tribunals for the disposal of cases. The State Govts./Administrations have been advised to take similar measures in respect of Labour Court/Tribunals set up by them.

3.15 The Committee have been informed that the question of fixing a norm for disposal of applications by the presiding officers of the Central Govt. Industrial Tribunal-*cum*-Labour Courts has been under consideration in consultation with the presiding officers concerned for about a year. It was felt that no such norm should be fixed in the case of applications mainly because

of the following reasons :

(i) Sometimes several applications involving a main law point aredisposed of by a single order ;

(ii) Some of the Presiding Officers are of the view that the applications relating to coal mines are more complicated as compared to other industries.

3.16 When asked if there was a proposal to have a statutory provision for deciding the industrial disputes within a particular time limit the representative of the Ministry of labour stated that already there was a provision in the Industrial Disputes Amendment Act, 1982 recently passed by Parliament. It provided that industrial disputes which are referred to labour courts should be disposed of within 3 months but the deficiency was that after a case had been decided in the Labour Court it went to high Court and then to Supreme Court. The representative stated that there was proposal to make a further amendment to transfer the powers of High Court to the Labour Appellate Tribunals. The representative added that there were several other proposals for simplification and rationalising the managements for consideration of labour disputes. For instance the National Tripartite Conference had recommended the setting up of Industrial Relations Commissions.

3.17 The Committee pointed out that it took 15 to 20 years to get a decision from the Supreme Court, and even if the decision was in favour of labour there was no one to receive the amount as most of labour might have been out. Practically every industrialist was avoiding such payments at the coast of the labour. The representative of Labour Ministry stated in evidence :

> "We are also very much concerned about this. We are aware of the delays in disposal of cases."

3.18 It was suggested that there must be a provision that after such a decision by the authority payment must be made within one month and no appeal or writ would lie without making payment to the labour. The representative observed :

"We take note of your suggestion."

D. Workers Participation

3.19 The Committee wanted to know whether attempts to promote industrial harmony by workers participation in management had suceeded.

3.20 In reply, the Ministry of Industry have, in a note stated that the Ministry of Labour has been attempting to promote industrial harmony through effective implementation of the schemes of workers' participation in management. The State Governments, Central Public Sector Undertakings and employing Ministries had been advised, from time to time, to secure effective implementation of the schemes. The efforts towards seeking workers' participation had so far been mainly in the public sector.

3.21 When asked if it has been possible to make any headway in the Private Sector also the representative of the Labour Ministry informed the Committee that there was now a proposal to bring forward a legislation to regulate the workers participation in the management. The workers could be required to be associated with management at various levels. The proposal was being formulated and processed.

E. Sharing Gains of Productivity

3.22 It has been represented to the Committee that while the share of of profit and dividend earned had steadily increased, the industrial workers had been denied their due share. There is on that account lack of enthusiasm among workers towards raising productivity and they were averse to any idea of linking wages with production, productivity or profitability.

3.23 When asked if Government agreed that sharing the gains of productivity was the key to maintaining harmonious relations between workers and their employers and whether this could not be brought about by linking wages to productivity, the Ministry of Labour have stated, in a note, that :—

> "We agree that if the workers are assured of their appropriate share in the gains of productivity it would go a long way to motivate them to put in their best efforts to increase productivity."

3.24 The Ministry have further stated that :

> "Linkage of wages to productivity is unexceptionable in principle. It is, however, debatable as to the stage at which the linkage should be established and how it should be established. The workers' organisations demand that the workers should first be given a need based minimum wages before linking the increase in wages productivity. Linkage of wages to productivity would imply that the wages should be increased when there is a fall. Whether time rated wages can be so adjusted to variations in productivity is a matter that calls for careful consideration. Besides, it should be noted that productivity is generally understood to represent the relationship between the output and all the resource inputs. Although it can be expressed with reference to a particular input such as labour or capital it is doubtful if variations, in productivity can be attributed to a single factor. For example, the indices of value added per employee during 1960-77 prepared by the Central Statistical Organisation show that they were the highest in some of the capital intensive industries. Further, productivity varies from industry to industry and unit to unit depending on various factors. In the circumstances, determination of the share of labour in productivity is beset with practical problems."

3.25 Asked if Government had studied the systems prevailing in Japan, Korea, USA etc. where industrial relations were said to be better, so that suitable model for the Indian situation could be developed, the Ministry of Labour have stated that :—

> "Procedures and practices governing industrial relations in other countries are constantly under study to see whether we can adopt any of them. It has, however, to be noted that every country has to evolve an industrial relations system best suited to its own traditions, culture, level of development and the attitudes of parties concerned. It would not be possible to transplant system obtaining in a foreign country to any alien country as the conditions in the various countries are greatly at variance."

F. National Policy on Labour

3.26 Evolving of National Policy on Labour on the following lines has been suggested :—

1. To evolve national wage policy to avoid wide disparities in wage structure between industries and for the same function across the industry including public services and public administration.

2. To evolve national policy for making it binding on each industrial unit to evolve a 3—5 year productivity agreement clearly indicating the role of workers, in bringing about specific productivity improvements and the rewards to be given by way of wage increase, incentives, improved working conditions and environment, etc., for achieving the higher productivity. During this period, there should be no strike, lockout, or restrictive practices.

3. To encourage implementation of incentive schemes and work reorganisation schemes for greater involvement and also job evaluation schemes to remove disparities in wage differentials with in the unit.

3.27 In regard to suggestion to evolve a national wage policy the Ministry have informed the Committee that the various issues involved in the formulation of a national wage policy including those of wage disparities prevailing in the organised and unorganised sectors, and even within the organised sector between one industry and the other and one region and the other and linking wages with productivity were considered at the National Labour Conference held in September, 1982. The Conference recommended that a tripartite Committee with experts might be set up to go into the details of the complex issues of wage policy and give its recommendations early. The Committee have been informed that action is being taken to constitute a Wage Committee. Government would give the consideration to the recommendations of the wage Committee when these are received.

3.28 On the question of evolving national policy for evolving 3-5 year productivity agreements, the representative of the Ministry of Labour stated during evidence that while they would welcome productivity agreements, they were doubtful whether it would be possible to make it binding as it was a voluntary affair. Such agreements should, however, be encouraged.

3.29 The representative of the Ministry of Labour welcomed the suggestion of encouraging implementation of incentive schemes and work reorganisation schemes for greater involvement, and also job evaluation schemes to remove disparities in wage differentials within a unit.

3.30 Labour productivity has grown in the manufacturing sector at the rate of about 2 per cent per annum during the period 1960-77. However, the growth of productivity fell from 2.7 per cent in 1960-65 to 1.36 per cent during 1970-76. The Committee are surprised to learn that no study has been done by the Ministry of Labour with a view to analysing the reasons for the decline in labour productivity in any industry. The Committee feel that such a study should be undertaken soon so that based on the study appropriate measures to boost labour productivity could be evolved.

