Workers Co-Operatives:

An Emerging Alternative

D. Thankappan exposes the myth of the efficacy of privatisation and the exit policy and suggests concrete measures to evolve an alternate solution to the prevailing economic crisis.

The privatisation moves, the exit policy and the new industrial policy of the government of India are posing a threat to the employment of workers — not only in the private sector but also in the public sector. The new policies have raised a number of issues which the working class has to view seriously in a non-traditional manner; and yet must find an alternative solution to the economic crisis.

Privatisation - No Panacea

The advocates of privatisation assume that: (i) private investors or promoters who intend to take over and manage Public Sector Enterprises (PSEs) would inject additional finances to rejuvenate loss- making PSEs; (ii) the services to the public/customers would improve; (iii) the price paid by consumers would reduce. Experience so far does not indicate that private investors do any of these things. Instead, privatisation has invariably resulted in massive retrenchment to maximise profits, cornered by the few who manage these enterprises.

Further, it would deprive society of the huge assets of public enterprises. This is apparent if one studies the sickness in private Indian industry, especially after the policy change in respect of nationalisation announced by the government in the early 1980s.

Sick Private Industry

The total number of sick units in the private sector in our country increased phenomenally from 20,719 units in 1979 to 2.4 lakh units in 1988, the latest period for which official data is available. An analysis of the increase in industrial sickness between 1982 and 1987 indicates that the increase was to the tune of 24,000 units per annum. This means that 65 units became sick every day. Between 1986 and 1987 alone, there was a sharp increase of 39.5% in industrial sickness! The quantum of funds of financial institutions and banks locked up in these units increased from Rs. 4,874 crores in 1986 to Rs. 7,705 crore in 1988. More than 72% of outstanding bank credit locked in sick industrial units was in large and medium scale units at the end of 1988 — the latest period for which data is available.

The Tiwari Committee, set up by the RBI in 1981 revealed that industrial sickness was caused in 52% of the cases by mismanagement; 37% of the cases due to market recession, environmental factors, technical factors and faulty or lopsided initial planning and in 9% of the cases by infrastructural factors such as power cuts, shortage of critical inputs, etc. In only 2% of the cases, labour trouble was reported to have caused industrial sickness. Thus, in nearly 90% of the cases of industrial sickness, it is ineffective management that is responsible. Therefore, it is incorrect to say that the working of the private sector is always superior to that of the public sector.

This does not mean that public sector performance is excellent in every respect. Inefficiency exists in a number of units. The findings of various commissions have squarely blamed the finance ministry for the non-performance of the PSEs. Even the L. K. Jha report for the Economic Reforms Commission and the Arjun Sengupta Committee report had severely reprimanded the government for not granting autonomy to the PSEs and instead making them mere tools in the hands of the bureaucracy.

Wrong Attitude

Instead of trying to improve the working of PSEs with the involvement of employees at various levels, the government is going ahead with privatisation, without examining its implications to the economy, the socio-political situation and the misery likely to be inflicted on large sections of the workers.

In order to bring down the budget deficit from 8% to 6.5% of GDP, i.e. the level required for getting financial support from the IMF, the finance minister has opted for an easy option, i.e. to dispose off 20% equity shares of selected PSEs to mutual funds, financial institutions, workers and the public. Of course, this disinvestment will increase revenue, but it will not improve the efficiency of these units.

On the contrary, the crisis situation should have been better utilised to involve the workers, officers and managers of PSEs to work towards increasing efficiency on a war footing.

Even a 5% improvement in efficiency could result in an additional gain of about Rs. 5,000 crores for the economy, without further investment. To achieve this, the government will have to view employees as the resource rather than as a liability. It is only this type of change in approach, attitude and policy orientation that can create a new culture.

The policy on public sector needs to be changed totally. The public sector should not be considered a backyard of government departments. De-bureaucratisation and democratisation of the management system with the involvement of employees at all levels are an objective necessity to create a new culture which would strengthen the PSEs in attaining their goals.

Performance of PSEs

The monograph on the performance of central PSEs published by the department of public enterprises reveals interesting data.

1. The total profits of 244 central PSEs increased from Rs. 1,172 crores in 1985-86 to Rs. 3,782 crores in 1989-90 and the percentage of net profit to capital employed increased from 2.73% to 4.48% during this period.

2. The desegregated analysis indicates that during 1989-90 a total of 131 enterprises earned an overall net profit of Rs. 5,741 crores while 98 suffered a net loss of Rs. 1,959 crore. 85% of the total capital employed in these 131 PSEs is giving a fairly reasonable rate of return, i.e. the ratio of net profit to capital employed is 8%.

3. 84 out of the 131 profit making PSEs, whose contribution to the total net profit is about 34%, still show room for increasing their profitability.

4. The main reason for the poor work performance of the public enterprises can be traced to the loss making PSEs totalling 98 in number. They are large in number, but account for only 14.5% of the capital employed and about 35.6% of the employment in PSEs.

5. All the 98 loss making enterprises have shown negative profit in 1989-90. Secondly, they have total accumulated losses of the order of over Rs. 10,000 crores which accounts for 78% of the accumulated losses of all public enterprises.

6. 15 loss making enterprises are monopolies while 83 enterprises are operating in competitive markets. It should be noted that the 15 monopoly public enterprises are functioning in core sectors of the economy such as steel, coal, mines, shipyards, transportation services like DTC, Indian Airlines etc. and essential trading services such as the Food Corporation of India. A solution to their problems has to be found within the public sector system.

7. Any policy reorganisation and restructuring of PSEs has to be directed first towards finding a solution to the loss making public enterprises in the competitive sector.

