MADURAI KAMARAJ UNIVERSITY

(University with Potential for Excellence)

DISTANCE EDUCATION

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M.Com.,

COMMERCE

First Year

BUSINESS ENVIRONMENT & POLICY

S 213

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SYLLABUS : BUSINESS ENVIRONMENT AND POLICY

UNIT I : AN OVERVIEW OF BUSINESS ENVIRONMENT

Meaning of Business Environment-External factors affecting Business policies Economic, Political, Legal, Social, Competitive, Ecological and Technological factors.

UNIT II : INDUSTRIAL POLICY

Industrial Policy -Recent changes in Industrial Licensing System – IDR Act, 1951, Liberalisation of economic Policies - Privatisation of Public Sector Undertakings.

UNIT III : INDUSTRIAL SICKNESS

Industrial Sickness -Definition -Causes -Revival of Sick industrial Companies (Special Provisions) Act 1985 -BIFR.

UNIT IV : SEBI - SECURITY EXCHANGE BOARD OF INDIA

Issue of shares, SEBI's Guidelines relating to new issues, Right issues, bonus shares and debentures -Consumer Protection Act 1986 - Three Tier Structure of grievances -redressal machinery.

UNIT V : SOCIAL RESPONSIBILITY OF BUSINESS

Social Responsibilities of business -Social Audit. Small scale sector - Problems of small scale Industries -Incentives to Small scale sector institutions promoting small Scale industries.

UNIT VI : ECONOMIC SYSTEMS

Capitalism, Socialism, Mixed economy, economic reforms, Capital Market, Money Market, Foreign exchange market.

UNIT VII : STATE REGULATION OF BUSINESS

Regulatory role, Promotional role, Entrepreneurial role, Planning role, Economic role of Government in India. The constitutional environment, Expansion of State intervention.

UNIT VIII : PATENT AND TRADE MARK

Patents -Indian patents and copy rights, trade marks, Trade and Marchandise Marks Act. .

UNIT IX : LABOUR

Labour, Productivity of labour, policies in India, Industrial democracy, social security, fiscal policies and their impact on business.

UNIT X : FOREIGN CAPITAL

Foreign private investment, forms, merits and demerits, Multinational Corporations in India, Government policy on foreign capital.

CONTENTS

INTRODUCTION

The environment and business has been changing very fastly since 1991. Globalisation economic liberalisation, information technology etc are in some of the remarkable changes which have led to unprecedented modification in marketing mix, corporate strategies manufacturing methods and business practices. It is very important for business firm to understand their environment and changes occurring in it. Only the business enterprises which know their environment and are ready to adapt to environmental changes would be successful.

In view of the dynamic nature of environment and increasing interaction between business and environmental forces, universities and institutes have prescribed 'Business environment' as a compulsory paper for graduate and post graduate courses in commerce, management and allied areas. The features of this lesson are given below.

- The subject matter has been divided into convenient units, as required by the course curriculum.
- Written in simple and lucid style
- Briefs various concept relating to the business environment
- Explains the various factors influencing the environment
- Specifies the objective of learning at the beginning of each unit
- Explaining the key terms used in the subject
- At the end of each unit, a brief of summary of the unit is described
- Provides questions for review and discussions.

We are confident that with all these plus features the readers will find the book extremely useful and rewarding for them.

UNIT 1 AN OVERVIEW OF BUSINESS ENVIRONMENT

Structure

1.0. INTRODUCTION :

Any business organisation is a part of the society at large and the business environment has a direct relation with the business policy of the organization. The effect of the interaction of the enterprises with the environment primarily determines the success and the survival of the business. This unit attempts to identify and analyses the factors influencing the business environment.

1.1. UNIT OBJECTIVES :

- Explains the meaning of business environment.
- Defines business environment.
- Identifies the factor influencing the business environment.
- Explains the relationship between the caste system, joint family system and the business.
- Identify the sources of social value.
- Perceives the powers of the parliament.

1.2. MEANING OF BUSINESS ENVIRONMENT :

The term 'environment' refers to the sum total of all physical and social conditions influencing individual or a community. In the business context, the term refers to "the totality of such forces which are external to and beyond the control of individual business enterprises". Such forces constitute the macro system over the business, while the individual business units are micro units within the business system.

1.3. DEFINITION OF BUSINESS ENVIRONMENT :

Business environment has been defined by Bayard O. Wheeler as "the total of all things external to firms and industries which affect their organization and operation".

According to Arthur M. Weimer, business environment encompasses the 'climate' or set of conditions-economic, social, political or institutional in which business operations are conducted.

The following chart shows the firm in relation to different interest groups that constitute its environment.

Firm and its Environment

It short, business environment connotes all external forces acting on the business, shaping its activities.

1.4. FACTORS INFLUENCING BUSINESS ENVIRONMENT:

The business environment consists of a large number of factors. The major ones are:

1. Economic
2. Social and Cultural
3. Political and Legal
4. Demographic
5. Technological
6. Geographical and Ecological

1.4.1. Economic Environment:

There are numerous economic forces that affect not only a firm's operations but also its very survival. They cannot be controlled by individual business. Hicks and others divide economic forces in the business environment into two groups:

1. Economic factors affecting demand.
2. Competitive forces.

1. Economic factors affecting demand:

For a business organization to survive there must be demand for its products. The demand on the other hand is determined by (a) customer's ability to buy, and (b) their willingness to pay.

Ability to buy, sometimes is called as buying power, refers to a person's or group's capabilities to purchase. The ability to buy is largely determined by:

i) Employment

ii) Income Tax

iii) Saving and

iv) Prices

(The total money received by a person through his employment is used for paying taxes, for spending or for saving)

When an individual's tax increases, disposable income decreases and his/her ability to buy is reduced. Similarly, as one saves a greater portion of disposable income, one's current ability to purchase is reduced.

However, the fact that an individual has the ability does not mean that he or she will buy. What is equally needed is that he must be willing to buy.

a) Willingness to Buy :

An individual's willingness to buy particular goods and services i.s affected by his/her (a) Preferences for Products, and (b) Expectations about future economic factors.

b) Preferences for Product :

A person prefers some products to others; however, the manner in which one develops and changes preferences for goods and services is not well understood. According to Hicks and others, the factors that influence a person's preferences include internal forces such as perception, motives, learning, attitudes and personality and social influences such as family, social class, culture and sub-culture.

For a business firm, it is very difficult to predict the strengths of customer's preference as well as changes in their preferences.

c) Expectations about future factors :

A person's willingness to buy is affected by his/her expectations about disposable income, prices and general economic conditions in the future. If one believes that his/her disposable income will increase in the near future, one's current willingness to buy may also increase. When one feels the price of a product will decline, he or she may not be so willing to purchase the product immediately. For example, during the recent months, the expectations of the price cut in Colour TV have dissuaded so many prospective buyers to purchase the sets.

Similarly, a person's feelings about the future of the economy and the nation in general affect willingness to purchase. An individual's willingness to buy declines when one believes that the country is politically unstable.

2) Competitive Forces :

All business organizations compete with one or more other firms. Broadly speaking, each business competes with all other business for the customers' income. For example, clothing stores compete with food stores to get as large a share of buyers' income as possible. However, we shall restrict our discussion to the competitive forces amongst firms trying to sell similar goods and services to approximately the same buyers in a specific geographic area.

Firms exert competitive forces on one another by using one or several competitive tools. Common competitive tools include price reductions, aggressive promotional efforts, differentiated product offerings and customer services.

Of all these competitive tools, price cutting is used rather cautiously because lower price may initially increase a firm's sales but it may eventually lead to lower profits for all the competitors.

Promotion through advertising and personal selling is a competitive tool. A.firm that more effectively informs and persuades buyers about its products gains a competitive edge over its rivals even when products are quite similar.

Firms also try to secure competitive edge by differentiating their products from their competitors' through design, features, packing, etc.,

The number and types of customer services offered provide another competitive tool. Customer services offered include credit facilities, free delivery, fast and competent repair services.

1.4.2. Social and Cultural Environment :

The social environment of a business consists of the class structure and mobility, definition of the social roles, nature of the social organization and development of social institutions. The class structure in society depends upon the occupation of people and their, income levels. Urban areas are inhabited by industrial workers, professional classes, lawyers, engineers, educationists, doctors, government servants as well as businessmen. Depending upon the income levels and available opportunities, people have a natural desire to move from one occupational category to another so as to rise in social status, have increased earnings, and better standard of living. This process reflects social mobility. In rural, non-urban society the occupational groups comprise farmers, artisans and those engaged in traditional crafts. There is little scope of mobility among social classes in such a society. The social roles of people also differ in the rural society as compared with those in urban society. In the urban social setting, business enterprises can count on the support of modem, enlightened social groups and social institutions, for growth and development. On the other hand, the urban society is also more demanding as regards the social responsibilities of business. The traditional environment of rural society may not be congenial for the development and growth of modem business enterprises. There can be little support for a modem business from social institutions and social groups in a traditional society.

Every society develops its own culture over time and this culture determines in large measure how its members behave and interact with each other. The term "culture" includes values, norms, and accepted behavior patterns. Since society is really a collection of organisations and institutions, it is evident that they are affected to a considerable degree by cultural forces in the environment.

It is also important to note that every organization develops its own internal culture so that their members learn what is considered acceptable behaviour (or definition of minimum ethic) for them in various roles that they are playing in the organization.

Just as organisations have cultures that manager generally create, so there are cultures that exist outside the organisation, which affect the way it (organisation) operates. The social values held by consumers for instance are determined to a great degree by the values that society at large holds to be Important. To the extent that society values change, the organization must adjust its methods of operation.

1.4.3. Political Environment :

All business firms are affected in greater or lesser degree by government programmes at Central, State or local levels. Changes in such programmes are usually the result of shifts in the political weather arising from changes in the attitude, references and objectives of voters and political leaders. Businessmen try to anticipate changes in government policies or in the political forces at the back of them so that they may able to operate successfully.

Several types of changes in the governmental and political area may be distinguished. These may be classified into:

a) Long-term changes

b) Quick changes.

c) Cyclical changes.

d) Regional factors.

a) Long -term Changes :

There are long-term political changes that to some degree resemble secular trends in business conditions. Usually, long-term political and government changes reflect basic shifts in attitudes and viewpoint of the public generally. Thus there have been continuing trend toward programmes that will help to prevent depressions; to protect people against hazards of illness, unemployment, or economic insecurity to protect consumers; to establish minimum wages, etc.,

The business manager who is able to identify long-term trends in political and government affairs may be able to use them as guides to his decisions and operations. For his purposes these may in fact be more important than secular changes and trends in the economic field.

b) Quick Changes :

In contrast to long-term forces making for political change, sudden shifts in political and governmental attitudes may occur. For example, a sudden "scare"-fear of an out break of war or other national emergency-may bring quick political reactions that are almost impossible to anticipate.

c) Cyclical Changes :

Something like cyclical changes may also be distinguished in political and governmental affairs. The parliamentary elections every five years set up a sort of cycle of political activity. In election years, governments tend to be somewhat more responsive to popular opinion than in the 'off years. Business managers do make use of this political cycle of the changes in developing their plans and programmes. For example, years of general elections are often considered years of uncertainty for the business community, and a number of business managers may be reluctant to start new programmes at such times. On the other hand some managers may try to anticipate the results of elections and develop programmes in advance of them, in the hope of gaining advantage over competitors.

d) Regional Factors :

In addition to the above types of changes, regional factors often require special attention. For example, agricultural considerations may dominate the political scene in some States. Similarly, backwardness of an area may be given special attention by the government and certain concessions may be offered to the business world.

1.4.4. Legal Environment :

Our legal system is a part, and a very significant one of business. Laws define and protect our rights and discipline those who interfere with legal rights. Business Law is the complex system of regulations that form the legal environment of business. Knowledge of business law is necessary for many management decisions. However the legal environment is becoming so complex that many laws are only partially understood.

The more important laws and those that affect business substantially include :

(i) Law of contracts codified in Indian Contract Act, 1872.

(ii) Companies Act, 1956.

(iii) MRTP Act, 1969 (Monopolies and Restrictive Trade Practices Act)

(iv) IDRA (Industrial Development & Regulation Act, 1951)

(v) FERA (Foreign Exchange Regulation Act, 1973)

(vi) Factories Act, 1948.

(vii) Import and Export Control Act, 1947.

(ix) Taxation Law.

1.4.5. Technological Environment :

Technology is the application of scientific knowledge to practical problems. Technology is derived from scientific findings. The tremendous technological growth that we have been experiencing is made possible through extensive programmes of technological research being conducted by many types of researchers working within universities, business, and non-profit research organisations.

Technological developments are strong and pervasive forces in the business environment. Although technology can be beneficial for business, it can also have unfavorable effects. Technology affects business in two major ways

(i) Through its impact on society in general.

(ii) Through its direct influence on business operations and activities

1. The Impact of technology on society :

Technology affects society. In fact, we feel its effect on our everyday life. It affects economic growth, our standard of living and our culture. However, some of the effects of technology are highly beneficial, others are detrimental. These effects on members of the society in turn affect business practices.

a) Technology in daily living :

Technology affects our everyday life. Right from the morning when the alarm clock wakes us up till we go to switching off lights we are surrounded by so much technology that we take it for granted and usually do not realise how much it affects us until we have to do without electricity, running water, transport or telephone.

b) Technology's impact on living standards and culture :

Technological developments have raised the standard of living. Inspite of inflationary pressure and a considerably high degree of unemployment, generally families eat better, wear a wider variety of clothing, and live in more comfortable homes.

Technology also influences basic aspects of our culture, including religion, education, morals, mobility, health care, art, language, laws and their enforcement. For example, technical advances in health care allow physicians to prevent epidemics, cure many severe illnesses, transplant body organs, reduce the chance of physical and mental defects in infants through prenatal care, and more generally, lengthen the average life span.

c) Technological effects on products and purchasing :

Technological developments influence the variety as well as the size, colour, shape and texture of products available to consumers. These developments help consumers by enabling producers to make products that are more efficient, more useful, safer, or more convenient to use.

d) Unfavourable technological effects on society :

The effects of technological development are not always sweet. They are sour also sometimes. Although technology creates jobs, it can also put people out of work. Sometimes, production workers lose their jobs when a firm installs automatic equipment Some critics point out that technology is the major cause of environmental problems such as air and water pollution, waste of natural resources, land erosion, etc.,.

e) Effects of technology on Business Operations :

Not only does technology affect the business environment which, in turn, influence business operations, it also has very strong, direct effects on such business activities as production, product development, employment practices, financing, marketing and information processing. The effects of technology on these activities can be extremely beneficial or extremely harmful to business organisations.

f) Production Processes :

Technological advancements create market opportunities for new goods and services. It also leads to the proliferation of products. When a technologically advanced product is introduced, it sometimes creates strong demand for many other new products. For example, the introduction of the automobile gave rise to service stations, drive-in restaurants, highway signs, motels and many other goods and services.

g) Information processing :

Technical advances in information processing enable business people to be more aware of the changes occurring in the business environment, such as new laws, changing economical conditions, new actions by regulatory groups, and changes in consumer preferences. To the extent that a manager stays aware of environmental changes, his firm is more likely to achieve long-run survival.