3.31 The Committee find that out of 22 million mandays lost in 1980 and 26 million mandays lost in 1981 in the industries, the share of industries in the Central sphere accounted for only 2.16 million mandays in 1980 and 2.76 million mandays in 1981. The Committee find that although a monitoring unit has been set up in the Department of Labour in October, 1981 with a view to monitoring information on industrial relations throughout the country for timely intervention, this unit is unable to function for want of feed back relating to industrial unrest from the States due to lack of mechanism with the States for the purpose.

The Committee need hardly emphasise the need for adequate flow of information. The Committee have no doubt that the States will gear up their machinery and provide adequate feed-back in the interest of development of harmonious labour management relations.

3.32 The Committee understand that there has been dissatisfaction among the workers about the delays involved in the adjudication of industrial disputes by labour courts and industrial tribunals. To improve the situation a norm of disposal of 6 industrial dispute cases per month by each Central Government Industrial Tribunal-cum-Labour Court is stated to have been fixed. The Committee would expect Government to keep the position under review so that the machinery is enabled to dispose of the cases expeditiously.

3.33 The Committee find that efforts to promote industrial harmony through effective implementation of the schemes of workers' participation in management have so far been confined mainly to the public sector. The Committee were informed in evidence that no headway had so far been made in this direction

in the private sector and a proposal to bring forward legislation to regulate the workers' participation in management was under active consideration of Government. The Committee hope the proposal will be finalised and necessary legislation brought forward soon.

3.34 The Committee wish to strongly emphasise that wages of industrial employees should be linked to productivity which would be in their interest as well as in the interest of the economy. This question brooks no delay. While Government are convinced that linkage of wages to productivity is unexceptionable in principle, unfortunately a difference of opinion is stated to prevail as to the manner and stage at which the linkage should be established. The Committee would urge that it is time that this and other issues such as formulation of a national wage policy, evolving productivity agreements, etc. including those of wage disparities prevailing in the organised sector between one industry and the other are thrashed out in consultation with the representatives of labour and managements.

CHAPTER IV

INDUSTRIAL SICKNESS

A. Policy on Sick Industries

4.1 Government policy on sick industries announced in May, 1978 was reviewed in the light of experience gained in its implementation and a revised policy was announced on 6th October, 1981. Salient features of the new policy and measures contemplated thereunder are summarised below :

(i) The Administrative Ministries in the Central Government will have specific responsibility for prevention and remedial action in relation to sickness in industrial sector within their respective charge. They will have a Central role in monitoring sickness and coordinating action for revival and rehabilitation of sick units. In suitable cases they will also establish Standing Committee for major industrial sectors where sickness is wide spread.

(ii) The Financial institutions will strengthen the monitoring system so that it is possible to take timely corrective action to prevent incipient sickness. They will obtain periodical returns from the assisted units and from the Directors nominated by them in the Boards of such units. These will be analysed by Industrial Development Bank of India and results of the analysis conveyed to the financial institutions concerned and the Government.

(iii) The financial Institutions and Banks will initiate necessary corrective action for sick or incipient sick units based on a diagonostic study. In case of growing sickness, the financial institutions will also consider assumption of management responsibility where they are confident of restoring a unit to health. The Ministry of Finance will issue suitable guidelines for take over of management.

(iv) Where the Banks and Financial Institutions are unable to prevent sickness or ensure revival of a sick unit, they will deal with their outstanding, dues to the unit in accordance with the normal banking procedures. However, before doing so, they will report the matter to the Central Government who will decide whether the unit should be nationalised or whether any other alternative including workers' participation in the management, can revive the undertaking.

(v) Where it is decided to nationalise the undertaking, it management may be taken over under the provisions of the Industries (Develop-

ment and Regulation) Act, 1951 for a period of six months to enable the Government to take necessary steps for national action.

(vi) The Industrial undertakings presently being managed under the provisions of the Industries (Development and Regulation) Act, 1951 will also be dealt with in accordance with the above principles. It will be decided if the undertakings are to be nationalised or other alternatives can provide a solution. If none of the alternatives are considered feasible, the Government may consider de-notification of the unit, in which event the Banks and Financial Institutions will deal with their outstanding dues to the undertakings in accordance with the normal banking procedures.

B. Magnitude of Industrial Sickness

4.2 Reserve Bank of India statistics available since 1977 reveal the following rising trend in sickness of large, medium and small scale units in our economy.

1. *Large Units* (Units enjoying bank credit of Rs. 1 crore & above)

	Year	No. of Units	Outstanding bank credit (Rs. in crores)
December	1977	289	858.00
June	1977	345	1101.7
June	1980	389	1232.7
March	1981	420	1413.5

2. *Medium Units* (Non-SSI Units availing bank credit of less than Rs. 1 crore)

June	1979	1013	202.3
June	1980	1026	219.2

3. *Small Scale Units*

June	1979	20326	231.00
June	1980	22325	295.0

4.3 The Committee wanted to know if magnitude of sickness in the Small Sector had also been assessed. In reply, Department of Industrial Development has intimated that in order to assess the incidence of sickness in the small scale sector and to identify various causes of sickness in these units, office of the Development Commissioner (Small Scale Industries) had taken up a diagonostic survey of small scale units. Results of the surveys are expected to be available after a few months.

C. Causes of Industrial Sickness

4.4 The RBI study of 378 units has revealed that causes of industrial sickness were as under :

Causes of Sickness	*No. of Units*
(a) Number of units which have gone sick due to internal causes like mismanagement/ management deficiencies including diversion of funds, in fighting, lack of marketing strategy.	197 (52%)@
(b) Number of units which have gone sick due to faulty initial planning and other technical drawbacks.	52 (14%)@
(c) Number of units which have gone sick due to labour troubles	9 (2%) @
(d) Number of units which have gone sick due to market recession	86 (23%)@
(e) Other reasons (power cuts, shortage of raw materials etc.)	34 (9%) @
	378 (100)

@ Figures in brackets indicate percentage of total number of units—378.

4.5 Analysing the causes of sickness among Industries in India the Ministry of Industry have intimated, in a note, that the primary reasons for sickness of a large number of units in some important traditional industrial like textiles, jute and engineering had been mainly lack of replacement, modernisation, economic expansion and technological development in the past and considerable supply-demand mal-adjustment following unavoidable curtailment of planned investment on several occasions in the wake of saving and foreign exchange constraints experienced in the economy from time to time.

D. Rehabilitation of Sick Industries

4.6 The Committee desired to know the arrangements made for identification and rehabilitation of sick industries. In reply, Department of Industrial Development have intimated that briefly the arrangement are as under :

(i) The Reserve Bank of India has set up a Cell to function as a clearing House for information relating to sick units and also to act as a coordinating Agency between the Government, banks, financial institutions and other agencies for taking up the various related issues.