8. It is the 83 PSEs operating in competitive markets who have mainly contributed to the accumulated losses of the public enterprises, their share being 79.3%. **Of these 83, 32 have been taken over from the private sector.**

9. The capital employed in loss-making enterprises taken over from the private sector was of the order of Rs. 648.48 crores whereas the total capital employed in all the loss making enterprises was Rs. 2,357.40 crores. Thus the loss making enterprises taken-over from the private sector account for a little over 54% of the employment, but only about 27.5% of the capital employed in the 83 loss making enterprises.

This data indicates that the privatisation is not the right option to improve efficiency in enterprises functioning in core sectors of our economy. Nor can permission for closure be granted in view of their high social responsibilities. *This means a solution must be found within the public sector itself.* If a solution to the loss-making units in the core sector within the public sector can be found, what prevents the government from finding solutions to other loss-making units?

Alternatives are available. The government must seek greater involvement of employees at all levels by motivating them to work out a strategy to improve the working of their enterprises. Further, the employees through their co-operatives can be associated in a joint management arrangement to revamp/reorganise the functions of these enterprises. In a number of cases, the enterprises can be entrusted to the employees' co-operative with the necessary supporting mechanism.

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Exit Policy

Considerable pressure is being exerted on the government by various 'interested' parties to formulate and implement an 'easy exit' policy. These industrialists want unhindered freedom to close down a unit. They argue that with easy entry they must have easy exit. They forget that the initial investment they contribute is supplemented by others who have a stake in an industrial enterprise whose vital interests cannot be jeopardised by unscrupulous acts of the industrialists. We have also seen that unhindered freedom to close down industrial units will give a licence to defraud the assets of companies and push the unit towards closure. This will benefit only those who manage and control the enterprises.

In a number of cases now pending before the (Board for Industrial and Financial Reconstruction) BIFR, the employers have siphoned out funds from the enterprises, made the unit sick and then defrauded the banks and financial institutions as also the workers. The very employers who vehemently argue for an easy exit oppose winding up recommendations of the BIFR in almost all cases. This means that the employers want closures in which they can derive underhand benefits by disposing off fixed assets such as land, plant and machinery and office premises etc., while depriving all others including workers, banks, government and other creditors of their dues. Such a policy will make a mockery of industrial life and create a situation in which unscrupulous employers would defraud the banks and financial institutions and deprive the workers of their livelihood without any loss whatsoever to their lifestyles and property. Therefore, the proposed exit policy is dangerous in the Indian context.

Hence, the viability of the unit must be examined by an impartial authority with an opportunity given to the workers to present their viewpoint and have a final say on the matter. When the employees are in a position to propose takeover of enterprises by forming co-operatives, the proposal should be supported by the government.

Kamani Tubes Experience

The experience of Kamani Tubes Ltd. (KTL) where the workers successfully took over the enterprise, has shown that even starving workers can raise capital. Workers can also engage professionals to run the unit. Workers co-operatives can also secure working capital facilities from banks on the strength of their initial capital. The working of KTL during the last 2 1/2 years has proved that:-

— Workers' co-operatives can take meaningful initiative for the revival of sick units which are potentially profitable.

— If the workers are financed to takeover industrial units, they can repay the money well in advance of the stipulated period.

— If the revival is initiated, the government benefits more than the workers. In KTL, the workers received wages and other benefits of Rs. 120 lakhs in the first year and Rs. 155 lakhs in the second year, but the government received Rs. 173 lakhs in the first year and Rs. 220 lakhs in the second year by way of excise duties and other taxes.

— The revival of the sick unit would become feasible under workers' co-operatives if the government and concerned banking and financial institutions adopt a positive approach and orient a supportive policy departing from their traditional views.

Policy Formulation Needed

The workers' take over of KTL has kindled new hope for thousands of workers who are victims of industrial closure. Following the KTL experience, the workers took over the New Central Jute Mills, Calcutta and secured equity participation in Mewar Textiles in Rajasthan. A few more units are likely to be under workers' control very soon, provided the banks, financial institutions and the government extend a supportive role. These are IAEC (India) Limited, Bombay, Mafatlal Engg. Industries Ltd. Thane, Hoist-O-Mech Ltd., Thane, Sion Garage Limited, Bombay and KMA Ltd, Bombay.

Today many feel that workers' co-operatives are the emerging alternative to closures. Even prime minister P. V. Narasimha Rao has responded positively. What is lacking in this situation is the absence of a clear-cut policy formulation and necessary support action for such initiatives of the workers.

It is important to note that the objective situation compels the workers in closed units to think in terms of forming workers' co-operatives. Since there are no supportive structures, the workers are often confused and trade union leaderships are not inclined to support such a gigantic effort on the part of the workers.

The attitude of the government seems to be non-committal, although publicly the government admits it is committed to support workers' co-operatives. The following steps are therefore urgently required.

1. The government must evolve a definite policy formulation to support workers' co-operatives.

2. The government must set up a separate financial agency to assist the workers to buy over the controlling interest of enterprises from which substantial funds can be earmarked from the renewable fund, provident fund etc. for setting up such a financial institution/agency to provide loans to the workers for takeover.

3. Meaningful banking norms must be evolved and the approach of banks and financial institutions in respect of workers' take-over and thereafter on workers' management must be reoriented.

4. Supportive steps to formulate the reliefs and concessions to revive the sick unit under workers' co-operatives must be evolved.

5. Appropriate schemes to train worker activists and trade union leaders on workers' management and to popularise the idea for the wider acceptance of this concept by society at large must be implemented.

Such steps are not new in other countries. In the privatisation process in other countries, the workers were given the option to buy the equity with a lot of support measures. In India, a workable meaningful policy can enhance the involvement of workers and thereby may be able to establish their true identity and dignity.

D. Thankappan is the architect of the workers' takeover of Kamani Tubes Ltd. and is actively involved in advising and guiding similar efforts in other parts of the country.