1.4.6. Demographic Environment :

Demography refers to the study of human population especially with reference to size, density, distribution and vital statistics. Such information about the population is of great significance to business. It not only helps business in selecting the items that it should produce or trade in but also helps in the choice of decision. For example, in a thinly populated, area comprising more of elderly people, the products that would be saleable must be different from what may be saleable in a thickly populated area comprising more of females and children. Similarly the choice of manufacturing or trading site would be influenced of the population.

Demographic considerations are sometimes over-whelming in Government's policy towards business. The policy of balanced regional development prompts the Governments to offer infrastructure and basic facilities at cheaper rates to attract business in backward regions. This is turn benefits the business not only in terms of lower cost of such facilities but also that labour is available at lower rates. It also tends to develop all the ancillaries and supporting businesses. For instance, establishment of a steel plant in some backward area of Tamil Nadu will generate employment not only in the plant itself but a full-fledged market to cater to the consumption and other needs of those employees shall also come up. So business will have the opportunity to establish eating places, textile shops, shops selling kitchen fuel, entertainment centers, provision stores, and so on.

1.4.7. Geographical Environment: -

Geographical considerations influence and determine a number of business decisions. Textile manufacturing units are preferred to be located in regions where humidity is high because humidity provides the necessary moisture to the yarn so that it does not break in the process.

In a particular geographical region, people tend to have similar taste. Thus the products which might become a craze in southern India may find no buyers in northern India. Moreover, physical requirements of the people for example, of Jammu & Kashmir (hilly area) shall in no case be identical with that of the resident of Bombay or Madras (sea coasts).

Also, the availability of minerals and other materials in a particular geographical area affects locational decisions of a business. It. is always cheaper to transport finished product as compared to raw materials. For example, the steel plants are invariably located

near the coal and iron-ore mines.

1.4.8. Ecological Environment:

A dip in the Yamuna in Delhi no longer cleans the body or uplifts the soul, it only 'saps' the body and 'sags' the soul. This grim description is by no less a person than the Lt. Governor

Check your progress :

I. Fill up the blanks.

1. Economic factors which have a bearing on the functioning of a business is called______.
2. ______ regulates the social behaviour of all the persons in the society.
3. Helping the relatives by employing them in the business is called ______.

of Delhi. "A pure holy river has been turned into an open sewer" said Mr.Jag Mohan former Lt. Governor of Delhi.

Besides hundred of rivers, lakes and ponds are getting more and more polluted everyday.

Of the waste discharged into the Yamuna, the industrial effluents account for around 20 per cent. More serious than this quantity is the nature of effluents so discharged. These include sodium salts, acids, cyanide, dyes and metals which are so dangerous to human health.

On the air pollution front, the position is no better. On a rough estimate, two million tones of chemicals and particles are pumped into the air every year in the four largest cities.

Besides water and air pollution, another type of pollution contributed by business is noise pollution. But unfortunately it has received the least attention. This is borne out by the fact that the last study of noise levels in the capital (Delhi) was done by the National Physical Laboratory some 25 years ago and even that report is not available with it.

1.5. SOCIAL ENVIRONMENT :

Business being an integral part of society, it should react to the changing social and cultural environment. To understand the relationship between business and social environment and how they contribute to each other, we should understand the social system and the framework under which the system works so as to assess the role and mission of business in society. The complex relationship between society and business may be understood in terms of a systems concept. What is meant by systems concept? A system is a combination of interrelated parts operating as a whole. A social system connotes people and their organization in mutual relationships to each other. Every organization receives its input only from its environment. These inputs are transformed into outputs. The output is released only to the environment. Thus, there is interaction between social environment and the business. Managers of business can very well understand and also take effective decision, if they have knowledge of the society in which business in carried on.

1.5.1 Evolution of Society:

Society in a general sense is defined as people living in relationship with one another and bound together by a common interest or relationship. Specifically, it denotes "civilized body of mankind" A study of Anthropology and Sociology will reveal now human beings with the dawn of civilization formed themselves into societies for mutual benefit from the stage of Tribal living and how "business" at the first instance started as "barter"

But the early societies were Monistic Societies, while the modem societies are Pluralistic Societies. The social system of the modem days has evolved from a simple monoistic stage to a pluralistic stage.

a) Monoistic Society:

In monoistic society, the affairs of the people within the society were operated by a single social institution, the self-sufficing village communities of the ancient days in India could be cited as a typical example of monistic society. The village community of the past was governed by customs and traditions of the village. The elders constituting the Panchayat guided the conduct of the people. Decisions would be taken to protect the interest of the community and it would be binding on all the members of the society.

b) Pluralistic Society:

On the other hand, a Pluralistic society is one in which there are numerous economic, political, social religious and professional groups constituting the social system. In such a society, though people act individually and independently in their own interest, they are organized in groups and form institutions to maintain and protect their common interest. Since there is a diversity of interest among people, they tend to form many different specialised institutions to serve their different needs. The government is supposed to maintain law and order and ensure security to people.

Thus, in modem society, large institutions have arisen to dominate almost every field of activity. Consequently, an individual cannot be fully allegiant to one organization, as he is related to many institutions in order to fulfill his needs. No business, labour union or any organization can claim a person's full loyalty to the exclusion of other organization. The individual may have to owe allegiance to the management, the labour union, the consumer, society, etc., Thus, he becomes a multi-allegiant individual because he allocates his allegiance among many institutions.

c) Social Stratification :

The social groups and institutions which are formed in any social system are based on the diverse interests of people. The interests served by the institutions may be social, economic or political. But the members of a society do not constitute a homogeneous community. People belong to different strata or levels of society. In India, the stratification of people may be described in terms of caste, occupations, professions and economic status. People born in lower castes, are traditionally expected to be sub-servant to those of upper castes. Occupation-wise also, there is stratification of people implying that of others. Businessman, merchants and traders have been denied a high status in society in spite of their wealth, while people pursuing the learned professions like those of teaching, medicine and law have always enjoyed higher status. Economically, people having different levels of income are stratified in society and their roles are defined accordingly different socio-economic activities.

The nature of stratification in a larger society affects greatly the character and functioning of status system within business firms. In general the degree of stratification within the organization reflects the extent of stratification in the society as a whole and the mobility of individuals within the organization depends in a part on status relations outside the organization. Thus, the low-status person in the society as a whole (based on caste, nationality sex etc.,) is also low status in the organization. On the same ground, the high status person in the business firm enjoys higher status in society.

d) Social Transformation :

With the progress of civilization, the traditional values and institutions have undergone considerable changes in modern times. People belonging to any caste group have greater opportunities now to adopt any occupation of their choice and within their competence instead of being bound down to the particular occupation traditionally related with the caste. Women's education has brought about a change in their traditional role as housewives. They are now capable of working side by side with the men in various types of jobs. Industrial growth and-large scale organizations have changed the occupational patterns and people's attitude to work. The ideal of simple living and high thinking has been replaced by people's aspiration for higher standards of living. Educational opportunities, increased mobility and communication facilities have lost their significance. There is greater concentration of people in urban centers. Habits of living and nom1S of consumption have changed. Employer's associations and labour unions have grown in numbers. The role of Government is no longer based on the principle of laissez-faire. Government policies are now aimed at providing public good and securing public welfare.

1.5.2. Joint Family System

Joint Family System is a very old institution. In India, Egypt, Greek and Rome it was quite common in the past. The system still continues but it is not as strong as it once used to be.

1.5.2.1. Origin:

In the past, when more hands were needed for meeting the basic needs of the family, the people belonging to the same head or worshipping same gods lived together. The basic need of the people to work together for meeting their basic and minimum needs was responsible for the origin of the joint family system.

1.5.2.2. Meaning

Joint Family System is a system in which the father, mother, sons, daughters, sons- in-law, daughters-in-law, grand children, uncles, aunts and other close relatives live as one big family. The lands and properties are commonly owned and they work together to fulfill their wants. Generally there is a kind of social security for the weak and poor.

1.5.2.3. Characteristics of Joint Family system:

(i) The head of the family is given maximum authority.

(ii) The property belongs to the family as whole. Family head is considered as trustee of the property

(iii) Income sources are accumulated together

(iv) All earn according to their capacity but spend according to the family needs.

(v) Gods and Goddesses are the same in a joint family system.

(vi) Joint Family has common sufferings and rejoicings

(vii) Means of production and consumption are owned by the family as a whole

(viii) There is security against old age.

1.5.2.4. Merits:

(i) Qualities of good citizenship are developed among the family members.

(ii) Man power becomes easily available.

(iii) Land is saved from fragmentation and sub-divisions.

(iv) It develops a sense of confidence and surety because each feels that they are not alone in time of difficulties.

(v) Each contributes according to his ability and shares equally in the fruits of all

(vi) It generates division of labour.

(vii) It provides minimum existence to all

(viii) Cost on construction or hiring houses on rents is saved as many houses are not needed.

(ix) It promotes social values of co-operation and adjustment.

(x) Joint Family System is considered as a matter of pleasure and pride

(xi) It helps conserve economic resources and avoid wastages.

(xii) It avoids duplication of household articles and farm implements.

1.5.2.5. Demerits:

(i) Initiative is killed because everybody knows that the income is pooled and the fruits of his initiative are to be shared by all and not by him alone.

(ii) Every member knows that whether he earns or not, he will get something to eat. It makes them to be idle.

(iii) The conditions of the women are miserable because in looking after household affairs, they lose their health and waste their talents.

(iv) Intelligent ones are treated as equals with others.

(v) Every member tries to become spend-thrift because he knows that whatever is spent will be accounted for by the whole family.

(vi) It is unwisely because the people in big families have different temperaments and ideas.

(vii) There is always generation gap in a joint family. This stands on the way of advancement, progress and harmony.

1.5.2.6. Role of Joint Family System in Indian Business:

In India, People are still in joint family system more particularly in rural areas. Desire for living an independent life among economically self-sufficient people may be there. But their number is not very high.

India lives not in the towns and cities but in the villages. Rural India still likes joint family system. A trend prevailing in rural India can be justifiably considered as a trend in the country.

1.5.3. Caste System:

The caste system has been a part of the social structure in India for many generations past and is firmly in Indian mind. It still prevails in spite of the best efforts of the government, social awakening and the spread of education.

1.5.3.1. Meaning of caste:

Caste is a type of social class having strictly hereditary basis. It is peculiarly an Indian Institution. Every Hindu necessarily belongs to the caste of his parents and he inevitably remains inevitably remains in that caste. Caste is a close type of class.

1.5.3.2. Definition:

C.M. Cooley defined as that, "when class is somewhat strictly hereditary, we may call it a caste"

According to Martinade and Monochesi, "Caste is an aggregate of persons whose share of obligations and privileges are fixed by birth, sanctioned and supported by religion and usage."

Lung Berg defined, "Caste is merely a liquid social class into which members are born and from which they can withdraw or escape only with extreme difficulty."

1.5.3.3. Features of Caste System:

(i) Birth is the determinant

(ii) Endogamy-A person born in a particular caste remains in it for life and dies in it;

(iii) Each caste governs the food habits of its member according to certain traditional rule;

(iv)Untouchables -some low castes have been considered untouchables;

(v) Social Hierarchy -The caste system has got a definite gradation in accordance with which different castes are given prestige and power in the society;

(vi)Fixity of occupation: Members of a caste neither can nor aspire higher than their own.

1.5.3.4. Origin:

It is accepted by all scholars that it is a very ancient system. The origin of the caste system is due to the distinction between the Aryans and the original residents. Originally, society was divided into two parts, the Aryans and the -Non-Aryans. According to Sham Sastri, the works. Bramanas, Kshatriyas, Vaishyas and Sudras were the names of classes rather than castes.

When the Aryans came to India as invaders with vast differences in colour, religion, customs and manners between them and the original inhabitants, there came out the first broad grouping in the society. Politically, the Aryans were the conquerors and the Non- Aryans the conquered. Racially the former were of a fair complexion whereas the latter were not so fair.

1.5.3.5. Growth of Various Castes:

The Brahmanas as a class were considered to be the highest in society. Their duty was to read and teach the vedic literature. They were to live on the charity of the people. This was the intellectual aristocracy from which were drawn the best brains of the day. The Kshatriyas were primarily concerned with the administration of the country, especially defence. The vaishyas were responsible for the production of wealth. The Sudras were the strongest creation of the Indo-Aryans. The section of the society became the most under developed and their lot was the hardest.

1.5.3.6. Merits of Caste System:

(i) Basis of civilized society-Discipline came in the society and the people began to live well-behaved and disciplined life only after the coming of co- operation,

(ii) It developed a sprit of co-operation,

(iii) It preserved culture.

(iv) It maintained society,

(v) It preserved the society.

(vi) It produced good citizens.

(vii) It helped in the raising of standards.

(viii) It resulted in efficiency.

(ix) It helped in the Division of Labour.

(x) Purity of Blood.

(xi) No wastagc on competitions.

1.5.3.7. Demerits:

(i) Against National Unity;

(ii) Against Democracy;

(iii) Nation not benefited;

(iv) A sense of false prestige;

(v) It killed initiative;

(vi) It created idle class;

(vii) It resulted in oppression;

(viii) It encouraged conversion;

(ix) It encourages disloyalty.

1.5.3.8. Impact of Caste System on Business:

The caste system produced both positive and negative impact on business. They are summarized below:

1. Positive Impact:

(i) It helped in the Division of Labour:

In caste system, each caste was required to do its allowed work, e.g., Brahmins had the responsibility of teaching, Kshatriya that of defending. Vaishyas of trading and Shudras of serving the other castes. Thus division of labour or specialisation of Vaishyas increased the productivity and other business activity.

(ii)It resulted in efficiency:

In Caste System, each person followed the profession of his ancestors. The benefits of experience increase the efficiency in each field especially in Business.

(iii) No Wastage on Competitions:

In caste system, the business activities were done only by Vaishyas. So there is no unhealthy competition and also wastages of competition.

(iv) It developed spirit of co-operation:

Actually, the co-operative movement in India was initiated by the caste system. For example, a particular caste people organize "Mahajana Sangam" and start many co-operatives under the control of sangam.

(v) No exploitation:

There was no exploitation in business under caste system because it produced good business people.

II Negative Impact:

(i) It Killed initiative:

As the system was rigid, it killed initiative of the people and stagnancy came in the business. No technological development in business.

(ii) It created Monopoly:

A particular section was experienced in a particular field. It created monopoly trend in business. It was not good for the consumers.

(iii) It created idle Class:

The caste system created a lot of idle people, not involving them in business.

(iv) It never leads to industrialization and urbanization which are necessary for Boom in Business because of superstitious beliefs under caste system.

(i) It created lop-sided development of economy.

Casteism in Modern Society:

During the last thirty years the caste system has received a major set back with the result that it tends to disintegrate itself. Due to increasing national consciousness among the low caste people, Western education, change in values, industrialization and urbanization, means of transport and communication have general transformation of society. The influence of caste in politics is noticeable and varies from region to region.

1.5.4 Social Values :

There are certain social systems and values in every society. They regulate the social behaviour of all the persons in the society. Every individual is expected to accept and honour them willingly and voluntarily. When necessary, government intervention is sought for getting the social values honoured.

1.5.4.1. Definition of Social values:

Social values may be defined as the generalized moral beliefs to which mer.1bers of a group subscribe. It is also defined as assumptions; largely unconscious of what is right and important.

1.5.4.2. Social values in India:

The following are certain social values prevalent in India.

1. Nepotism:

Nepotism is nothing but helping one's family members and relatives by way of employing them in his organization. This, we can see in the family owned companies. After giving employment to them, he (employer) will prefer to have the person from his own family and only if they are not quaiified, he will seek sources from outside.