(ii) State level inter institutional Committees have been set up at all the regional offices of the Department of Banking Operations and

Development of the Reserve Bank of India for the purpose of ensuring better coordination between the Banks, the State Governments, Central and State level financial institutions and other agencies.

(iii) RBI has also constituted a standing Coordination Committee to consider the issues relating to coordination between the commercial banks and term lending institutions on a 'on-going basis'.

(iv) IDBI has also set up a special Cell within its rehabilitation Finance Division for attending to references from banks in respect of their sick and problem cases.

(v) The Banks and financial institutions also make efforts to identify sickness in an industrial unit at the incipient stage itself, and carry out viability studies and nurse such of these sick units which are considered potentially viable.

(vi Banks and institutions draw up rehabilitation programmes in respect of the potentially viable units on case by case basis. The rehabilitation programmes are tailor-made, to suit the particular cases and they contain both short term and long term measures which include financial concessions like waiver of penal interest, funding of interest, reduction in the rate of interest and margin, rescheduling the overdue liabilities/irregularities for recovery in a phased manner depending upon the cash generation, grant of need based working capital and term loan facilities and other measures like change in management, proposals for merger with healthy units etc. Institutions also have nominee directors on the assisted companies.

(vii) When, however, attempts of the Banks in nursing such units fail and also in cases where units are considered non-viable, banks do take steps to safeguard their own interest by recalling their advances, enforcing their securities and filing suits, wherever necessary.

E. Central Agency to handle sickness

4.7 There is a suggestion that an apex agency with regional units with adequate powers could be set up to deal with all matters pertaining to sickness and rehabilitation. In this connection there is further suggestion that there could be centralised agency consisting of Central Government Departments, State Government Departments concerned, IDBI, and RBI.

4.8 According to another view the banks can themselves do it provided they are made to operate the system by which sickness can be detected and reported to the Board of Directors. And the banks must have a proper information system in operation.

4.9 In this connection the Secretary, Industry stated during evidence that these two suggestions were complementary and as far as banks and financial

institutions were concerned, according to the established new policy of Government on sickness, they had to evolve their own system which they had done; and they had to initiate a nursing programme. The problem arose with regard to final disposition of the sick units after the banks' programmes had failed. He added:—

> "We not only agree with this suggestion, we have worked out a detailed proposal of setting up a central authority to deal with this phenomenon of industrial sickness and a note to the Cabinet is being prepared and will be submitted to the Union Cabinet."

F. Fraudulent Sickness

4.10 It has been stated before the Committee that :

> "Very often industries are found to take money out of one particular line and put in other lines—where probably the profitability at that time is higher—and neglect the original line. This sort of behaviour is encouraged by Government who have an indication that when a unit is getting to be very sick, they will do something to get it rehabilitated. As a result the industries which own sick units would tend to again by it. This sort of behaviour one would consider as some what fraudulent. Similar behaviour occurs where the Managers, as distinguished from the owners, may indulge in diverting funds from some units to their neglect."

4.11 The Committee have received suggestions that :

(a) Entrepreneurs/business houses who indulge in malpractices like diversion of funds be black listed and punished; and

(b) Only those who have professional competence and commitment to protecting public interest be appointed on the Board of Directors.

4.12 In this connection, the Department of Industrial Development have stated that :—

(a) Since the existing system in banks and financial institutions is capable of tackling the malaise of diversion of funds by dishonest promoters, Government does not consider it necessary to introduce a formal system of black listing of dishonest entrepreneurs. In fact when the banks and institutions come across any diversion of funds by promoters, they not only stop further financing of the unit but also may resort to recall of advances. Revival of the unit is resorted to generally after effecting necessary changes in the management set up, where considered necessary.

(b) The present system of nomination of directors was also recently reviewed by the Government and suitable modifications including enlarging the field of selection, have been made. In the view of the Government, there does not appear to be an immediate need to make

any change in the present policy and practice in respect of nomination of Directors on the Board of assisted concern.

4.13 The Committee feel concerned over the growing sickness among industrial units leading to gross under utilisation of industrial capacity and manpower resources in the existing enterprises and contributing to growing imbalances and shortages in the economy. According to the Reserve Bank statistics the number of large sick units has gone up from 289 in December, 1977 to 420 in March 1981, the number of sick medium units from 1013 in June, 1979 to 1026 in June 1980, and sick small units from 20,326 in June 1979 to 22,325 in June, 1980. Reasons leading to industrial sickness have been identified. The main reason of sickness among large units as identified by RBI study of 378 units, is mismanagement due to which as many as 197 out of 378 units (52%) are sick. Another 52 units (14%) have gone sick due to faulty initial planning, 34 units have fallen sick due to power cut and shortage of raw materials. In addition 86 (34%) units have gone sick owing to market recession. It is clear, therefore, that if there were an adequate monitoring and Early Warning System in the industry, in a large majority of cases the correctives could have been applied in the very beginning and the units could have been saved from falling sick.

4.14 The Committee are surprised to know that no study has been made of the phenomenon of growing sickness among small scale industrial units. The Committee have been informed that such a survey has now been taken up and the results are expected within a few months. The Committee hope that the results of study will be available early and Government will take the follow up measures to detect sickness among small units at the intitial stage of sickness and take speedy measures for rehabilitation of such units where possible.

4.15 The Committee note that the Department of Industrial Development have evolved a detailed proposal to set up a centralised Authority to deal with the phenomenon of industrial sickness and that the matter is to be placed before the Cabinet soon. The Committee would like it to be finalised early.

4.16 The Committee understand that very often industries take money out of one particular line and put in other lines where profitability at a particular time is higher and neglect the original ones. Such behaviour tends to be encouraged by the hope that Government would do something to rehabilitate the sick unit. The Committee have been informed by the Department of Industrial Development that in such cases, banks and financial institutions not only stop further financing of the unit but also may resort to recall of advances. The Committee recommend that in cases where these measures fail to yield results, Government should take sterner action against the dishonest proprietors or managers.

CHAPTER V

MODERNISATION

5.1 Referring to the state of plant and machinery in various industries, a non-official organisation has pointed out as follows :—

(i) In the case of textile industry, as much as 63 per cent of spindles and 82% of looms installed in the industry are over fifteen years old. Technological Developments over the last 10 to 15 years have rendered machinery obsolescent.

(ii) The working group for the engineering industry has pointed out that about 70 per cent of the capacity is over 10 years old and requires outright replacement.

(iii) As for the sugar industry, in 1977, 130 factories were over 25 years old where both milling and boiler houses required a replacement and 66 per cent of the factories were making losses.

5.2 With a view to combat obsolescence in industries, the financial institutions introduced a soft loan scheme with effect from November, 1976. The scheme became operative from February, 1977. However, the scheme gathered momentum only from early 1978 after Government confirmed inapplicability of convertibility stipulation to beneficiaries under the scheme in December, 1977. Under the Soft Loan Scheme modernisation requirements which are of considerable national importance to the economy are eligible for concessional assistance from the financial institutions. Based on this criteria, five industries namely Cotton, Textiles, Jute, Sugar, Cement and certain specified engineering industries were made eligible for coverage by the scheme. All units in the selected industries are eligible for assistance under the Soft Loan Scheme for purposes of modernisation. However, at a given point of time priority in sanctioning of loans is given to those units satisfying the following three conditions :—

1. Where the paid-up capital reserves have been eroded to the extent of 50 per cent and above.
2. Where weakness related directly to mechanical obsolescence and ;
3. Where as a result of modernisation there would be early prospects of viability.

5.3 During evidence, the Secretary, Department of Industrial Development informed the Committee that the Federation of Indian Chambers of

Commerce and Industries had made an assessment of the modernisation requirements of the following five industries and it came to Rs. 3682 crores. This study had been done in 1981. The allocation, industry-wise, according to their assessed needs was stated to be as follows :

Textiles	...	Rs. 2125 crores
Cement	...	575 „
Sugar	...	187 „
Jute Textiles	...	439 „
Engineering	...	356 „

5.4 The Federation had suggested that if this programme was to be spread over a period of 5 to 7 years, an annual outlay varying from Rs. 526 crores to Rs. 736 crores would be needed.

5.5 The witness stated that in respect of the soft loan scheme which had been sanctioned by the IDBI from February, 1977 with certain modifications in rates of interest which started in 1981, the total number of units which had been assisted upto 31.5.82 and the amounts of assistance were as under :—

Industry	*No. of units*	*Amount of assistance* Rs.
Textiles	244	259.94 crores
Cement	17	60.25 „
Sugar	27	34.72 „
Jute	8	12.06 „
Engineering	96	91.43 „
		458.40

5.6 As at the end of 31st May, 1982, 392 applicants had obtained soft loan assistance to the extent of Rs. 458.40 crores from all financial institutions.

5.7 As there was a wide gap between the assessed needs for modernisation of the 5 industries and the amounts of assistance sanctioned by financial institutions, the Committee wanted to know if any applications for soft loan were rejected. In reply, the witness assured the Committee that no application for modernisation which had gone to IDBI had been rejected on grounds that IDBI had no funds.

5.8 He indicated that it was quite possible for the IDBI to provide Rs. 300 to 400 crores for modernisation every year provided the industrial enterprises come forward.

5.9 Asked if high prices of commodity affected modernisation, the witness explained that these five commodities except cement had no price restriction. In cement, a dual pricing policy had been introduced. So, pricing

was not a problem, as far as modernisation was concerned. The witness added that the problem was that the Indian Industry basically was not conscious of the need for modernisation. He felt that preventive maintenance was a road to survival.

5.10 The reprensentative observed that "the preventive maintenance in the Indian factories, I am sorry to say, is not upto the optimum order even when they find that the equipment efficiencies are going down. That is either because of lack of balancing facilities or they do not instal the balancing facilities in time.....In the west, if they get Rs. 5 crores more the very first charge on the surplus would be on replacement, on renovation. In our country this was not at all being done."

5.11 It has been stated in a memorandum furnished to the Committee that the pace of modernisation had been slow because of paucity of funds resulting from :

(i) Price control
(ii) Depreciation based on historical cost
(iii) High rate of corporate taxation.

5.12 It has been added that the effect of these factors had been an erosion of profitability. Companies are unable to set aside adequate funds for replacement or modernisation.

5.13 There is a view that the depreciation allowed under the present structure is not being utilised by the corporate sector to modernise the plant and it is being utilised otherwise. In this connection representative of a non-official organisation suggested that depreciation should be increased in the interest of modernisation and used only for replacement or modernisation.

5.14 The representatives of a leading trade and commerce organisation stated during evidence that an important factor retarding growth of Industry had been the factor of regulated pricing. As in case of cement, the price was not fixed at an appropriate level ; so, cement production slumped for 14 years and the country had to suffer and the cement had to be imported. As soon as the price was fixed at the optimum level, the production went up. He added that while the sixth Plan had envisaged an investment of Rs. 17500 crores in five years but the rate of investment was not more than Rs. 2000 crores per year at the moment. The private sector had no resources to draw money from. Depreciation allowance did not take care of even replacement. There was no provision to carry back losses either. Even the banks had been nationalised. Unless, therefore, industry was permitted to generate and invest from their own savings it would not be possible to fulfil targets fixed for Sixth Plan.

5.15 It had been represented to the Committee that the absence of generation of surpluses in the private sector has retarded not only growth but also

modernisation and replacement. In this connection particular attention has been drawn to the taxation policy which does not allow of enough reserve of accelerated amount of depreciation to take care of rise in cost of replacement.

5.16 The representative of the Department of Industrial Development, howewer, expressed the view that increase in depreciation will not solve the problems. He explained the position thus :

> "There are varying systems followed in different countires. There is a concept of accelerated depreciation. In our country also we have allowed higher rate of depreciation in the first two years; but that does not solve the problem of our country because you are not able to achieve that sort of a sales volume against which will you depreciate I can allow you to depreciate your plant for five years or three years, but this depreciation has to be against your earnings. Therefore, the point here is that accelerated depreciation *Per se* is not a solution in the Indian situation at all. Therefore, the system which we have followed is a two fold system : investment allowance and another is acclerated depreciation. These are the two systems that we have followed. If you are talking of depreciation, there are two ways of looking at it. One is replacement cost and another is historical cost. Our depreciation is based on historical cost.....
>
> In the American economy the period which is worked out in a project is roughly three to five years. Here we assume a period of 10-15 years because there the retentions are very much larger, sales volumes are very much larger, against which you can write off the Plant. If your turn-over is 20 billion dollars you can write off the capital cost in three or four years. In our country turnout being lower, you cannot do it."

5.17 According to an assessment made by the Federation of Indian Chamber of Commerce and Industry, in 1981, an investment of Rs. 3,682 crores would be needed to modernise the five industries namely, Textile, Cement, Sugar, Jute Textiles and Engineering. If the programme is executed in 7 years, it will need an annual investment of Rs. 526 crores. A total amount of Rs. 458, 4 crores has already been loaned to these industries upto 31.5.1982. As for the future, the Secretary, Department of Industrial Deveplopment indicated in evidence that to speed up modernisation, it would be possible for Industrial Development Bank of India to offer to these industries soft loans to the tune of Rs.300 to Rs.400 crores a year provided the industrial enterprises themselves come forward with requests for loans, The Committee feel that one reason for this apathy on the part of enterprises may be that the soft loan offered by IDBI really may not be that soft as to attract enterprises. The Committee feel that terms attached to soft loans may be reviewed and made more attractive.