2. Respect for Elders:

Respect for seniority and age is a special feature of any hierarchical society and it is very much there in India. In a joint family system, the head of the family is given the prominent position and he is getting vast powers derived from such position. The head is the ultimate authority to take any decision which affects the family. All the members of the family are expected to give respect to the senior members and abide by the decisions taken by the latter.

3. Status of Women: Although high status is accorded to the woman in Hindu mythology and Indian literacy tradition, in real practice it is not so. The women are not getting the same pay as being given to their male counterparts, even though the former are putting in the same quantum of work as the latter. Only recently, large openings are there for the women and they are competing with men in almost all the jobs in the country. But still, the women have largely been forced to depend on men once they got married.

4. Paternalism:

In Indian organizations, the superiors take the roles of parent while they expect their subordinates being their children. The superior starts giving advices to their subordinates, whenever the latter fails to achieve the results. The superiors patiently hear the problems of subordinates and help the latter to overcome them. The superior does not like his subordinates to take any decision on his own. This style of leadership certainly hinders the development of initiative among the employees.

Dislike for Manual Labour:

Manual Labour is mostly disliked by educated and also by uneducated people in India. The low income, low status in the society and need of little skill attached with the manual Labour have made it undesirable in the minds of persons.

1.5.4.3. Means of Enforcing Social Values:

Since the social values are essential for health of the society, they must be enforced through the following means and methods:

(i) Family

First of all, the child is taught to respect social values in his family, which is the most important training ground. He is initiated in the society to respect the elders and respect the feeling of others.

(ii) Church:

Till the child is mature, he obeys the religion of his parents. Religion develops faith in him and makes him conscious about his duties and obligations. There are some ethical modes and values in every religion e.g. equality, truth, tolerance, justice etc.,

(iii) School:

A child is supposed to respect his teachers, obey discipline of the institute and respect view points of others.

(iv) Playground:

The players have to observe the rules of the game and obey their leader, when they play the game in true sense and spirit. Social value of behaving in a group is very significant feature of the playground.

(v) Fashions:

Fashion leads us to the direction where social values take a new turn. Thus fashions help us in bringing new changes in existing social values and tell us about the extent of acceptability of social values.

(vi)Customs:

For getting social values accepted and enforced, customs are very powerful source, because as long as one accepts the customs and social values attached to them, one need not face social opposition.

(vii) Art and Literature:

Throughout the ages, Indian art and literature preached respect for social values like love for truth, equality, non-violence, justice, nature, worship of Almighty etc.,

(viii) Public Opinion:

Public opinion is generally formed, after considerable struggles and concentrated efforts. Very few people have the courage to differ from well-established public opinion.

(ix) Fear of Law:

Fear of Law, punishment and police are useful methods of checking violation of social values and disorganization of society by anti-social elements.

The following are the factors which have influenced the social values in India. .

1. Political Institution:

Indian society had socially accepted that Brahmins were in the highest position and the Sutras the lowest. This has now come into conflict with democracy which believes all to be equal.

2. Economic Institutions:

The new emerging economic systems like Marxism, socialism etc challenge the economic institutions which exist and have social values.

1.6. TECHNOLOGICAL ENVIRONMENT :

The vital role of science and technology in social, economic and technological environment has been recognised since the early years of Independence. There are now about 900 research institutions including universities under various Ministries, Departments & Agencies under the Central and State Governments and in the private sector. The technology has some impact on our society, living standards, social values, business operations, production process and others.

1.6.1. Meaning of Technology:

Technology refers to the knowledge of how to do things. It is concerned with the use of knowledge whereas cience is devoted to understand phenomena.

Technology change is usually defined as change that results in the production function. These changes are economically meaningful as they permit the production of more output with unchanged input.

1.6.2.Effects of technology on society:

Technology affects society through economic growth, standard of living culture. The effects could be summarized as follows:

(i) Technology improves the standard of living of the people.
(ii) It increased the efficiency of the laborers through division of Labour.
(iii) It has widened the gap between the poor and rich in developing countries.
(iv) As it is highly capital oriented, it creates lot of unemployment and capital crises dependence (import of technology) especially in Labour oriented economy.
(v) Sometimes, the technology has resulted in many employee-employer disputes and wastages of energies.
(vi) Technology leads to urbanization and also Rural-Urban conflict because the metropolitan cities are in visible modem technology but not in rural areas. Eg. Bombay. and a remote village.
(vii) Technology changes the morality of the society and makes it a money-minded one.
(viii) Technology incurs high consumption of energy and certain scarce non-renewable resources.
(ix) It leads to pollution and ecological problem.
(x) Traditional technologies are discarded.

(xi) It leads to continuation of technological dependence of under developed countries on developed countries.

1.6.3. Effects of Technology on Family System:

Technological changes have some influence on the family system. They are as follows:

i) Technology breaks the joint family system through the easy mobility of Labour. Because of industrialisation, the labourers have to move from their family with their wives and children.

ii) Technology makes both male and female self-sufficient because there will be a lot of scope for 'Women's employment opportunities. So they earn money as what has been received by their husband.

iii) It makes husband and wife as friends.

iv) Technology leads to less care for children because the employed women go out for work.

v) It raises the standard of living because of double earning.

vi) Many superstitious beliefs vanished due to the spread of technology. The people' will have a broader outlook.

vii) Divorce will be a common thing.

viii) The status of a person in the family will be determined by his earning capacity because of the technology.

1.6.4. Effects of Technology on Religion:

Technology also influences basic aspects .of our culture including religion, education, morale, mobility, healthcare, art, language, laws and their enforcement. For example, technical advances in health .care allow Doctors to prevent diseases, cure much illness, and lengthen the average life period.

i) Because of technology, people tend to analyse all the things. They never accept that everything is due to our fate.

ii) The religion is treated as a private affair.

iii) The people never accept the thoughts of priest immediately.

iv) There will be a higher scope for reformation of any cultural ideas and thoughts at a common meeting place or work shed.

1.6.5. Appropriate Technology:

Appropriate technology means that it is oriented towards socially desirable directions. This would require a dynamic view of society, its goods and its aspirations. Appropriate echnology is a technology which is not imported or foreign technology but technology according to the social and other economic set up of the nation. We may understand these features. They are:

i) The technology may be primitive, low and high or anywhere between the primitive and modern technologies,

ii) It suits the resource endowment position of the country and will be in consonance with its economic, social, cultural and political objectives.

iii) It is environmentally sound, and

iv) It is non-alienating.

1.6.6. Technology and Social Change:

One of the important factors which has led to far-reaching social changes is advancement of technology. When technological changes are brought about in business or any other institution, their effects are widespread having both desirable and undesirable results. In a dynamic society, technology operates as a multiplier. For instance, the technology of automobile manufacture had a profound effect on transport, living habits of people (location of their homes) extension of roads, and increasing pollution of air.

One of the most fundamental effects of technology is greater productivity in terms of both quantity and quality. The beneficial economic effect of improved productivity spreads throughout the social system. But at the same time, this motivates business to superior technology for further gains without due consideration for its social and environmental effects. Besides, an obvious effect to technology is also complexity of the productive systems, which may be difficult to maintain and repair. With the advancement of technology, jobs tend to become more intellectual and otherwise upgraded. Unskilled labour is replaced by skilled ones. The job that had required electrical service requires a computer expert. Scientific and specialized personnel form the techno-structure of modern large corporations more or less govern and control their decision-making process. According to Galbraith, the techo-structure embraces all who bring specialized knowledge, talent or experience to group decision-making. This, not the management, is the guiding intelligence -the brain of the enterprise. Decisions concerning technological changes are social decisions rather than narrow technological decisions. Hence such socially responsible decisions should be made by socially responsible managers.

Technology has advanced so fast during the last 200 years that serious doubts have been expressed about its long-run effects. No doubt technological changes may be viewed as having unlimited capabilities for improving the conditions of people in society. In many ways, it has led to a better and more secure life for increasing numbers of people-increasing productivity, reducing the incidence of diseases and controlling the environment. But on the other hand, technology has also led to innumerable other effects which are not socially desirable. It had led to the subordination or moral values to materialistic values, pollution of atmosphere replacement of men by machines, elevation of machines, elevation of machine over men and deterioration of the quality of human life. It is therefore necessary to control the development and use of technology.

1.6.7.Religion: Its Social Aspects:

Religion is an important element of culture. It influences people's attitude towards human activities, their moral values and ethics. The prejudice against business which is concerned with 'making money' as a way of life originated usury (extorting high rates of interest on loan), and making private gain at the cost of public good have been considered to be immoral. Honesty, truthfulness, and sympathy for people in distress are certain basic religious values which have been handed down from generation to generation. Religion as a social force provides strong emotional bonds among people. On the other hand, religious orthodoxy also make people to be sectarian in outlook, dogmatic and intolerant of other's views.

1.6.8. Secularism in modern India:

Secularism refers to the belief that the state, morals, education etc., should be independent of religion. The Indian society consists of people who follow different religions. Ever within particular religious communities there are different sects and cults. People practice religious rites according to their own faith. Their beliefs, habits and customs as well as values in many ways reflect the particular religion they follow. The Constitution of India has laid down that while the people will be free to pursue their own religions, the State will be independent of any religion. India is thus declared as a secular state. While people conform to their own religious practices in their private and social life, that does not affect their work life. Several advantages may be said to follow from the principle of secularism:

(1) There is no possibility of any discrimination being made between people of different religious communities in public life relate9 with employment, education and official works.

(2) There being no 'state religion' people of various religions and faiths can develop and maintain unity of approach to common problems.

(3) Religious minorities are expected to be confident of equal treatment with others.

(4) Except in the matter food products and drinks, business in India is free from any bias of customers on religious grounds.

(5) The basic values and morals of all religions being the same, unity and brotherhood can be fostered on common grounds.

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1.7. POLITICAL ENVIRONMENT

I. Choose the best answer.

1. Demography refers to

a) study of economic condition b) Study of culture.

c) Study of human population d) none.

2. Social value refers to

a) Civilization b) Culture c) moral belief d) none.

1.7.1.The Parliamentary Democracy :

The Federal Legislature in India is known as parliament. It consists of the President and two Houses known respectively as the Council of States (Rajya Sabha) and the House of People (Lok Sabha). While the Rajya Sabha contains representatives of the States of the Indian Union, the Lok Sabha is a popular House and contains representatives of the people. The President of India is also an integral part of the Indian Parliament although he is not a member of either of the two Houses. However, he discharges numerous legislative functions and plays an important role in the working of the parliament.

1.7.2.The Council of States (Rajya Sabha) :

The Council of States or Rajya Sabha consists of 250 members, out of which 238 represent the States and the Union Territories, while the other 12 are persons with special knowledge or practical experience in the field of literature, science, art and social service. The representatives of the States are elected by the elected members of the States Legislative Assembles. In the Union Territories, which do not possess Legislative Assemblies, these members are elected by Electrorial College specially constituted for the purpose. The election of the members of council of States (Rajya Sabha) is held in accordance with the principal of proportional representation by means of single transferable vote. The other 12 members are nominated by the President of India. At present, the various states have been accorded representation in the Rajya Sabha as follows:

Andhra Pradesh -18; Assam -7; Bihar -22; Gujarat -11; Haryana -5; Himachal Pradesh -3; Jammu and Kashmir -4; Karnataka -12; Kerala -9; Madhya Pradesh —16; Maharastra -19; Manipur, Mehalaya and Nagaland one each; Orissa -10; Punjab -7; Rajasthan -10; Sikkim -1; Tamil Nadu -18; Tripura -1; Uttar Pradesh -34; West Bengal -16; Arunachal Pradesh -1; Delhi -3; Mizoram and Pondichery 1 each. In addition, it contains 12 nominated members.

a). Qualifications:

A person seeking membership of Rajya Sabha must possess the following qualifications.

1. He must be a citizen of India.
2. He must not be less than 30 years of age.
3. He must be Parliamentary elector in the state from which he is seeking election.
4. He must make and subscribe before some person authorized in that behalf by the Election Commission and oath or affirmation asserting his allegiance to Constitution of India and undertake to uphold the sovereignty and integrity of India.
5. He must possess such other qualifications as may be prescribed by the Parliament for that purpose from time to time.

b). Term:

The Rajya Sabha is a permanent house and is not subject to dissolution. But as nearly as possible, one third of the members of Rajya Sabha retire after every two years in accordance with the provisions made by the Parliament by laws. Thus, the members of the Rajya Sabha are elected for a term of six years. This arrangement ensures continuity as well as representation of the changing public opinion.

c). Presiding Officer:

The Vice-President of India is the ex-officio Chairman of the Rajya Sabha. In addition, the house also elects a Deputy Chairman from amongst its members. The Deputy Chairman presides over the meetings of the House in absence of the Vice-President. The Chairman does not enjoy the right to vote except in case of a tie. As Presiding Officer the Chairman of the Rajya Sabha is responsible for maintaining order and decorum in the House and conduct the proceedings in accordance with the rules. As the Chairman is not a member of the House he is not entitled to vote, except in case of a tie. However, he has the right to speak and otherwise take part in the Proceedings of the House.

d). Quorum:

One tenth of the total membership of the Rajya Sabha constitutes the quorum for holding a meeting of the House.

1.7.3.The House of People or Lok Sabha:

The Lok Sabha or the House of people is the popular house of the Indian Parliament and contains selected representatives of the people. Its maximum strength has been fixed at 545. Out of these not more than five hundred and twenty-five members are elected from the territorial constituencies of the States: and not more than twenty-five members are elected from the Union Territories in a manner as prescribed by Parliament by-law. The number of members of each State is expected to elect is determined on the basis of the population. Within the State also the constituencies are so down that as far as practicable the population of each constituency is roughly the same. At present the Parliament consists of 542 members. Out of these 525 seats have been allotted to the states while other 17 seats have been allotted to the Union Territories.

a). Qualification:

A person seeking election to the Lok Sabha must posses the following qualifications.

1. He must be a citizen of India.
2. He must be a least 25 years of age.
3. He must possess such other qualifications as may be prescribed by the Parliament.
4. He must not hold any office of profit under the Union or State Governments.
5. He must make and subscribe before some person authorized in that behalf by the Election Commission and oath or affirmation asserting his allegiance to the Constitution of India and undertake to uphold the sovereignty and integrity of India.
6. He must not be a person with unsound mind or an undischarged insolvent.

b). Term of the house:

The Lok Sabha enjoys a term of five years from the date of its first session. The term of the House was fixed at six years under the Forty-Second Amendment; but it has since been reduced to five years by the Forty-Fourth Amendment. The term of the House can be cut short if the President dissolves it earlier on the advice of the Prime-Minister. So far the Lok Sabha has been dissolved twice before the expiry of its normal term viz., in December 1970 and 1979. The term of the House can be extended by one year at a time. However, the House must be dissolved within six months of the expiry of such a proclamation. The life of the Fifth Lok Sabha was extended twice, although it was dissolved before the second extension.

c). Presiding Officer:

The presiding officer of the Lok Sabha is known as Speaker. He is elected by the house at its first meeting from amongst its own members. In addition, the House also elects a Deputy Speaker during his absence of leave. The Speaker or the Deputy Speaker have to vacate their office if they cease to be members of the Lok Sabha. They can also vacate their offices by rendering resignation. The speaker and the Deputy Speaker can be removed from office before the expiry of their term if the house passes a resolution. The Speaker or Deputy Speaker cannot be removed unless at least fourteen days notice has been given of the intention to move such a resolution. Likewise the term of the Speaker automatically gets extended if the term of the Lok sabha is extended beyond five years.