5.18 The Committee find that in India depreciation is based on historical cost as distinct from replacement cost. It has been represented to the Committee that depreciation provided in this manner is not enough to enable replacement of obsolete machinery. It has been urged that we should provide for a higher rate of depreciation and see that the amount was spent by the industry only for replacement of obsolete machinery or modernisation. According to the Secretary, Departmcnt of Industrial Development, however, "accelerated depreciation *per se* is not a solution in the Indian situation at all." He pointed out that industries in India did not have adequate turnover against which higher depreciation could be provided. The Committee recommend that this problem may examined in depth by a Committee of Experts consisting of eminent economists and representatives of industry and Government for finding a satisfactory solution to the problem.

CHAPTER VI
RESEARCH AND DEVELOPMENT
A. Research & Development

6.1 At the national level, the Council of Scientific and Industrial Research have set up a number of Research & Development laboratories in various disciplines of engineering, chemicals and allied items. These laboratories mostly conduct research oriented utilisation of the locally available raw materials and have met priority needs of the country. Several of these laboratories have pilot plant facilities for development of various processes and designs.

6.2 Apart from the CSIR laboratories, a larger number of specialised R&D organisations coming under various Ministries and also in the private sector encouraged in R&D in various chemical and engineering fields. In-house R&D efforts in various industries are encouraged by providing suitable incentives for such establishment.

6.3 It has been stated by the Ministry that Research and Development in industries has been oriented towards development of new products, new process, process improvements, upscalling of various technologies and indigenisation of imported technologies. There are 767 recognised R&D units, of which 30 per cent cover chemical industries and 18 per cent electrical/electronics industries. Out of these 767 units, 71 units are affiliated to Public Sector Undertakings and the rest 696 units fall in the Private Sector. In the private sector, 519 units belong to the organised sector and the rest 177 units fall under the small scale sector. There are 29 R&D units—(18 in private sector and 11 in public sector) which incur expenditure of more than Rs. 1 crore annually on R&D. Most of the industries have separate R&D units for research and development activities. These activities are looked after independently by an R&D Manager who is responsible to the Managing Director. The R&D units are equipped to cater to their needs. These R&D units have played significant role in increasing the production in various sectors by way of devising new processes, alternative routes of production etc. They also contribute directly towards increasing the production.

6.4 Most of the industries have separate R&D units for research and development activities. These activities are looked after independently by an R&D Manager who is responsible to the Manager who is responsible to the Manager Director. The R&D units are equipped to cater their needs. These R&D units have played significant role in increasing the production in various

sectors by way of devising new processes, alternative routes of production etc. They also contribute directly towards increasing the production by way of waste utilisation and energy saving.

6.5 Total expenditure incurred by all recognised R&D units during the year 1981-82 has been estimated to be of the order of Rs. 200 crores which is about 1 per cent of their annual turnover.

6.6 Increased investment allowances are allowed on plant and machinery using indigenous techonlogy, total tax write off is available both to recipients and donors if donations are for research foundations/societies etc. as approved under the Income Tax Act The R&D expenditure gets a weighted income tax exemption. Further, technologies developed in the CSIR laboratories and other in-house R&D laboratories recognised by the Department of Science & Technology are exempt from the provisions of the I D&R Act.

B. Identification of thrust areas

6.7 It has been stated in a memorandum that through expenditure on R & D and on related science and technology activities increased from Rs. 4.68 crores in 1950-51 to an estimated Rs. 76.14 crores in 1980-81, this is miniscule compared to expenditure in countries like USA, Japan, West Germany, France etc. The Committee's attention has also been invited to serious gaps between the technological capabilities of Indian industry and industry elsewhere which tell upon the competitiveness of Indian industry. It has been stated that no country is truly technologically self-sufficient. It has also been pointed out however, that on examining the R&D expenditure of countries like West Germany, Japan, UK, France etc., it is clear that each has developed specialised capacities in industrial innovations in a few areas, for example, electronics and chemicals in Netherland, fine chemicals and machinery in Switzerland etc. Our country would benefit by a similar approach. It has been suggested therefore, that thrust areas in research must be identified. A technology-*cum*-R&D plan should be evolved with an immediate view, a medium term view and a long term view.

6.8 The Ministry have stated in this connection that Government have promoted organisation of Seminars with a view to identifying thrust areas in the context of economy, endowment availability of skills. The S&T plan has recognised the need for coordinated research in priority areas, while optimally utilising the resources and has identified various thrust areas to be administered by concerned Ministries. Examples of some thrust areas are plasma physics, immunology, vaccine development, instrument development programmes etc. Multi-disciplinary research activities in identified important areas are also supported by the Government.

6.9 The Ministry are thus of the view that :

"As such, this approach is desirable and efforts would also be made to periodically review the identified thrust areas."

C. Central Agency

6.10 It has been stated in a memorandum that "while several of the large industrial undertakings are making rapid strides to switch over to efficient technologies, a large number of industrial units appear to be on the look out for a centralised institution for transfer of technology and for financial assistance required for the purpose." It has been suggested that "Setting up of centralised R&D unit for the purpose specifically for developing appropriate technologies and coordinating technologies already developed elsewhere for displacing prevailing obsolescence in the important sectors of the industry may be encourged. This institution could also look after the financial assistance and related aspects required for the purpose."

6.11 Asked how far this suggestion was feasible, the representative of the Ministry of Industry stated that :

> "Whether it is feasible to have a central R&D for all technologies relating to all industries, is something which we have to consider, because as far as industries are concerned, even if you divide them into broad groups, there will be well over 40 groups. So, whether a Central Research Institute can cater to their requirements, is a moot question. For example, the chemical industry will have 45 or 46 sub-divisions. But we have got this NRDC, a Central Government organisation, which not only helps in the development of local processes, but also participates in the company's productionisation of locally developed processes. Apart from them, we have got, in all major industries, industry-wise R&D institutions ; e.g. paper, fuel, CMTI, NML etc. This particular need of industries is met through centralised institutes, particularly for those which cannot afford to set up their own research institutes."

6.12 The Committee find that there are 767 recognised Research & Development Units. Of these 71 units are affilliated to the public sector. Total expenditure incurred by these 767 R&D Units in 1981-82 was of the order of Rs. 200 crores which is barely one per cent of the total annual turnover of the related industries. While it may not be possible for our country to spend as much as advaned countries like USA, Japan, West Germany, France, etc. do on research and development, the existing outlay cannot be said to be adequate. There is need to earmark, more funds for R&D activities. The Committee would stress the need to see that in order to put our scarce resources to optimum use, thrust areas calling for research are identified which care so as to avoid duplication of effort in areas which have already been successfully explored.

D. Development of Technical & Managerial Manpower

6.13. It has been stated in a note furnished by the Ministry that India has already developed a fairly wide base for generation of skills in various sub-

jects at all levels which very well meet the needs of industry in public, private and joint sectors. The generation of training capacities in several areas has in fact, been some-what ahead of the requirements of the labour market. In most branches of education, which is true of technical education system also, the emphasis has recently been on consolidation and improvement rather than on quantitative expansion of facilities and admission capacities. The country is now in a position to offer its training facilities to other nations as well as offer its experts. However, we do still need the training facilities of the developed countries in limited highly specialised areas of science and technology.

6.14 So far as the availability of technical personnel for the industry is concerned it has been stated by the Ministry that the country is not lacking in the availability of technical personnel in any field of industry, so much so that we are exporting technically trained personnel to the countries in Middle East and Africa.

6.15 On the basis of available data, a tentative estimate of availability of trained manager during the 6th Five Year Plan period (1980-85) had been made. On this basis it has been estimated that 2415 post graduate degree holders, 4807 post graduate diploma holders and 155 certificate holders in management education are expected to be available during 1980-85 from the existing training institutions. These estimates however, have to be revised upwards due to expansion of management education during this period.

6.16 When asked about the extent of shortage of trained managerial manpower and how the shortage was proposed to be made good the Secretary, Industry claimed in evidence that :—

> "There are, I think well over 70 institutions which are imparting management education, which give degrees or diplomas. There is no dearth of management manpower at all."

6.17 It has been stated in a memorandum furnished to the Committee by the NPC that alongside NPC there are five Institutes of Technology, three Institutes of Management, Administrative Staff College of India, NITIE, and a number of other training and research institutions spread all over the country for imparting managerial and technical skills. In addition, regional and local engineering colleges and universities are also imparting knowledge in these skills. The existing facilities seem to be quite adequate. These organisations are trying to help industry to run on efficient lines by providing basic technical know-how through regular courses, by updating knowledge of industrial personnel through short courses and by providing assistance to industry in solving their practical problems through consultancy and research. There is, however, a big gap in terms of close interaction between industry and educational training-cum-research institutions, which needs to be bridged for effectively utilising the resources invested in the institutions.

6.18 It has been represented to the Committee that in the matter of development and adoption of management techniques whatever is being done suits the large industries.

6.19 The Secretary Ministry of Industry stated during evidence in this connection that :—

> "This is absolutely a correct statement that the management education which is now imparted is not suited to the small enterprises management as such. Most of the small enterprises are not professionally managed. Therefore, the requirement of management trained professionals, management trained personnel in small industry is very difficult to determine. Even otherwise, we have got small scale service institutes all over the country which impart management training to small scale Managers in a variety of courses which include marketing training, production training and so on. We have got an institute in Hyderabad, which has new set up a branch in Assam which also trains small scale persons in different disciplines of management. We have a plan to set up two more institutes which will be particularly on the Japanese model, which will particularly train small scale personnel for management. But, as I said, the requirement of professionally trained management personnel in the small scale industry is rather difficult to determine because most of the small enterprises are owners managed."

6.20 It is gratifying to note the assurance given to the Committee by the Secretary, Industry that the country is self-sufficient in regard to technical personnel for the Industry and that there is no lack of availability of technical personnel in any field of Industry. The Secretary, Ministry of Industry, however, conceded in evidence that the management education which is now being imparted "is not suited to the small enterprises management as such" and that "most of the small enterprises are not professionally managed."

The Committee consider that, with more and more items being reserved exclusively for small scale sector and consequent expansion of that sector's contribution to the total economy, there is an urgent need to train and develop managerial talent in adequate numbers, linked to the requirements of the small scale industries sector.

NEW DELHI ;
April 24, 1983
Vaisakha 4, 1905 (S)

BANSI LAL,
Chairman,
Estimates Committee.

APPENDIX

STATEMENT OF RECOMMENDATIONS/OBSERVATIONS

Sl. No.	Reference to Para No. in the Report	Summary of Recommendations/Conclusions
1	2	3
1	1.10	The Committee are happy to note that the year 1982 was declared by Government as the year of productivity. This naturally raised high expectations that Government and the industries in the public and private sectors would strive to raise their productivity levels. It, however, transpired in edvidence that the Ministry of Industry have taken "productivity to mean higher production by optimal utilisation of the production assets installed." The Secretary, Department of Industrial Development admitted in evidence that the definition of productivity followed at present by the Ministry was what is understood in common man's parlance and not a scientific one. Accordance to the Secretary, Department of Industrial Development there cannot be industry-wise measurement of productivity in the sense of "Inter-factor utilisation" because apart from efficient management productivity was dependent on a number of factors like labour-management relations, state of plant and machinery, availability of raw materials, etc. The Committee are unable to share this view because, as pointed out by the National Productivity Council, it is a distortion to say that productivity is synonymous with higher production. Higher production can be easily achieved by adding new capacities but that is not higher productivity. The Committee urge Government to evolve and follow a scientific definition of productivity in consultation with the National Productivity Council and Planning Commission.
2	1.18/1.19	The Committee find that no system of measurment of productivity industry-wise has been evolved

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		as yet. Ministries which oversee industries in public and private sectors do not have an agreed index to reflect productivity. Central Statistical Organisation is presently the main source of data for carrying out exercise on productivity measurement but there is time lag of 4 to 5 years in compilation of such data, the latest data available being for 1977. About the data compiled by CSO, the Secretary expressed grave doubts, in evidence and wondered if such data really could serve the purpose of productivity measurement. The committee cannot but deplore a complete lack of system of measurement of productivity. The Committee, however, note that recently the National Productivity Council has selected 8 important industries viz. Cement, Coal, Paper, Fertilizers, Thermal Power Generation, Road Transport (Passenger), Sugar and Heavy Engineering for undertaking "productivity nor-mative studies through inter-firm comparison methods". The Committee understand that there is also a move to set up tripartite productivity Boards for these industries. The Committee recommend that once this system is set in motion, it may be extended to more and more industries so that in not too distant a future all the major industries are covered.
3	1.29	The Committee note that the National Productivity Council, an autonomous body, under the Ministry of Industry is, through its net work of 14 regional offices and 48 local Productivity Councils, engaged in the promotion of productivity conciousness in the country. The Committee are concerned to find the Council is feeling handicapped in moving faster and undertaking expansion of its activities in this vital field because of paucity of funds. The Committee feel that unless the State Governments extend their whole hearted cooperation, efforts for generation of productivity consciousness in the industries cannot succeed. The Committee would urge that Productivity Councils should be provided with adequate funds to carry on their activities aimed at raising productivity levels in the industries.