Even when the Lok Sabha is dissolved on the completion of its normal term, the Speaker will stay in office until immediately before the first meeting of the Lok Sabha after the dissolution. The Speaker has the right to speak and take part in the proceedings of the House, but has no right to vote except in case of a tie. It may be noted that when the House is considering a resolution for the removal of the Speaker from his office, he does not preside over the meetings of the house, the same applies to the Deputy Speaker.

d). Privileges and Immunities of Members of Parliament:

The Members of Parliament are entitled to a monthly salary of Rs.1000/-. In addition they are entitled to such constituency allowances and other medical facilities for members of family and such as housing, telex, phone, water, electricity facilities as may be prescribed. The members of Parliament are entitled to a pension of rupees five hundred per month on retirement. They are also entitled to advance for the purchase of conveyance upto an amount of rupees twenty thousand.

The Members of the two Houses of Parliament enjoy complete freedom of speech in the parliament. No proceedings can be instituted against any member in any court in respect of anything said or any vote given by him in the Parliament or any Committee thereof. The Constitution further provides that the power, privileges and immunities of the members shall be such as may from time to time be defined by Parliament by law.

1.7.4. Powers of the Parliament:

The parliament of India enjoys very extensive powers, which can be conveniently studied under the following heads.

1. Legislative powers:

Parliament enjoys the right to legislate on all the subjects enumerated in the Union. List as well as the Concurrent List. However, in case of subjects in the concurrent list, the States also enjoy similar powers. In case of clash between the Union and the State Law on concurrent subjects, however, the Union gets precedence.

It also reserves the right to legislate any subject not included in any of the three lists. Under certain circumstances, the parliament can also legislate on a State subject a) if the Rajya Sabha passes a resolution by a two thirds majority of its Members, and present and voting that it is necessary or expedient to legislate on a State matter in the national interest. b) when a proclamation of emergency has been made either due to threat to the security of India or break down of constitutional machinery in a State: c) if the Legislatures of two or more States recommend that the parliament should legislate on a subject included in the State List; d) for implementing any treaty, agreement or convention with foreign countries or any decision taken at an international Conference or Association.

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2. Financial Powers:

The parliament has been vested with complete control over the finances of the Union Government. No expenditure can be incurred or taxes levied without the approval of the Parliament. Though the budget is formally prepared by the executive, the power to sanction the same rests with the Parliament. It may be noted that in the financial sphere the Lok Sabha has been accorded a superior position. The Constitution specifically provides that a money bill cannot be introduced in the council of States. After it is passed by the Lok Sabha, it is transmitted to the Rajya Sabha for its recommendations. The Rajya Sabha is obliged to return the bill to the Lok Sabha within fourteen days of the receipt along with its recommendations. It is up to the Lok Sabha to accept those recommendations or not. If the Lok Sabha receives the recommendations of the Rajya Sabha, the money bill is deemed to have been passed by both the Houses with the amendments recommended by the Rajya Sabha and accepted by the Lok Sabha. However, if the Lok Sabha does not accept any of the recommendations of the Council of States (Rajya Sabha) the bill is deemed to have been passed by both the Houses at the expiration of the said period in the form in which it was passed by the Lok Sabha.

3. Control over Executive:

In the Parliamentary System of government provided under the Indian Constitution, the Council of Ministers, which is the real executive, stays in office as long as it enjoys the confidence of the Parliament. This accountability of the Council of Ministers which is the real executive stays in office as long as it enjoys the confidence of the Parliament. This accountability of the Council of Ministers which is the real executive stays in office as long as it enjoys the confidence of the Parliament. This accountability of the Council of Ministers to the Parliament in effect means its accountability to the Lok Sabha, the popular House of the Parliament. The Parliament reserves the right to criticize the policy of the Government and seek information on all matters falling under the Ministry through questions, supplementary questions, resolutions and adjournment motions. In case the Parliament is dissatisfied with the working of the Ministry, it can pass a vote of no confidence and compel it to tender its resignation. It is noteworthy, that in actual practice the Council of Ministers actually controls the Parliament. The Parliament may discuss, debate, criticize and sometimes bitterly attack the policies of the Government but it ultimately approves that is done by the Ministry. The rigid party discipline, has further reduced the control of the Parliament. Thus, the Parliament has virtually become a decision approving and policy sanctioning body.

4. Constitutional Powers:

The Parliament of India has been vested with extensive powers to amend the Constitution, leaving apart certain provisions of the Constitution concerning the federal character; powers of the Union and State Government, the election of President, the Supreme Court and the High Court representation of State in Parliament etc. The Parliament can amend the Constitution either by a simple majority or by a two-thirds majority of its members, present and voting. Further all the amendments can be initiated only in the Parliament and the States do not posses any powers in this regard. As regards the respective position of the two Houses with regard to amendment of the Constitution, the two Houses have been given equal powers.

5. Miscellaneous Powers:

The Parliament also possesses extensive miscellaneous powers which do not fall in any of the above enumerated category of powers. It elects the Vice-President of India and can initiate impeachment proceedings against the President. All the elected Members of the Parliament take part in the election of President alongwith the elected members of the State Legislative Assemblies. The Parliament also enjoys the power to recommend the removal of the judges of the Supreme Court and High Courts to the President. The Proclamation of Emergency made by the President also needs the approval.

1.7.5. How Far the Indian Parliament is a Sovereign Body :

Scholars have often tended to draw a comparison between the Indian Parliament and the British Parliament. At the outset it is pointed out that the position of the two Parliaments fundamentally differs. The British Parliament is considered to be a soverign body in so far as there does not exist any legal restriction on its authority. The Indian Parliament cannot advance any such claim. According to Dicay in England the sovereignty of parliament implies two things. In the first place, in England no distinction is made between an ordinary law and the constitutional law in so far as the procedure for the enactment and amendment. In the second place, there is no law which the British Parliament cannot enact, repeal, or modify. On the other hand, the Indian Parliament cannot claim to be a soverign body due to following reasons.

Firstly, the Constitution provides a federal structure for the country in which the powers have been distributed between the Union and the State Governments. The Central Government has the exclusive power to legislate on the subjects in the State List. As both the Centre and the States draw their powers from the same source viz, the Constitution, none can claim to be superior. On the other hand, in England all the powers are vested in the Centre and the units draw all their authority from Centre, which also reserves the right to withdraw them at will".

Secondly, the written character of the Indian Constitution is another limitation on the authority of the Parliament. The Parliament has been given specific powers by the Constitution and it has to operate within the prescribed sphere. No doubt under certain circumstances, the parliament can also legislate on the subjects listed ill the State List but it has to operate within the limits prescribed by the Constitution. The Parliament is not free to amend all the provisions of the Constitution. Some of the vital provisions of the constitution covering the federal character of the Constitution can be amended only with the approval of the State Legislatures. This is clear restriction on the authority of the Parliament if we remember that in Britain the Constitution is flexible and the Parliament can amend it anyway it likes.

Thirdly, the presence of the doctrine of judicial review also restricts the sovereignty of the Indian Parliament. The Supreme Court of India has been authorized to examine the constitutionality of laws elected by the Parliament and to declare them as unconstitutional if they contravene by the British Parliament without going into their legality or reasonableness.

Fourthly, the incorporation of a Chapter on Fundamental Rights in the Constitution also restricts the power of the parliament. While enacting laws, the Parliament has to ensure that they do not infringe the Fundamental Rights of the citizens due to fear of such laws being declared ultra vires by the courts. The absence of a chapter on Fundamental Rights in the Constitution further imparts greater freedom of action to it.

In view of the above limitations and restrictions it can be observed that the Indian Parliament can by no stretch of imagination claim to be a sovereign body in the sense in which the British Parliament is a sovereign.

1.7.6. The Working of the Parliament:

The Parliament works in accordance with the rules and regulations formulated by the Parliament in this regard. The power to summon the session of the two Houses of Parliament rests with the President who can also prorogue the two Houses and dissolve the Lok Sabha. However, under the Constitution it is obligatory for the president to summon at least two sessions of the parliament every year and the gap between those two sessions should not be more than six months. In actual practice, the Indian Parliament has three sessions in a year. These sessions are generally held in the months of January-February, July-August and October-November.

1.7.7. Legislative Procedure:

An identical legislative procedure is followed in both the Houses. Under the provisions of the Constitution a bill, other than the financial or money bill can originate in either House of Parliament. It is submitted to the President for his assent only after it has been passed by both the Houses. However, if the two Houses are not able to agree on a particular bill, the issue can been resolved by the President by summoning a joint sitting of the two Houses. At such a joint sitting, the decision is taken by the majority of both the Houses present and voting. An ordinary or non-money bill has to pass through the following states in each House.

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a).First Reading:

At this stage, the mover of the bill reads out the title. Generally he makes a brief speech explaining the aims and objectives of the Bill. After this, the opponents of the bill are permitted to make a brief speech. This is followed by a vote of the House and the bill is published in the Gazette. It may be noted that the bills introduced by the Minister (viz. Government Bills) are straight away published in the Gazette and the formal leave of the House is not sought.

b) Second Report :

After sometime, the Second Reading of the bill takes place. At this stage, the general principles of the bill are discussed. It is noteworthy that the bill as a whole is discussed and no amendment is permitted at this stage.

c) Committee Stage:

After the Second Reading, the bill is refered to the appropriate committee. The committee considers the various provisions of the bill thoroughly and suggests suitable improvements and amendments.

d) Report Stage:

After the committee has completed its deliberations it submits a report to the House.

This Report is then thoroughly discussed by the House. Discussion is held on the various clauses of the bill and separate voting takes place on each clause. At this stage amendments can be proposed to the bill.

e) Third Reading:

At this stage only general discussion on the bill takes place and the final voting on the bill is held. No amendments can be introduced at this stage.

After the bill has been passed by one House, it is transmitted to the other house, where it has to go through all these; stages once again. If the other House approves the bill, the same is sent to the President for his assent

f) Financial Bill Procedure:

The procedure for the enactment of the money or financial bill is slightly different. It can be introduced only in the Lok Sabha and that too on the recommendation of the President, which implies that only the ministers can introduce money bills. After a money bill is passed by the Lok Sabha, it is transmitted to the Rajya Sabha for its recommendations The Rajya Sabha is obliged to make these recommendations within a period of fourteen days. If the Rajya Sabha fails to make any recommendations within this period or does not take any action, the bill is considered to have been passed by both the Houses and is transmitted to the President of his assent. Even if the Rajya Sabha returns the bill with certain recommendations within fourteen days, it is up to the Lok Sabha to accept them or to ignore them. In short, the Rajya Sabha can at the most delay the passage of a money bill for a maximum period of fourteen days.

g) President's Assent :

After a bill is passed by the parliament, it is presented to the President for his assent. In the case of money bills the assent of the President is just a formality and he has hardly, any discretion. In case of non-money bills, however, the President may use amendments. The President has to append his signatures to the bill.

1.7.8. The Committees of Parliament :

To cope with the ever-increasing works, the Indian parliament has set up a number of committees. The Committees play an effective role in the working of the Indian parliament. The members of these committees are appointed by the Speaker or elected by these Houses from amongst its members. These committees are authorized to call witness and collect evidence by asking for official papers and records.

Committees of Lok Sabha :

The important committees of the Lok Sabha are as follows.

1. Business Advisory Committee :

This committee is convened with the planning and regulation of the business of the House. It also advises the House regarding allocation of time for the discussion of various issues. This Committee is formed at the beginning of the Lok Sabha's session. The Speaker is the Chairman of this committee. To ensure the smooth workings of the House, the leaders of the major opposition parties are also associated with this committee.

2. Committee on private Members Bill and Resolutions:

This Committee examines the bills submitted by the Members of House and classifies them according to their importance and need. This Committee consists of 15 Members who are nominated by the Speaker for a term of one year.

3. The Select Committees on Bills:

There are a number of select Committees of the House which collect information on various issues and submit necessary reports on the basis of the examination of relevant material and witnesses. The Committee is dissolved soon after it has submitted the report on the subject under reference. The Members of the Select Committee are appointed by the House. The strength of Members of various Select Committees differs according to the importance of the bill.

4. Committee on Petitions:

This Committee examines the petitions made by the member of the House and suggests remedial measures. The Committee consists of 15 Members but no minister can be a Member of this Committee. This Committee is also constituted at the commencement of the session of the House.

5. The Rules Committee:

This Committee considers the matters of procedure and conduct of business in the House. It also reserves the right to make necessary suggestions for improvement or change in these rules. The Committee consists of 15 members who are nominated by the Speaker. The Speaker is the ex-offcio Chairman of this Committee.

6. The Committee on Privileges:

The Committee tries to safeguard and protect the privileges of the Members of the House and suggests appropriate action against the erring authorities. It may be noted that the Members of the parliament have been granted certain privileges and immunities and any violation or denial of these tantan10unt to a crime for which legal proceedings can be instituted against the erring authority. The privilege Committee consists of 15 Members who are nominated by the 'Speaker at the commencement of the session of the Lok Sabha. Generally the Deputy Speaker acts as the Chairman of this Committee.

7. Committee on Subordinate Legislation:

This Committee is constituted to ensure that rule-making powers delegated to the executive are not misused. It scrutinises the rules and, regulations enacted by the various departments to ensure that they conform to the main law enacted by the parliament. In case these rules are in violation of the a main law, the Committee brings the same to the notice, of the House for necessary action.

Thus the Committee plays an important role in preventing abuse of parliament's power by the executive. This Committee also consists 15 members who are nominated by the Speaker. The Ministers cannot be members of this Committee.

8. Committee on Public Undertakings:

This is a committee of both the Houses of parliament. It consists of 15 members - 10 from the Lok sabha and 5 from the Rajya sabha. The Committee examines working of the public undertaking, including their financial matters.

9. The Committee on Government Assurance:

The Committee examines the various assurances and undertaking given by the Ministers on the floor of the House to find out how far these have been fulfilled or implemented within the stipulated time. This Committee consists of 15 members who are ' nominated by the Speaker for one year. The Ministers are not eligible for membership of this Committee.

10. The committee on Absence of Members:

This Committee examines the applications of the members of Lok Sabha for leave of absence from the House. It also examines those cases where a member has been missing from the sessions of Houses for more than sixty days without permission of the House. The Committee decides as to whether the long absence of members from the House should be condoned or the seat be declared vacant and fresh elections held. This Committee also consists of 15 members nominated by the Speaker for one year.

11. The Estimates Committee:

It is a very significant Committee and performs the following functions (i) It reports what economies, improvements in organization efficiency or administrative reforms, considered with the policy underlying the estimates can be effected, (iii). It ensures that the money is well laid out within the limit of the policies implied in the estimates, (iv) It suggests form in which the estimates should be presented to the parliament. In short, the Committee plays an important role in examing the annual estimates and suggests alternative policies to the government to ensure efficiency and economy in administration. The Estimates Committee consists of 30 members elected every year from among the members of House on the basis of proportional representation and single transferable vote. The Chairman of the Estimates Committee is appointed by the Speaker. However, if the Deputy Speaker happens to be a member of this Committee he ipso facto becomes its Chairman.

12. The Public Accounts Committee:

This is also a joint committee of the two Houses. It consists of 22 members - 15 from Lok Sabha and 7 from Rajya Sabha. It may be noted that the Rajya Sabha members are only associate members and not entitled to vote. The members of the Committee are elected for one year but by convention they generally continue in office for at least two years. The election is held on the basis of proportional representation through single transferable vote. The Ministers cannot be members of this Committee. The Chairman of the Committee is appointed by the Speaker, from amongst members, However, if the Deputy Speaker happens to be the member of this Committee, he ipso facto becomes its chairman.

The main function of the Committee is to examine the report of the Comptroller and Auditor-General of India and to ascertain that the expenditure has not exceeded the grants made by the parliament and the money has been spent for the purpose it was sanctioned by the parliament. It also sees to it that the financial rules and regulations have been followed by the executive. The Committee plays an important role in ensuring regularly and economy in expenditure.

1.7.9. Constitutional Environment:

1. Definition of 'Constitution':

The constitution of State is the body of rules which allocates various powers of government among the branches of government, which established how these powers: are to be used, and which determines the authority of the government over the people.

In the words of Dr.B.R.Ambedkar, "Constitution establishes a dual policy with the union at the Centre and the States of the periphery, each endowed with sovereign power to be exercised in the field assigned to them respectively by the Constitution".

2. Written Constitution:

Strong defines a written constitution as one which is in the form of a document which has a special sanctity. The constitutions of India, France and USA are the examples of written constitution.

3. Unwritten Constitution:

According to Strong, unwritten constitution is one which has grown on the basis of custom rather than law. It is a product of history and result of evaluation. British constitution which is based on parliamentary Sovereignty is an example of unwritten constitution.

4. Flexible Constitutions:

A flexible constitution is one which can be easily changed by ordinary process of legislative action. Indian constitution has the active feature of imparting flexibility to a federal constitution. The flexibility of our constitution is illustrated by the fact that during the first 28 years of working, it has been amended forty-four times, including amendments to the fundamental rights, powers of the Supreme Court and the High courts.

Dr. Jennings characterised our constitution as rigid for two reasons. (a) that the process of amendment was complicated and difficult (b) that matters which should have been left to ordinary legislation having been incorporated into the constitution, no change in these matters is possible without undergoing the process of amendment. The United States, the Swiss and parts of Indian constitution are the examples of rigidity.

5. The Longest Known Constitution:

The constitution of India has the distinction of being the most lengthly and detailed constitutional document of the world. The original constitution contained as many as 395 Articles and 8 schedules.

6. Reasons for extraordinary bulky constitution:

1. In order to incorporate the accumulated experience gathered from the working of all the known constitutions such as those of USA, UK, and to avoid all defects, and loopholes anticipated in the light of these constitutions elaborate provisions were made by the framers.

2. The authors of the Indian constitution reproduced the Government of India Act, 1935 with an intention to provide matters of administrative detail and get the people accustomed to the detailed provisions of the Act.

3. The vastness of the country and peculiar problems to be solved have also contributed towards the bulk of constitution.

4. The Indian constitution provides the constitutions of both the union and the States, with the same fullness and precision.

5. The relations between the federation and the units, whether legislative, or administrative are also exhaustively mentioned so as to eliminate conflicts as far as possible.

6. The list of Fundamental Rights became bulky as it has to include several matters owing to the peculiar problems of our country e.g. untouchability, preventive detention. Directive Principles of state policy, although could not be legally made enforceable, had to be included because they are regarded as fundamental in the governance of the country.

7. Objectives of the Constitution :

The objectives of the Constitution as outlined in the Preamble include justice- political, social and economic, liberty of thought, expression, belief, faith and worship, equality of status and opportunity, fraternity based on dignity of individual and unity of nation.

Justice implies a harmonious reconciliation of individual conduct with the great welfare of society. This implies that the government will not pay attention only to the well- being of a particular section of society, rather it would try to promote the welfare of all the sections of society. Three types of justice are envisaged in the Preamble viz., political, social and economic.

Equality, which is complementary to liberty is also assured by the Constitution. Every citizen is assured equality of status and opportunity. This means all the citizens can procure government service or become members of the legislature. To make the equality genuine, the Constitution also abolishes all the titles etc.

The Preamble also emphasises the principle of fraternity with a view to ensure dignity of the individual. It seeks to promote feeling of brotherhood or fraternity among the people of India by trying to raise the standard of the backward sections of the society and creating a feeling among the people that they are sons of the same soil.

Finally, as India is inhabited by people with different languages, cultures, regional backward, caste sections etc., it is vital to preserve the unity and integrity of the country. The Preamble therefore lays emphasis on the need of preserving unity of the country by promoting a feeling of brotherhood among all the citizens irrespective of their differences.

8. Salient Features of the Indian Constitution:

The constitution of India possesses certain distinct features which are discussed below

1. Written Constitution:

The Constitution of India is not only a written one but also one of the lengthiest constitutions of the world. The main reason for the bulkiness of the Indian Constitution is that the framers not only incorporated the basic principles of governance in the constitution but problems with a view to prevent unnecessary wrangling and prevent abuse of authority by any organ of the Government. Justifying this, Dr.B.R.Ambedkar, Chairman of the Drafting Committee said: "It was only when people were saturated with constitutional morality that one could take the risk of omitting from the constitution details of administration and leavidng it to the legislature to prescribe them. Democracy in India is only a top dressing on Indian soil, which is essentially undemocratic. In these circumstances, it is wiser not to rust the legislatures to the constitution. There were various type of administrative units in India viz., British Provinces, Indian states, centrally administered areas under Chief commissioner. It was not possible to provide an identical structure for these units. The provision of different types of administrations necessitated incorporation of detailed provisions with regard to each. Further, unlike other countries, the States in India do not possess an independent Constitution. The other factors which constibuted to the bulk of the Constitution include the presence of the Directive Principles of the State policy, special provisions for scheduled caste and scheduled tribes: incorporation of a chapter on Fundamental Rights etc.

2. A *Unique combination* of Rigidity and Fexibility:

The procedure for that amendment of the Constitution is neither too rigid nor too flexible. Broadly speaking there are three different methods for the amendment of various provisions of the Constitution.

1. Some provisions can be amended by the parliament by simple majority such as creation of new states; creation or abolition of upper house in the State etc.

2. certain provisions can be amended by the parliament by a two-thirds majority of the members present and voting; but this must also form a majority of the total membership of each House,

3. finally, there are certain provisions of the Constitution which can be amended by two-thirds majority of the members of the parliament and need ratification by the legislatures of the majority of the States.

Thus, the amendment procedure is combination of rigidity and flexibility. While some of its provisions can be amended as easily as in Great Britain, in case of others the procedure is quite difficult. In short, the Indian Constitution is less flexible than the British Constitution and less rigid than the U.S. Constitution. Justifying the amendment procedure in the Indian Constitution, Pandit Jawaharlal Nehru said "While we want this Constitution to be as solid and permanent, as we can make it, there is no permanence in constitutions. There should be certain flexibility, If you make everything rigid and permanent, you stop the nation's growth, the growth of a living vital, organic people. In any event, we could not make this constitution so rigid that it cannot be adapted to changing conditions".

3. Parliamentary system of Government:

The Indian Constitution provided for a parliamentary system of government, both at the Centre as well as at the States. The President of India, like the queen of England, is a constitutional ruler and the real executive authority is exercised by the council of Ministers, who wield real executive headed by the Prime Minister. The members of the Council of Ministers, who wield executive authority, are taken from the parliament and remain in office as long as they enjoy the confidence of the Lok Sabha.

Along with these features of Parliamentary Government, the Constitution also contains certain features which are generally found in a Presidential system. Thus, the President can send messages to either House of parliament, whether with respect to a bill then pending in parliament or otherwise and the House it under an obligation to consider it as convenient, Again, the President can return a non-money bill for the reconsideration of the Parliament. Likewise, he can ask the Prime Minister to submit a proposal for the consideration of the Council of Ministers if the decision was taken by a Minister and the same was not considered by the Council. It may be observed that under the Parliamentary System prevailing in Britain, such rights are also vested in the Queen, but they have not been used, for almost two centuries. The incorporation of these provisions in the Constitutions of India has no meaning unless they were meant to be used. However, these provisions are to be used only under special circumstances and hence in no way affect the Parliamentary character of the Constitution.

1. Blending of Federal and Unitary Features:

The Constitution provides for a federal government, though the term 'federation' has nowhere been used. Instead it describes India as 'Union of States' which implies two things. First, the Indian federation is not the .result of agreement among the units. Secondly, the federating units have independent existence and their names and territories can be modified by the Parliament without their consent. The federal features of the Indian Constitution include a written constitution, supremacy of Constitution, special position of the judiciary, division of, powers between centre and states, bicameral parliament. But along with these federal features certain non-federal features are also found in our Constitution. The non-federal features of the Indian Constitution include a strong centre, flexibility of constitution, single constitutional frame for the Union and States, inequality of representation of States in Rajya Sabha, single citizenship, special position of the union territories, conversion of federal structure into unitary one during emergencies, special powers of Rajya Sabha over the State list, appointment of Governor non-federal features have made the critics remark that the Indian Constitution is federal in form but unitary in spirit. According to Prof. K.C. Wheare the new Constitution establishes a Unitary State with subsidiary federal features rather than federal state with subsidiary unitary features.

2. India -a Secular State:

Another feature of the Indian Constitution is that it makes India a Secular State. A secular state is neither religious nor irreligious nor anti-religion, but is wholly detached from religious dogmas and activities and thus natural in religious matters. Under the Constitution all the Indian citizens have been granted freedom of conscience and free to profess, practice and propagate religion of their choice. No person can be compelled to pay any taxes for the promotion or maintenance of any particular religious denomination. No religious instructions are to be provided in any educational institution wholly maintained out of state funds or receiving aid out of state funds. In matters of appointment also no discrimination should be made on grounds of caste, colour or creed. In short, the State is completely natural in matters of religion and faith. In making India, a secular state the constitution falls in line with other progressive states which refrain from regulating the religious beliefs of the people.

3. Fundamental Rights:

Like other democratic constitutions of the world, the Constitution of India also contains a chapter on Fundamental Rights. These Rights are enshrined in Article 12 to 35 and have been broadly grouped into six categories.

Right to Equality Right to Freedom
Right against Exploitation
Right to freedom of Religion

Cultural and Educational rights

Right to Constitutional remedies.

These rights have been made justiciable. This means that a citizen can approach the courts for the enforcement of these rights if they are violated by the legislature or the executive. The Supreme Court of India has been made the guardian of the rights and liberties of the Indian people and possesses the necessary power to issue writs for the enforcement of these rights. It may be noted that the Rights granted under the Indian Constitution are not absolute and are subject to two types of restrictions. During normal times the State is authorised to impose reasonable restrictions on these rights in the general interest of the society. For example Article 15, which prohibits discrimination against any citizens on grounds of religion, race, caste, sex, place of birth or any of them, does not prohibit any restrictions on grounds of residence. Again the State has been authorised to make special provisions for the advancement of the socially and educationally backward classes. Secondly, during the times of war or internal disorder if an emergency has been proclaimed the seven freedoms granted under Article 19 are automatically suspended. The President can also suspend other fundamental rights by issuing specific orders in this regard.

4. Directive Principles of State Policy:

Another distinctive feature of the Indian Constitution is the Chapter on Directive Principles of State policy contained in part IV of the Constitution. The idea of Directive Principles of State Policy has been borrowed from the Constitution of Irish Free State. These principles are a sort of directive to the Government to keep the welfare of the people in mind while formulating its policies. They aim at providing the social and economic basis to the democracy. Some of the important Directive Principles enshrined in the Constitution direct the Government to provide adequate means of livelihood; equitable distribution of wealth with a view to prevent its concentration into few hands; equal pay for equal work for both men and women; protection of children and youngmen against exploitation; free and compulsory education for children; separation of judiciary from the executive; promotion of international co-operation and world security through peaceful methods; promotion of the interests of the backward classes and weaker sections; raising the standard of living and level of nutrition of the people; enactment of a uniform civil code for the whole of country, etc.

It may be noted that the Directive principles of State policy are not justiciable and no action can be taken against the State if it fails to implement them. However, it cannot be denied that it is the moral duty of the government to implement these principles.

5. Independence of Judiciary:

The independence of Judiciary is another outstanding feature of the Indian Constitution. The judiciary has been made independent with a view to protect the individual against arbitrary rule. The Supreme Court which stands at the apex of the judiciary has been made free of all political influences and acts as the true guardian of the Constitution. It ensures that the various organs of the government operate within the limits prescribed by the Constitution. Any violation of these can be declared as ultra vires by the court. It also enjoys final authority to pronounce on the constitutionality of a law to executive order. To ensure the independence of judges their salaries and service conditions have been protected and their removal has been made quite difficult. Restrictions have been imposed on their removal. Restrictions have been imposed on their taking up practice after retirement before any court in India. All this ensures an independent and impartial judiciary.

6. Universal Adult Franchise:

The Constitution of India has introduced Universal Adult Franchise for the first time. All the adults above the 21 years, respective of their castes, colour and or sex are entitled to participate in the elections. The Constitution has done away with the system of Communal electorates which has been introduced in India by the British under the Acts of 1919 and 1935. However, to ensure adequate representation to the Scheduled Castes, Scheduled Tribes etc., it has made provision for reservation of seats. Initially this reservation was up to 1970, but later it was extended up to 1990. As a result of the introduction of Universal Adult Franchise, India has emerged as the largest democracy of the world.

7. Single Citizenship:

Another peculiar feature of the Indian Constitution is that unlike the American Constitution, it introduces a single citizenship. In this respect the Indian Constitution resembles the Constitution of Canada. All the persons residing in different parts of the country are entitled to identical citizenship. This was done to promote the feeling of unity and fraternity among the people residing in various parts of the country.

8. Special provisions for Backward Classes:

The Constitution makes special provision for the protection of the backward classes. A number of provisions have been incorporated in the Constitution with a view to promote social, economic and educational interests of these classes. With the same intention seats have been reserved for them in the State Legislative Assemblies, the parliament, and civil services. It may be noted that these arrangements were initially made up to 1960 but they have been extended up to 1990. We can hope that soon members of those sections will attain parity with other members of society and there would be no need for these provisions.

The Constitution also tries to protect the language and culture of the minorities and permits all minorities to conserve their language, culture, and way of life, and the government gives them every possible encouragement in this regard.

1.7.10. FUNDAMENTAL DUTIES

The 42nd Amendment to the Indian Constitution has introduced the concept of non justiciable duties of the citizen. It was the Swaran Singh Committee which came out with a list of duties and recommended that parliament should have power by law to impose penalties for non-compliance with the duties. But, the former Prime Minister Mrs. Indira Gandhi was of the opinion of creating psychological consciousness in the minds of citizens and these duties were of educative values.