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4	1.39	The Committee note that a control room has been set up in the Department of Industrial Development to deal with problems relating to production constraints. They find, however, that this arrangement for monitoring productivity in a limited number of industries had not met with much success as productivity had not increased in all the selected industries. The aim of control room in fact is limited to removing various constraints with Ministry's intervention at various levels. While the committee do concede the usefulness of the machanism of a control room they feel that this machanism needs to be made more broadbased to cover a larger number of industries with a view to cover gradually the complete gamut of industries for centralised monitoring. Furthermore while the existing machanism provides a framework for implementation of policies and removal of constraints in production, as experience shows, it cannot go far enough in monitoring and achieving higher productivity in various industries unless such efforts are supplemented by an inter-disciplinary approach to the formulation of policies, fiscal, economic, monetary etc. calculated to step up productivity. Government might, therefore, consider the desirability of setting up of an inter-disciplinary group for policy formulation to achieve positive results.
5.	2.11	As would be seen from the data furnished to the Committee in respect of 48 industries the capacity utilisation was less than 70 per cent in 20 industries during 1982 as against 19 Industries during 1981. In the case of basic industries like cement, zinc and fertilizers distinct downward trends are noticed compared to some earlier years. Downward trend is also seen in case of tractors. Similarly in case of industries like rubber machinery, sugar machinery and Diesel engines, capacity utilisation has been poor being just around 50 per cent in all these cases. What concerns the Committee is that unsatisfactory or poor performance is noticed in the basic and machinery industries which have a vital bearing on the economy of the country. The Committee would,

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		therefore, urge Government to look into the demand and production constraints in regard to fuller utilisation of capacities in these industries and initiate measures to atleast halt the downward trend.
6	2.22	The Industrial Policy Statement of July, 1980 had acknowledged the fact that our economy is "presently inhibited by infrastructure gaps and inadequacies in performance." It was stated that to normalise the situation, Government are working on "war footing." The Committee were informed in evidence that there is now a Cabinet sub-Committee on infrastructure which monitors the production and distribution of the essential infrastructure, viz. Power, Coal or Transport. It is, hower, a matter of concern that power situation continues to be critical, if not grave. The Plant Load Factor which is an index of capacity utilisation in the power sector shows a deteriorating trend. The PLF of thermal power stations has declined from about 56 per cent in 1976-77 to 46.8 per cent in 1981-82. This deterioration in the utilisation of capacity in thermal power stations has been the major contributing factor to the power shortage experienced in the country during the last five years. Needless to point out that this results in colossal wastage of investments in this sector as also consequent production losses in the Industrial sector. The loss in industrial production due to power shortage in 1980-81 is estimated to be Rs. 2,500 crores as against Rs. 400 crores in 1978-79 and Rs. 2,000 crores in 1979-80. The Committee, therefore, are of the considered view that nothing short of total reorientation of the policies and programmes aimed at optimal utilisation of capacity of power plants and exploitation of alternative sources of energy would help improve our economy.
7	2.23	The Committee have already examined the subject in great detail and submitted their 13th Report (1980-81) on generation of Power and made a number of recommendations. They are confident that implementation of these recommendations could help in administering the power sector in a better way.

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8.	2.27	It has been reported that capacity underutilisation in 8 industries, namely BHC (Tech), DDT, Industrial Explosives, Viscose Tyre Cord, Viscose Filament Yarn, PVC Resins, Polystyrene and Synthetic Rubber is due to sluggishness of demand. There are two ways to fight this trend, viz. diversification and export. The Secretary, Department of Industrial Development pointed out that Government had been so liberal in allowing diversification that hardly any area had been left out. As regards exports, he stated that it was a continuous process. The Committee recommend that reasons for recession in these 8 industries may be probed further and suitable remedial measures taken.
9	2.33	The Committee note that Government so far have rightly followed a cautious approach in regard to exposing indigenous industry to competition from outside. We are now having industries, some of which exclusively in the Public Sector, spread all over the country producing a variety of goods of varying qualities. This has, however, also created a sense of complacency at least in certain industries where there is virtually no competition both from within and outside. Costs and efficiencies have consequently been affected adversely. Automobile is an outstanding example of this state of affairs. No worthwhile progress is seen in automobile industry in the matter of quality or design for the last 3 decades while costs have gone up considerably. The Committee feel that there is greater need to selectively relax the industrial economic and fiscal policies gradually in non-strategic sectors so that at least in the long run the economy can derive the benefits of international competition and within the country there is healthy competition between the Public and Private sectors.
10	2.39	The objective of keeping prices of imported Soda Ash at 10% lower than the local price so that there was an incentive to reduce the price to that level particularly when this commoditiy was being used by weaker sections of the people was laudable. The

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		Committee are, however, concerned at a considerable fall in the indigenous capacity utilisation from 94% in 1981 to 49% in January-September, 1982. They would, therefore, urge Government to examine the matter in this context and also ensure that this opportunity is not utilised by foreign companies to dump their excess production into this country to the deteriment of local industry. Other indigenous industries like steel, aluminium and polyster fibre are also reported to have suffered from this policy of Government. Government would do well to review their import policy in respect of these industries as well.
11	2.46	The Committee recommend that a critical review may be undertaken in the context of the accent on improving Productivity to see if any provisions of MRTP, IDRA, FERA etc. and the rules or regulations made by Government thereunder had acted as a constraint on productivity, and if so, to what extent and in the light of such a study, the relevant provisions may be suitably modified without sacrificing the essential socio-economic objectives underlying these regulations.
12	2.54	The incentive announced by Government by way of endorsing in the licence the higher capacity level over and above the best production of a unit during the last 5 years and further re-endorsement of enhanced capacities at the end of March, 1983 though welcome, have not been able to attract a significant response. This is because the scheme suffers from a number of deficiencies. First, the scheme of automatic expansion is at present restricted to 34 industries. No specific reasons have been assigned for this restriction. Secondly, the scheme being restricted to one year lacks a sense of continuity which inhibits the enthusiasm on the part of industrial units to avail themselves of this facility. Thirdly, and most important, for want of adequate infrastructure, it will be extremely difficult for all the industrial units to make the best of this offer. In some State like

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		U.P. the industrial units have not availed of the benefit of the scheme on account of persistant shortage of power and coal. While the Committee would urge Government to review the scheme in the light of the aforesaid deficiences, they would strongly recommend specifically to relax, if not remove, the condition of limiting the scheme to only 34 industries. The Committee see no reason for disagreeing to the suggestion that it should be extended atleast to such industries where shortage in respect of related commodities exist. they would, therefore expect Government to review the scheme from this angle and allow automatic expansions in all such cases. The Committee would suggest further that in all applications under automatic expansion scheme, due consideration should be given to lack of infra-structure facilities in specific areas so that the units do not stand to lose due to reasons beyond the control of the units compared to those which are better placed in this respect.
13	3.30	Labour Productivity has grown in the manufacturing sector at the rate of about 2 per cent per annum during the period 1960—77. However, the growth of productivity fell from 2.7 per cent in 1960—65 to 1.36 per cent during 1970—76. The Cammittee are surprised to learn that no study has been done by the Ministry of Labour with a view to analysing the reasons for the decline in labour productivity in any industry. The Committee feel that such a study should be undertaken soon so that based on the study appropriate measures to boost labour productivity could be evolved.
14	3.31	The Committee find that out of 22 million mandays lost in 1980 and 26 million mandays lost in 1981 in the industries, the share of industries in the Central sphere accounted for only 2.16 million mandays in 1980 and 2.76 million mandays in 1981. The Committee find that although a monitoring unit has been set up in the Department of Labour in October, 1981 with a view to monitoring information on industrial