Article 51 lays down that it shall be the duty of every citizen of India:-

i) To abide by the constitution and respect its ideals and the institutions, the National Flag and the National Anthem.

ii) To cherish and follow the noble ideas of the national struggle for freedom.

iii) To uphold and protect the sovereignty, unity and integrity of India.

iv) To defend the country and render national service when called upon to do so.

v) To promote harmony and the spirit of common motherhood among all the people of India transcending religious, linguistic and regional or sectional diversity, renounce practices derogatory to the dignity of women.

vi) To protect and improve the rich heritage of the nation's composite culture.

vii) To protect and improve the natural environment including forests, lakes, rivers and wildlife and to have compassion for living creatures.

viii) To develop the scientific temper, humanism and the spirit of inquiry and reform.

ix) To safeguard public property and to avoid violence; and

x) To strive towards excellence in all spheres of individual and collective activity so that the nation rises to higher levels of endeavour and achievement.

a) Fundamental Rights and Duties:

Durga Das Basu defines the fundamental rights in the process of drawing a distinction between the legal and fundamental rights. He says "A legal right is an interest which is protected by the law and is enforceable in the courts of law. While an ordinary legal right is protected and enforced by the ordinary law of the land, a fundamental right is one which is protected and guaranteed by the written constitution of the State. These are called 'fundamental' because while ordinary rights may be changed by the Legislature in its ordinary process of legislation, a fundamental right, being guaranteed by the Constitution cannot be altered by any process shorter than that required for amending the constitution itself. Nor can it be suspended or abridged except in the manner laid down in the Constitution itself.

The Fundamental rights enshrined in the Indian Constitution possess certain basic features, which are as follows:

Firstly, these rights have been paced at a higher pedestal than ordinary laws.

Secondly, adequate machinery has been provided to ensure that these rights are actually available to the citizens.

Thirdly, the courts enjoy the right to investigate whether the restrictions imposed on these rights by the parliament are reasonable or not.

Fourthly, the courts enjoy the right to investigate whether the restrictions imposed on these rights by the parliament are reasonable or not.

Fifthly, the Fundamental Rights can be suspended during emergency. At such a time the President can move the courts for the enforcement of these rights.

Sixthly, the parliament can make changes in the Fundamental Rights through an amendment to the Constitution. Such an amendment, however, requires the majority of the total membership as well as two-thirds majority of the members present and voting.

The Fundamental Rights contained in the Constitution have been classified in the following six categories.

1. Right to Equality

2. Right to Freedom.

3. Right against Exploitation.

4. Right to Freedom of Religion.

5. Cultural and Educational Rights.

6. Right to Constitutional remedies.

1. Right to Equality:

Articles 14 to 18 deal with the right to equality. The constitution clearly provides that the State shall not deny to any person equality before law or the equal protection of law within the territory of India. It cannot discriminate against any citizen on grounds only of religion, caste, sex, place of birth or any of them. It means that every citizen has access to shops, public restaurants, hotels, places of public entertainment etc and is free to use wells, tanks, bathing ghats, roads and places of public resort and places of public resort maintained wholly or partly out of State funds, and dedicated to the use of general public.

In matters of employment or appointment of offices under the State also, equal opportunity shall be provided to all the citizens and no person shall be denied employment on grounds only of religion, race, castes, sex, descent, place of birth, residence or any of them.

2. Right to Freedom:

Articles 19 to 22 deal with the Right to Freedom. Article 19 of the Constitution enumerates the following six freedoms:-

(a) Freedom of speech and expression;

(b) Freedom of peaceful assembly without arms;

(c) Freedom of Association;

(d) Freedom of movement throughout the territory of India;

(e) Freedom of residence and settlement;

(f) Freedom of profession, occupation, trade or business.

3. Right against Exploitation:

Articles 23 and 24 are concerned with the right against exploitation and are designed to check the utilization of persons for one's own ends, and to prevent the exploitation of the weaker section of society by unscrupulous persons or even by the State. Article 22 prohibits traffic in human beings and beggar and similar forms of forced labour and makes the contravention of this provision an offence, punishable in accordance with law. However, this does not prevent the State from introducing compulsory service for public purpose. But while imposing such service the State cannot make any discrimination on grounds only of religion, race, caste, or class or any of them.

4. Rights to Freedom of Religion:

Articles 25 to 28 deal with the freedom of conscience and religion. Under Article 25 all persons are equally entitled to freedom of conscience and right to profess, practice and propagate any religion subject to public order, morality and health. The State also enjoys the right to restrict any economic, social or political or other secular activity which may be associated with the religious practice. All persons have also been granted the right to establish institutions for religious and charitable purposes, manage their own affairs and to own, acquire and administer movable and immovable property.

5. Cultural and Educational Rights:

Articles 29 and 30 deal with the cultural and education rights. These rights were incorporated in the Constitution with a view to protect the interests of minorities and to enable them to conserve their culture. All groups possessing distinct language, script or culture of their own have the right to conserve the same. No citizen can be denied admission to any educational institution maintained by the State or receiving and out of State funds on grounds only of religion, race, caste, language or any of them. The Constitution also gives all the minorities, whether based on religion or language, the right to establish and administer educational institutions of their choice. The State while granting aid to such educational institutions is expected not to make any discrimination against any educational institution on the ground that it is under the management of a minority, whether based on religion or language.

6. Right to Constitutional Remedies:

Last but not the least the Constitution grants right to constitutional remedies to the citizens. This right has been described by Dr.Ambedkar as the heart and soul of the Constitution. In fact the mere declaration of fundamental rights is of no use, unless effective remedies are available for their enforcements.

This has been ensured under Article 32 which grants the right to move the Supreme Court by appropriate proceedings for the enforcement of the right conferred by the Constitution. The Supreme Court has been vested with the authority to- issue directions or orders or writs, including writs in .the nature habeas corpus, mandan1us, prohibition, quo warranto, and certiorari whichever may be appropriate, for the enforcement of any of the rights conferred by the-constitution. The Parliament can also confer similar power on other courts.

b) Suspension of Fundamental Rights:

The fundamental rights guaranteed under the Indian Constitution can be suspended by the President during emergency arising to the security of India or any part of its territory, or due to external aggression. It may be noted that the President has to issue specific orders for the suspension of the fundamental rights and such orders must be placed before the parliament at the earliest possible time. The President of India can also suspend the right to move the court for the enforcement of these fundamental rights, except the rights available under Articles 20 and 21. When such orders have been issued the State has the authority to make any law or take any executive action with regard to the fundamental rights, but such law shall, to the extent of incompetency, cease to have effect as soon as the orders aforesaid cease to operate.

NOTES

c) Evaluation of the Fundamental Rights:

Difference of opinion exists amongst scholars regarding the significance of the fundamental rights granted by the Constitution. On the one hand there are critics who plead that the Constitution does not make any mention of some of the vital fundamental rights like rights to work, right to education etc., On the other hand, it is argued that the fundamental rights guaranteed by the Indian constitution are more real and genuine, even though they are not absolute. It shall be desirable to examine these views in some details.

The main points of criticism against the fundamental rights are as follows:

1) Some of economic and social rights which are available to the citizens of advanced democratic countries do not find any place in the list of fundamental rights. While this charge seems to be quite valid, we have to keep in mind the peculiar conditions prevailing in the country. In view of the limited resources available in the country, the framers of the Constitution did not think it advisable to incorporate these fundamental rights in the Constitution. Mere inclusion of these rights in the Constitution, without giving them practical shape would have made a mockery of the Constitution.

2) The fundamental rights granted by the Constitution have been hedged by so many restrictions and limitations that they virtually become ineffective. The citizens make a reference to the American Constitution, which does not impose any restrictions or limitations on the fundamental rights. However, it cannot be desired that even in U.S.A. the fundamental rights are not absolute and numerous restrictions have been imposed on them through Congressional laws and Supreme Court judgements. In India not only the parliament and the judiciary can impose restrictions on fundamental rights but the Constitution itself contains elaborate restrictions.

3) Some of the Fundamental Rights have been couched in so difficult a language that they are beyond the comprehension of ordinary citizens.

4) The remedies provided for the protection of the fundamental rights are very expensive and beyond the capacity of ordinary citizens. As a result only well-off people can seek legal protection against violation of their fundamental rights.

1.8. ECONOMIC ENVIRONMENT:

1.8.1. Nature of Economic Environment :

Economic environment refers to all those economic factors which have a bearing on the functioning of a business. Business depends on the economic environment for all the needed inputs. It also depends on the economic environment to sell the finished goods.

Naturally, the dependence of business on the economic environment is total and it is not surprising because, as it is rightly said business is one unit of the total economy.

1.8.2. Economic Factors:

Coming to the economic environment, we list the following factors which for our purpose constitute the economic environment of business. We are not confining ourselves to pure economic principles such as the law of demand and supply, marginal utility and the like. We include major micro-economic factors which have considerable influence on business. Such factors are:

(a) Basic economic system;
(b) Ecol l omic planning;
(c) Industrial production
(d) Agriculture;
(e) Population;
(f) Industrial Labour;
(g} Foreign capital; and
(h) Money and capital markets.
A brief discussion of each factor is as follows:

a) Basic Economic System:

Just as there are two political philosophies, viz. democracy and totalitarianism, there are three distinct economic philosophies viz., capitalism, socialism, and communism. The system of capitalism stresses the philosophy of individualism believing in ownership of all agents.

b) Economic Planning :

A mixed economy is necessarily a planned economy. It does not mean simply a controlled economy in which the government interferes in economic matters through fiscal and monetary policies, but it is an economy in which the government has a clear and definite economic plan. The public sector will have to be operated according to certain priorities and to realize specific social and economic goals.

We have had five decades of economic planning. We have completed nine five year plans and are half way through the Tenth Plan. All the five-year plans were designed to achieve four important long term objectives, viz.,

(i) To increase production to the maximum possible extent so as to achieve a higher level of national and per capita income:

(ii) To achieve full employment:

(iii) To reduce inequalities of income and wealth, and

(iv) To set up a socialist society based on equality and justice and absence of exploitation.

c) Industrial Production :

Industrialisation of the country has been impressive since 1951. The process of industrialisation launched as a conscious and deliberate policy Resolutions of 1948 and 1956 and vigorously implemented under the Five Year Plans, involved heavy investments in building up capacities over a wide spectrum of industries. As a result, over the last three and a half decades, industrial production went up by more than five times, making India one of the top 20 industrialised countries in the world. The industrial structure has been widely diversified covering consumer goods, electronics, intermediate and capital goods. The progress our country has achieved in the field of industrialisation is clearly reflected in the commodity composition of foreign trade in which the share of imports of manufactured goods has steadily declined.

d) Agriculture :

As opined by J .K.Calbraith, the most significant development that places our economy during the past three and a half decades is the farm sector. From the position of a net importer of food grains, our country has now reached the state of self sufficiency.

The need of the hour on the farm front is to place our agriculture on more secure foundations -the evolution and use of seeds that are drought resistant and are suited to various agro-climatic regions. It is also necessary to bring an increasingly larger area under irrigation, especially minor irrigation, so that productivity of crops improve and a greater degree of immunity from erratic monsoons is provided to our agriculture.

e) Population :

Population is another component of the total economic environment, and about this factor, there is total unanimity of opinion among all sections of society, the opinion being that we have too many mouths to feed than we can afford. Some statistics prove the point. There is another dimension to the problem of over-population.

From the First Plan itself the need to control population was recognised. During the Second Plan, the family planning programme was organised on a national level. Even though both these plans indicated an official policy to control population, there was not effective implementation. The results of the 1961 Census confirmed the half hearted efforts at population control and imparted a new urgency to the programme. The Third Plan recognised, for the first time, that family planning was an integral part of social and economic planning which till then had relied heavily on the traditional clinical referral approach.

The Tenth Plan described family planning as a programme deserving the highest priority.

f) Industrial Labour :

Compared to the total population, the percentage of workers employed in the organised sector may be too small but they occupy an important place in our economy. Their contribution to national income is considerable. A contented labour force will be a great asset but dissatisfied industrial workers will be responsible for reduction in national income.

Important Changes :

Industrial labour in the organised sector has undergone the following important changes over the years.

1) Commitment to industry:
2) Protective Legislation
3) Status of the worker
4) Employment pattern
5) Growth of Trade Unionism
6) National and Per Capita Income

g) Foreign Capital :

For a developing country like ours, the need for foreign capital arises on account of the following reasons

(a) Domestic capital is inadequate for the purposes of economic growth and it is necessary to invite foreign capital.

(b) For want of experience, domestic capital and entrepreneurship may not flow into certain lines of production. Foreign capital can show the way for domestic capital.

h) Money and Capital Markets :

Money market and capital market are the two important constituents of the total economic environment.

I. Meaning of Money Market :

Money market is the market in which short-term funds are borrowed and lent. The Reserve Bank defines a money market as a "centre for dealings, mainly of a short-teml character, in monetary assets, it meets the short-term requirements of the borrowers and provides liquidity or cash to lenders. It is the place where short-term surplus investible funds at the disposal of the financial and other institutions and individuals are bid by borrowers, again comprising institutions and individuals and also by the Government. The money market does not deal in cash or money, but in short-terms financial assets like trade bills, promissory notes and treasury bills which are drawn for short periods. These short- terms bills are known as near money".

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II. Capital Market :

Capital market refers to the market for long-term funds. Capital Market may be divided into two types, viz., market for old capital and market for new capital. Market for old capital refers to stock exchange where stocks and shares of old companies are 'traded. The market for new capital is the market where stocks and shares of new companies are bought and sold.

The capital market consists of a number of individuals and institutions (including the government) which canalize the supply and demand for long-term capital and claims on capital. The stock markets, commercial banks, co-operative banks, development banks, insurance companies and investment companies or trusts are parties who deal in the capital market.

1.8.3.Relation of Economics to Business:

Speaking of business, we shall limit ourselves to economic enterprises, involving operations which produce a service or a product and sell it to people who want it and buy it. They may be large or small. They may be owned privately or by the State-or may be run co-operatively for profit.

To manage or run a business, the authority concerned should know all things in and around business (i.e.) Business environment. He should give more importance to the economic forces of demand and supply which are the basis of business. Apart from these, the economic environment like economic system, economic structure, economic planning, economic tools and regulations should be known to the entrepreneur to lead his business successfully. We can see the role of economics in business.

1. Consumer:

The consumer is the king of any business. The entrepreneur should start his business only after the study of consumer's behaviour, then only he can forecast the demand for his products. The economics helps the entrepreneur through the laws like law of Diminishing Marginal Utility, Law of Equi-Marginal Utility, and Law of Demand to know the attitude of the consumers.

2. Producer:

After analyzing the demand, the entrepreneur should go to production side. Under the production side, he has to co-ordinate several efficient factors of production. In general, we divide it as land, labour, organization and capital.

a) Land:

Land is natural factor of production. To start an industry land is the most requisite one. For the selection of land or area and determination of price of land the business man applies the Ricardian theory of rent.

b) Labour:

Another important element in the input side is Labour. The business people know the availability of labourer i.e., skilled or unskilled, price of labour, role of trade union and efficiency of a labourers in our nation through labour economics.

c) Capital:

All kinds of business operations depend upon the cost of capital, marginal efficiency of capital, availability of capital, sources of capital etc., Because the capital can be used for several uses in business like, buying of share capital, machinery, equipments, tools and cash. The branches of Economics, 'money ,and banking' give full information about the facts and figures related to money (capital) through money market, capital market etc.,

d) Organisation:

Organisation is one of the factors of production in Economics. It is a very important factor because only through this factor, the other factors of production are assembled and converted into final goods. Of course it is an economic concept but it is developed and modified as entrepreneurship in Business Management. So, we give only little importance to this factor especially under economic environment of business.

3. Productivity:

Generally, productivity means the efficiency to produce goods and services. The term productivity may be explained according to its application. For example, 'productivity of the workers is the capacity of the worker to do work. We can measure it in rupees and real terms. Similarly, productivity in an industry represents the rate of growth of output with its inputs compared to the previous years. But productivity is normally defined as gross value of output at constant prices per certain numbers of inputs.

For production, the productivity is more important than others. If the productivity is higher, we can fix a lower price and improve our sales. The productivity depends upon a state of technology. When technology improves, productivity also develops. Businessmen can refer the term production, productivity and the way to achieve maximum production from the production function and analysis in the Econometric.

4. Price Levels:

The price level represents the price trend and determination of prices. The enterprises can be easily affected by the fluctuations in the price level i.e., inflation or deflation and also pricing policy. Economics provides a lot of information about the pricing policy and avoidance of price fluctuations through pricing theory and monetary theory.

5. Government fiscal Policy:

Fiscal policy is a policy which represents the government revenue, and expenditures. It is also one another important element on the economic input side as well as outside. For example, the tax policy, nature of government expenditures may influence the business activities. These information may be gathered from public finance in Economics.

6. Government Monetary Policy:

The monetary policy generally means that the policy relates to money supply and also banking activities. The businessman should know about the Bank rate, rate of interest monetary policy and other things like money market and capital market to obtain capital for business. He can get ideas about the above from 'Monetary Economics'.

Conclusion:

Economics plays a pivotal role in business. If an entrepreneur wants to survive in the business world, he should know all things in and around the business. Otherwise, he may be easily thrown out of the market by somebody else. Especially, the economic environment is more important than anything else because it is the base to the business, whether it is internal or international. If it is international business, the international Trade and Transport provide some knowledge to the businessmen. So without the knowledge of economics, the businessmen would not succeed.

1.9. KEY TERMS :

Environment: The sun total of all physical and social conditions influencing individual or a community.

Monoistic society: Here single social institutions controls the affairs of the people within the society.

Pluralistic society: Society constituted by various economic, political, social, religious groups.

Social transformation: changes taken place in the traditional value and institutions.

Caste: A type of social class having strictly hereditary basis.

Social value: Generalised moral belief to which members of a group subscribe in a society.

1.10. SUMMARY :

Environment means the sum total of all physical and social conditions influencing indusdry or a community. Environments such as economic, political, social, cultural, ecological and technological have impact on business. The success or failure of a business depends upon these factors. The business system should know the changes that have taken places in these factors.

1.11. ANSWERS TO CHECK YOUR PROGRESS :

I. 1) Economic Environment 2) Social value 3) Nepotism

II. 1) False 2) True 3) capital 4) 30.

1.12. QUESTIONS / EXERCISES

Sec - A

1. Define the term business environment.
2. What is socio cultural environment. Discuss.

Sec - B

3. Discuss how the environment affects business.
4. Explain economic factors which influence business.
5. Explain the importance of business environment.

1.13. FURTHER READING

1. Business Environment, by C.B.GUPTA, Sultan Chand & Sons, New Delhi.

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Check your progress :

II. State weather the following statements are true or false.

1. People act individually and independently in monoistic society.
2. In joint family system properties are owned by members commonly.

Fill up blanks

3. Capital Market refers to the market for long term funds.
4. Minimum age required to become member of Rajya Sabha is..........

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UNIT 2 INDUSTRIAL POLICES

Structure

2.0. INTRODUCTION

Pandit Jawaharlal Nehru laid the foundation of modern India. His aims and objectives are, rapid agriculture and industrial development increasing employment opportunities, progressive reduction of social and economic disparties removal of poverty and attainment of self reliance. In order to attain those objective, govt has introduced industrial policy resolution immediately after independence. In this unit an attempt is made to analyse the various industrial policy resolutions and licensing system prevailing in India.

2.1. UNIT OBJECTIVES :

- Learn the meaning of industrial policy.
- Describe various industrial policy resolutions.
- Appreciate the objectives of each policy resoulution.
- States the objectives of industrial licensing.

2.2. MEANING OF INDUSTRIAL POLICY :

The term 'industrial policy' refers to the Government policy towards the establishment, working and management of industries in the country. It is a comprehensive term covering all those principles, procedures and regulations which control the industrial undertakings of a country. It reflects the Government's attitude towards public and private sectors, foreign capital and technology, etc. It defines the respective roles of different sectors and influences the location, size and technology of industrial undertakings. Industrial policy

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shapes the pattern of industrialisation in the country. A liberal industrial policy is helpful in the development of industries as per the needs of the economy. On the other hand, a restricted policy may hamper the establishment and growth of industries. For example, the 1956 policy limited the scope for private enterprise. But the 1991 policy has considerably widened the role of private sector. Liberalisation has considerably expanded business opportunities but has the same time increased competition in industry.

2.3. INDUSTRIAL POLICY RESOLUTION :

Since independence industrial activity in India is carried on according to the industrial policy statements made by the Government from time to time.

2.3.1. Industrial Policy Resolution 1948

a). Objectives:

a) Establish a social order where Justice and equality of opportunities could be assured to all people.

b) Promote rapid rise in the standard of living of the people.

c) Accelerate production and

d) Provide more and more opportunities for employment.

The emphasis was to increase the wealth of the country through rapid industrialisation and thus raise national and percapita income.

b). Features:

1. It gave good-bye to the policy of laissez- faire.
2. The State should take the responsibilities of setting up some important industries in the interests of the public and the nation at large.
3. It divided the large scale industries into four broad categories. They are as follows:-

1. Reserved for State monopoly:

Schedule- A -Consisted of three industries -manufacture of arms & ammunition, atomic energy and ownership and management of railway transport.

2. Mixed Sector:

Schedule-B -Included coal, iron and steel, aircraft manufacturing, ship building, manufacture of telephone, telegraph and wireless apparatus (excluding radio sets and , mineral oils. The State was to have exclusive rights to the setting up of new undertakings in this category.

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3. Government control:

Schedule-C -Consisted of certain basic industries such as automobiles, electronic, engineering, heavy machinery, machine tools, chemicals, rubber manufacture, power, textiles, cement, sugar, air and sea transport etc. The government did not undertake the responsibility of developing these industries but considered them of such importance that their regulation and direction was necessary.

4. Private Enterprise:

Schedule-D- The rest of the industries not covered by 1st, 2nd and 3rd categories were included under the 4th category. This was opened to private enterprise.

4. The resolution emphasized the predominant role of small industries for further and fuller use of local resources of the country.

5. The resolution wanted the Government to impose certain restrictions on the quantum of foreign capital flow into the country.

2.3.2. The Industrial Policy Resolution 1956

Just eight years later -on 30th April 1956 the Government revised the Industrial Policy resolution 1948 and announced Industrial policy of 1956.

Reasons for the revision:

1. Introduction of the Constitution of India.
2. Adoption of planned economy, and
3. Declaration by Parliament that India was going to have a Socialist pattern of society.

a). Objectives:

1. Accelerate the rate of economic growth and to speed up the industrialisation of the country.
2. Develop heavy and machine making industries.
3. Reduce disparities in income and wealth.
4. Expand public sector, and to build up a large and growing joint sector and
5. Prevent private monopolies and the concentration of economic power in a few hands

b). Features:

1. State's dominant role not only for production purposes but also for the improvement of standard of living and working conditions of the people.
2. The industries were classified into three categories like exclusive responsibility of the State -A; progressively state owned-B: and remaining industries i.e., private sector.
3. It encouraged the private sector in order to attain the objectives of the Second Five year Plan.

4. There was no strict rule for the separation of different industries into the different categories. Room for exception and overlapping of industries will be made.
5. Priority was given to the cottage and small scale industries through financial and technical assistance.
6. It aimed at the reduction of inequalities of income and health.
7. Steps would be taken to increase the availability of technical and managerial personnel.
8. Labour participation in management was given more importance.
9. Decentralisation of authority.

Further policy changes were made in 1973, 1977 and again in 1980.

2.3.3. Industrial Policy Statement, 1977:

The Janata Party Government announced a new industrial policy in December 1977. It was stated that the industrial policy of 1956 had resulted in certain distortion, e.g., unemployment, rural urban disparities, industrial sickness, etc. The main features of 1977 policy were:

(i) Focus on the development of small scale sector.
(ii) Classification of large scale sector into (a) basic industries, (b) capital goods industries, (c) high technology industries, and (d) other industries.
(iii) Control of large business houses.
(iv) Expansion of public sector.
(v) Majority ownership and control to be in Indian hands, except in Cage of

export-oriented and high technology areas.

2.3.4. Industrial Policy Resolution, 1980: This policy focussed on the following:

(i) Optimum utilisation of installed capacity.
(ii) Effective management of the public sector.
(iii) Economic federalism by integrating industrial development of large and small sectors.
(iv) Boosting the development of small scale industries by redefining them.
(v) Promotion of industries in rural and backward areas to remove regional imbalances.
(vi) Higher employment generation.
(vii) Promotion of export-oriented industries.
(viii) Consumer protection against high prices and poor quality.

2.3.5. Industrial Policy Resolution, 1990:

The National Front Government announced its industrial policy On May 30, 1990." The main objectives of this "policy were":

(i) employment generation;

(ii) industrial dispersal and decentralisation;
(iii) rural industrialisation;
(iv) promotion of small scale and agro-based industries; and (v) export promotion.

2.3.6. Industrial Policy Resoultion, 1991

The industrial policies of India before 1991 were characterised by reservation of industries for the State, dominance of public sector, restrictions on entry and growth of private enterprises, restriction on foreign capital and technology, etc. The Industrial Policy announced on July 24, 1991 reversed this tendency and introduced wide ranging econom1c reforms in India. The salient features of the new industrial policy are given below:

a). Objectives: The policy sought:

(i) to consolidate the strengths built up during the last four decades of economic planning and to build on the gains already made;
(ii) to correct the distortions or weaknesses that may have crept in the industrial structure as it has developed over the last four decades;
(iii) to maintain a sustained growth in the productivity and gainful employment;
(iv) to attain international competitiveness;
(v) to unshackle the economy from the cabwebs of unnecessary bureaucratic control;
(vi) to introduce liberalisation with a view to integrate the Indian economy with the world economy;
(vii) to remove restrictions on direct foreign investment as also to free the domestic entrepreneur from the restrictions of the MRTP Act; and
(viii) to shed the load of the public sector.

The pursuit of these objectives wiii be tempered by (a) the need to preserve the environment. and (b) the need to ensure the efficient use of available resources.

The new industrial policy brought about major changes in the following areas:

b). Industrial Licensing :

Industrial licensing has been abolished for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overrid1ng environmental reasons, and items of elitist consumption.

Areas where security and strategic concerns predominate will continue to be reserved for the public sector. Certain industries are reserved for small scale sector. However, their number is being gradually reduced..

In projects where imported capital goods are required, automatic clearance will be given in cases where foreign exchange availability is ensured through foreign equity; or if the

CIF value of imported capital goods required Is less than 25 per cent of the total value of plant and equipment. up to a maximum value of Rs. 2 crore.

In locations other than cities of more than 1 million population, there will be no requirement of obtaining industrial approvals from the Central Government except for industries subject to compulsory licensing. In respect of cities with population more than 1 million, industries other than those of a non-polluting nature such as electronics. computer software and printing will be located outside 25 km of the periphery, except in prior designated industrial areas.

Existing units will be provided a new broad banding facility to enable them to produce any article without additional investment.

The exemption from licensing will apply to all substantial expansion of existing units.

The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

Foreign Investment and Technology: In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, approval for direct foreign investment up to 51 per cent foreign equity in such industries will be provided.

To provide access to international markets, majority foreign equity holding up to 51 per cent would be allowed for trading companies primarily engaged in export activities.

With a view to injecting the desired level of technological dynamism in Indian industry, government would provide automatic approval for technology agreements related to high priority industries within specified parameters. No permission will be necessary for hiring of foreign technicians and foreign testing of indigenously developed technologies.

c). Public Sector:

The priority areas for growth of public enterprises in future will be the following:

(a) essential infrastructure goods and services;
(b) exploration and exploitation of oil and mineral resources;
(c) technology development and building of manufacturing capabilities in areas which are crucial in the long-term development of the economy and where private sector investment is inadequate;
(d) manufacture of products where strategic considerations predominate such as defence equipment.

The following measures will be adopted in respect of public enterprises:

(i) Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high tech and essential infrastructure. Whereas some reservation for the public sector is being retained, some areas would be opened up to the private sector

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selectively. Similarly, the public sector would also be allowed entry in areas not reserved for it.

(ii) Public enterprises which are chronically sick and which are unlikely to be turned around would be referred to the Board for Industrial and Financial Reconstruction (BIFR) for formulation of revival/rehabilitation schemes. A social security mechanism is to be created to protect the interest of workers likely to be affected by such rehabilitation packages.

(iii) In order to raise resources and encourage wider public participation, a part of the Government's shareholding in the public sector would be offered to mutu81 funds, financial institutions, the general public and workers;

(iv) Boards of public sector companies would be made mare professional and given greater powers.

(v) There would be a greater thrust on performance improvement and managements would be granted greater autonomy through Memorandum of Understanding (MOU) and would be held accountable.

d). MRTP Act:

Check your progress :
True / False :
1. Industry policy refers to government policy regarding the working and management of industries in the country.
Fill up the blanks :
2. Industry policy statement, 1977 was announced by .... govt.

With the growing complexity of industrial structure and the need for achieving economies of scale for ensuring higher productivity and competitive advantage in the international markets, the interference of the Government through the MRTP Act has to be restricted. Therefore, pre entry restrictions with regard to prior approval of the Central Government for establishing new undertakings, expanding existing undertakings, amalgamations, mergers, etc. will be removed. The thrust of the policy will be mare on controlling and regulating monopolistic, restrictive and unfair trade practices.

e). Critical Appraisal of 1991 Policy

The new industrial policy has unshackled the Indian economy from unnecessary bureaucratic control. It has introduced liberalisation which is helpful in integrating the Indian economy with the world economy: Some of the positive effects of the new policy are listed below:

(i) Delicensing of most of the industries will help entrepreneurs to quickly seize business opportunities.

(ii) Removal of controls under the MRTP Act will facilitate expansion and growth which is necessary for economies of scale and international competitiveness.

(iii) There will be greater inflow of foreign capital and technology due to easing .up of restrictions.

(iv) Burden on the public sector will be reduced.

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The 1991 policy has been criticised on the following grounds:

(a) The policy is a total departure from the Nehru's model of socialism.

(b) It will lead to domination or multinationals on the Indian economy.

(c) Trade unions oppose the policy due to the fear of unemployment, which may arise due to privatisation of public sector units and closure of sic]c units. Restructuring and modernisation of industries could le ad to displacement of labour. The policy does not make adequate provision for redeployment of labour.

(d) Monopolies and concentration of economic power in a few hands is likely to increase.

(e) There is absence of suitable policy guidelines for exports.

(f) Distortions in industrial pattern are occurring due to slow pace of investment in few basic and strategic industries such as engineering. power. machine tools. etc.

(g) There is need for strengthening linkages between new and old sectors.

(h) There is absence of incentives for raising efficiency and technological innovations. The policy is silent about tackling industrial sickness.

(i) The location policy is not well defined.

To sum up, there is need for reviewing of certain provisions of the Industrial Policy 1991 to make it more meaningful and effective. With suitable changes in the policy and its effective implementation, a strong push can be provided for economic growth in the years to come.