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		relations throughout the country for timely intervention, this unit is unable to function for want of feed-back relating to industrial unrest from the States due to lack of mechanism with the States for the purpose. The Committee need hardly emphasise the need for adequate flow of information. The Committee have no doubt that the States will gear up their machinery and provide adequate feed-back in the interest of development of harmonious labour-management relations.
15	3.32	The Committee understand that there has been dissatisfaction among the workers about the delays involved in the adjudiction of industrial disputes by labour courts and industrial tribunals. To improve the situation a norm of disposal of 6 industrial dispute cases per month by each Central Government Industrial Tribunal-*cum*-Labour Court is stated to have been fixed. The Committee would expect Government to keep the position under review so that the machniery is enabled to dispose of the cases expeditiously.
16	3.33	The committee find that efforts to promote industrial harmony through effective implementation of the schemes of workers' participation in management have so far been confined mainly to the public sector. The Committee were informed in evidence that no headway had so far been made in this direction in the private sector and a proposal to bring forward legislation to regulate the workers' participation in management was under active consideration of Government. The Committee hope the proposal will be finalised and necessary legislation brought forward soon.
17.	3.34	The Committee wish to strongly emphasise that wages of industrial employees should be linked to productivity which would be in their interest as well as in the interest of the economy. This question brooks no delay. While Government are convinced that linkage of wages to productivity is unexceptionable in principle, unfortunately a difference of

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		opinion is stated to prevail as to the manner and stage at which the linkage should be established. The Committee would urge that it is time that this and other issues such as formulation of a national wage policy, evolving productivity agreements, etc. including those of wage disparities prevailing in the organised sector between one industry and the other are thrashed out in consultation with the representatives of labour and managements.
18	4.13	The Committee feel concerned over the growing sickness among industrial units leading to gross under utilisation of industrial capacity and manpower resources in the existing enterprises and contributing to growing imbalances and shortages in the economy. According to the Reserve Bank statistics the number of large units has gone up from 289 in December, 1977 to 420 in March 1981, the number of sick medium units from 1013 in June, 1979 to 1026 in June 1980, and sick small units from 20,326 in June 1979 to 22,325 in June, 1980. Reasons leading to Industrial sickness have been identified. The main reason of sickness among large units as identified by RBI study of 378 units, is mismanagement due to which as many as 197 out of 378 units (52%) are sick. Another 52 units (14%) have gone sick due to faulty initial planning ; 34 units have fallen sick due to power cut and shortage of raw materials. In addition 86 (34%) units have gone sick owing to market recession. It is clear, therefore, that if there were an adequate monitoring and Early Warning System in the industry, in a large majority of cases the correctives could have been applied in the very beginning and the units could have been saved from falling sick.
19	4.14	The Committee are surprised to know that no study has been made of the phenomenon of growing sickness among small scale industrial units. The Committee have been informed that such survey has now been taken up and the results are expected within a few months. The Committee hope that the

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		results of study will be available early and Government will take the follow up measures to detect sickness among small units at the initial stage of sickness and take speedy measures for rehabilitation of such units where possible.
20	4.15	The Committee note that the Department of Industrial Development have evolved a detailed proposal to set up a centralised Authority to deal with the phenomenon of industrial sickness and that the matter is to be placed before the Cabinet soon. The Committee would like it to be finalised early.
21	4.16	The Committee understand that very often industries take money out of one particular line and put in other lines where profitability at a particular time is higher and neglect the original ones. Such behaviour tends to be encouraged by the hope that Government would do something to rehabilitate the sick unit. The Committee have been informed by the Department of Industrial Development that in such cases, banks and financial institutions not only stop further financing of the unit but also may resort to recall of advances. The Committee recommend that in cases where these measures fail to yield resultes, Government should take sterner action against the dishonest proprietors or managers.
22	5.17	According to an assessment made by the Federation of Indian Chamber of Commerce and Industry, in 1981, an investment of Rs. 3,682 crores would be needed to modernise the five industries namely, Textiles, Cement, Sugar, Jute Textiles and Engineering. If the programme is executed in 7 years, it will need an annual investment of Rs. 526 crores. A totat amount of Rs. 458.4 crores has already been loaned to these industries upto 31.5.1982. As for the future, the Secretary, Department of Industrial Development indicated in evidence that to speed up modernisation, it would be possible for Industrial Development Bank of India to offer to these industries soft loans to the tune of Rs. 300 to

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		Rs. 400 crores a year provided the industrial enterprises themselves come forward with requests for loans. The Committee feel that one reason for this apathy on the part of enterprises may be that the soft loan offered by IDBI really may not be that soft as to attract enterprises. The Committee feel that terms attached to soft loans may be reviewed and made more attractive.
23	5.18	The Committee find that in India depreciation is based on historical cost as distinct from replacement cost. It has been represented to the Committee that depreciation provided in this manner is not enough to enable replacement of obsolete machinery. It has been urged that we should provide for a higher rate of depreciation and see that the amount was spent by the industry only for replacement of obsolete machinery or modernisation. According to the Secretary, Department of Industrial Development, however, "accelerated depreciation *per se* is not a solution in the Indian situation at all". He pointed out that industries in India did not have adequate turnover against which higher depreciation could be provided. The Committee recommend that this problem may be examined in depth by a Committee of Experts consisting of eminent economists and representatives of industry and Government for finding a satisfactory solution to the problem.
24	6.12	The Committee find that there are 767 recognised Research & Development Units. Of these 71 units are affiliated to the public sector. Total expenditure incurred by these 767 R&D Units in 1981-82 was of the order of Rs. 200 crores which is barely one percent of the total annual turnover of the related industries. While it may not be possible for our country to spend as much as advanced countries like USA, Japan, West Germany, France etc. do on research and development, the existing outlay cannot be said to be adequate. There is need to earmark, more funds for R&D activities. The Committee would stress the need to see that in order to put our scarce

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		resources to optimum use, thrust areas calling for research are indentified with care so as to avoid duplication of effort in areas which have already been sucessfully explored.
25	6.20	It is gratifying to note the assurance given to the Committee by the Secretary, Industry that the country is self-sufficient in regard to technical personnel for the Industry and that there is no lack of availability of technical personnel in any field of Industry. The Secretary, Ministry of Industry however, conceded in evidence that the management education which is now being imparted "is not suited to the small enterprises management as such" and that "most of the small enterprises are not professionally managed." The Committee consider that, with more and more items being reserved exclusively for the small scale sector and consequent expansion of that sector's contribution to the total economy, there is an urgent need to train and develop managerial talent in adequate numbers, linked to the requirements of the small scale industries sector.

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