Comparison between industrial Policies

Pre-1991 Policy	1991 Policy
1. Industrial licensing was the role	1. Industrial licensing is an exception
2. Foreign investment permitted only in select Industries number of industries	2. Foreign investment permitted in a large
3. Foreign equity allowed upto 40 per cent	3. Foreign equity allowed upto 100 per cent
4. Entry and growth of large companies the MRTP Act	4. No such restrictions restricted under
5. Basic and heavy Industries reserved for public sector	5. Only two Industries reserved for the public sector
6. Large number of products reserved for small.	6. Number of products reserved. for small scale sector being reduced
7. Strict restrictions on Import of foreign foreign technology.	7. Minimum restrictions on the Import of technology

2.4. INDUSTRIAL LICENCING UNDER IDR ACT

The Industries (Development and Regulation) Act. 1951, empowers the Central Government to regulate the establishment and certain activities of the industrial undertakings by means of licensing.

The licensing provisions of the IDRA apply to industrial undertakings set up by any person or authority including the government.

2.4.1. Licence:

A licence is a written permission from the government to an industrial undertaking to manufacture specified articles included in the Schedule. If a new company has to be formed the industrial Licence is issued in the name of the applicant, and later when the company has been formed the necessary endorsement to that effect will be made in the Licence.

A licence contains particulars of the industrial undertaking, its location, the articles to be manufactured, its capacity on the basis of the maximum utilization of plant and machinery, and other appropriate conditions which are enforceable under the Act. It is also subject to a validity period within which the Licenced capacity should be established.

Applications for the licences should be made in the prescribed manner to the Secretariat for Industrial Approvals (SIA) (Central Receipt and Dispatch Section) Ministry of Industrial Development, New Delhi.

If an application for licence is approved and further clearances (such as foreign collaboration and capital goods import) are not involved and no other prior conditions have to be fulfilled, an industrial is issued to the applicant. In other cases, a letter of intent is issued, which will later be converted into a licence on fulfilling the conditions stipulated in the letter of intent.

2.4.2. Letter of Intent:

A letter of intent conveys the intention of the government to grant a licence subject to the fulfillment of certain conditions. The conditions to be fulfilled relate to the approval of foreign investment proposal, import of capital goods, application to be made to the financial institutions, taking of steps to control pollution etc., A letter of intent enables the applicant to finalise and formulate the proposals on matters relating to the terms of foreign collaboration import of capital equipment and/or issue of capital with the assurance that if the proposals are otherwise found satisfactory an industrial will be issued.

The initial validity of a letter of intent is one year. In case where only one further clearance is necessary an extension of six months to the initial validity period may be considered. If both foreign collaboration and capital goods clearances are involved two extensions of six months may be considered. On fulfillment of the prescribed conditions, the holder of the letter of intent is required to approach the concerned administrative Ministry for getting the LI converted into industrial Licence.

The MRTP companies had to apply for clearance from the Department of Company Affairs, along with the application for industrial Licence. However, recently certain exemptions have been granted in this respect. "

2.4.3.Objectives of Licensing:

Licensing is a means to help achieve some of the objectives of the industrial policy. An examination of the type of regulations exercised by licensing under the Industries (Development and Regulation) Act indicates that the objectives of industrial licensing in India are the following:

(i) To achieve a desirable pattern of industrial dispersal, particularly by promoting industries in the backward areas.
(ii) To encourage new entrepreneurs and wide dispersal of industrial ownership.
(iii) To prevent concentration of economic power to the common detriment.
(iv) To protect and promote the small- scale sector.
(v) To regulate foreign capital and technology.
(vi) To ensure the use of proper technology and scale economies.
(vii) To ensure control of industrial pollution.
(viii) To maintain/achieve demand -supply balance,
(ix) To encourage exports and import substitution.

2.4.4. Scope of Licensing:

Under the IDRA, licence is required for the following purpose.

(i) Establishment of a new undertaking:

No person or authority other than the Central Government is permitted to establish any new industrial undertaking, except under and in accordance with a licence issued by the Central Government. However, a government other than the Central Government, with the previous permission of the Central Government, may establish a new industrial undertaking.

A licence or permission to establish a new undertaking may contain such conditions including, in particular, conditions as to the location of the undertaking, the minimum standards of size to be provided therein as the Central Government may deem fit to impose in accordance with the rules in this respect.

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(ii) Manufacture of new item:

Licence is required for production or manufacture of a "new article" in an existing industrial undertaking. New article means any item of manufacture in a scheduled industry other than those specified in the registration certificate or Licence issued to the undertaking. It also includes any article which bears a mark as defined in the Trade Marks Act, 1940 or which is the subject of a patent if, at the date of registration or issue of the Licence or permission, as the case may be, the industrial undertaking was not manufacturing or producing such article bearing that mark or which is the subject of that patent.

(iii) Substantial expansion of capacity:

Licence is required for substantial expansion of the capacity of an industrial undertaking in an existing line of manufacture. Substantial expansion means the expansion of an existing industrial undertaking which substantially increases the productive capacity of the undertaking or which is of such a nature as to amount virtually to a new industrial undertaking, but does not include any such expansion as is normal to the undertaking having regard to its nature and the circumstances relating to such expansion.

(iv) Continuation of business in certain cases:

An industrial undertaking to which the licensing provision of the IDRA did not originally apply but became applicable thereafter for any reason (like cancellation of an exemption granted under the Act) I should obtain a Licence to carryon the business of the undertaking after the expiry of three months from the date on which the provision of the Act became so applicable. Such a Licence is known as COB (carryon business) Licence.

(v) Change of location:

As stated earlier, the location of an industrial undertaking is specified in the Licence. A change of the location so specified cannot be made without the general or specific permission of the Central Government.

However, no prior permission of the Central Government is needed to shift a part or the whole of the manufacturing activity of an undertaking from a forward area to a backward area within the same State provided that prior permission of the State Government concerned is obtained by the industrial undertaking. However, the industrial undertaking is required to inform the administrative ministry, technical authority concerned and the SIA about the change of location. The same rules are also applicable in respect such changes of location from one notified backward area to another notified backward area within the same State.

2.4.5. Considerations Governing Grant of Industrial applications:

In taking decisions on industrial applications, the following principal considerations are kept in mind:

(i) The policy framework contained in the Industrial Policy Resolutions.

(ii) The detailed consideration set out in the Government's Statement on Licensing Policy.

(iii) The priorities and production targets of current Five Year and Annual Plans,

(iv) Techno-economic considerations relevant to a particular industry; and

(v) Techno -economic features of the project proposal.

The following are the important feature with reference to which industrial applications are examined:

(i) The priority of the industry as outlined in the plans.

(ii) Whether the proposed investment conforms to the policies outlined in the Licensing Policy Statement.

(iii) The planned or projected demand, including export demand for the proposed items of manufacture and the scope for further licensing in the light of capacity already Licenced and likely to materialise.

(iv) The net effect on balance of payments, having regard to export possibilities, import savings and the outgo on the import of capital goods, raw materials and components, and on payments for the import of technology.

(v) Locational aspects in the light of regional demand, and whether the project will be, or is capable of being, set up in backward areas.

(vi) The extent to which and the speed with which continued dependence on imports is sought to be reduced through a phased programme for progressive indigenous manufacture of components and raw materials.

(vii) The extent to which the proposal is postulated on the utilisation of indigenous know-how, design and consultancy services and research and development.

(viii) The direct and indirect employment potential.

(ix) Whether components are proposed to be subcontracted to small scale and ancillary units to the extent that is appropriate and feasible.

(x) Whether the proposed capacity is of economic size.

(xi) Whether the process proposed to be adopted are efficient from a technoeconomic point of view.

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(xii) The extent to which diversification and expansion proposals will result in a fuller utilization of capacity and economies of scale.

(xiii) Whether adequate attention has been paid to the preparation of the proposals for the market; the availability of raw materials; the utilization of by-products; the availability of water, power, transport and fuel; the arrangements to ensure the safe disposal of effluents and gases into air, water and soil, and other relevant factors.

(xiv) The competence of the entrepreneur an evidenced by the preparatory work done, his technical qualifications, etc. and his record in implementing other Licences which might have been issued to him.

(xv) Whether commercial production is proposed to be achieved in a realistic time-period.

Registration:

The undertakings which are exempted from licensing are expected to register themselves with the Director-General of Technical Development.

If the undertakings which are exempted from licensing require foreign collaboration approvals and capital goods clearance, they may apply for the same according to the prescribed procedure for such approvals to the Secretarist for Industrial Approvals. The necessary clearances will have to be obtained before registration is accorded.

2.5. PRIVATISATION

2.5.1. Meaning

Privatisation is a process whereby the activities or operations of, the enterprise once performed or operated by the government are taken over and performed by private business or individuals in order to achieve better results in terms of cost reduction and higher quality of service. In short, privatisation is a process whereby the control and sometimes ownership also change from the government to private business or individuals. Better results are tried to be achieved on account of competition in the market.

2.5.2. Methods of Privatisation

There are four methods of Privatisation:-

1. Sale to outsiders
2. Management -Employee buyout
3. Equal- access voucher Privatisation
4. Spontaneous Privatisation

These methods are briefly described below:-

1. Sale to outsiders

Under this method, government enterprises are sold one after another to outsiders. This popular method is followed in the UK and Chile. This method brings revenue to the government and the enterprise is entrusted to those who possess the skills to run the enterprise efficiently. Experience has proved that there is improvement in the performance of the enterprise under this method.

The weaknesses of this method are:

It is costly, slow and very difficult to implement. Adequate domestic capital may not come forth immediately. Difficulties in evaluation and negotiation are very often faced.

2. Management -Employee buy out

This method is widely used in Croatia, Poland, Romania and Slovenia. From the political and technical point of view, it is easy and fast to implement.

This is because the insiders, i.e., the employees know more about the enterprise than the outsiders.

The disadvantages are:-

The government will not be able to bargain much with the employees and in most of the cases, the government will get poor revenue.

In the case of profitable enterprises, the employees get valuable assets whereas in the loss making enterprises, the employees do not get anything valuable.

The chances for reform are almost nil as the insiders rarely bring in new skills.

3. Equal access voucher privatisation

Mangolia, Lithuania and (previously) Czechoslovakia follow this method. Under this method, vouchers are distributed across the population and the assets are distributed as evenly as possible among the voucher holders. This method ensures speedy action and fair distribution. But most of the voucher holders may not possess managerial skills. Government gets little revenue under this method.

4. Spontaneous privatisation

Czechoslovakia, Hungary and Poland follow this meth9d. Russia adopted this method to divest most of the small firms. This method is easy and free from obstacles. But it generates little revenue to the government. Corporate governance is the worst casualty.

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2.5.3. Arguments Against Privatisation

1. Privatisation is no remedy for sick units:

Public sector enterprises which are terribly sick, cannot be expected to achieve anything simply by Privatisation. Rarely the profit making public enterprises are privatized. The losing public enterprises are so because they are badly managed. Some public enterprises are born with serious defects (like bad location). Some of the present sick public sector enterprises were the erstwhile sick private sector units. (for example, the National Textile Corporation) Under the circumstances, it is wrong to expect Privatisation to act like a magic wand to cure public sector sickness.

2. Favourable macro economic conditions are a must:

Favorable macro economic conditions are a must if Privatisation is to be successful. Macro economic reforms should precede Privatisation. For instance a well-defined legal framework is a must. The market must encourage competition and efficiency. But if the Government continues to interfere in the form of policy directives Privatisation will not succeed.

3. Poorly planned privatisation:

Poorly planned Privatisation will result in more harm than good. In the Soviet Union, strong state monopolies were privatized without regulating the prices and it led to the slow down of Privatisation.

4. Privatisation for revenue and not for more efficiency:

If Privatisation is for revenue and not for more efficiency, there is no real benefit. Many Privatisation measures aim at simply increasing the short term revenues for the government and they rarely aim at improving the competitive environment.

Check your progress :
Fill up the blanks :
3. Industrial licensing was abolished in the industrial policy of ....
True or False :
4. Foreign Direct Investment in equity was allowed upto 51% in the 1991 industrial policy.
5. Privitisation refers to denationalsation.

5. Privatisation results in concentration of assets:

There is a different form of concentration of assets in a few hands. In some cases, the equities have simply changed hands that too within the government -from the government to mutual funds, nationalized banks and other financial institutions

6. Labourers are against Privatisation:

When the labourers are against privatisation, (fore example Neiveli Lignite Corporation) privatisation will be of no use.

7. Transparency in transactions:

Transparency in transactions is a must to make privatisation a success. The opposition always has distrust against the ruling party and the secret deals behind the scenes were sometimes unearthed. Janakiraman Committee pointed out many irregularities in disinvestments of PSU's. There must be political consensus to avoid conflicts.

8. Sheer size of public sector:

The sheer size of the public sector units with vast investment and very large number of labourers is posing a challenge to privatisation. Who has the money and will power to manage such gigantic enterprises?

9. Absence of a well-developed capital market:

The success of privatisation depends upon the existence of a well developed capital market to absorb new securities and provide financial services and expertise! But Indian capital market is yet to reach perfection.

Rangarajan Committee on Privatisation, 1993

A Committee was appointed by the government under the Chairmanship of Mr.C.Rangarajan to recommend new measures to make privatisation effective. The Committee (submitted its report in 1993) made the following recommendations:

1. Units that are to be disinvested should be identified.
2. Government must continue to hold majority shares in areas like defence and atomic energy and in other areas, disinvestments may be up to any level.
3. Disinvestments should be in stages and the sales must be staggered to get the best prices.
4. Workers' interests should be protected and they may be allowed to buy shares.
5. Disinvestment should be transparent.
6. An autonomous body must be set up to monitor disinvestments.

Disinvestment Commission

A five member Disinvestment Commission was appointed on August 7, 1996 with the following tasks.

1. preparation of on term disinvestment programmes.
2. to fix the quantum of disinvestment in each Public sector enterprise.
3. to determine the nature of instrument, price and the time for action
4. to exercise overall supervision over the sales programme.
5. to closely monitor the disinvestment process

2.6.KEY TERMS :

Industrial policy : Policy concerning industrialisation of the country. It covers principle & procedure and regulations which controls the industries.

Industrial licensing : Permission granted by the govt. to run an industry.

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Public sector : Undertakings owned and controlled directly or indirectly by the govt.

MRTP Act : Act enacted to control the monopoly and restricted trade practices.

Foreign trade policy : Policy concerned with exports and imports.

2.6. SUMMARY :

Industrial policy is concerned with the industrialisation of the country. The role of publics sector, private sector, small scale industries large scale industries, foreign investment policy are all specified in the industrial policies. Industrial policies were framed in 1948, 1956, 1973, 1977, 1980, 1990 and in 1991 in India. The recent industrial policy of 1991 was entirely different from other policies. In this policy the govt. began to adopt the slogan of liberalisation globalisation and privitisation. The licensing practices were abolished.

2.7. ANSWER TO CHECK YOUR PROGRESS :

1. True 2. Janata 3. 1991. 4. True 5. True

2.8. QUESTIONS/EXERCISES :

Sec - A

1. State the importance of industrial policies.
2. What are the objectives of industrial policy of 1956.
3. Describe the scope of IDR Act 1951.

Sec - B

4. Evaluate the New Economic Policy, 1991.
5. Define privitisation discuss the case for and against privitisation.
6. What is meant by privatisation? Point out the merits and demerits of the various routes to privatisation.
7. What are the arguments against privatisation?

2.9. FURTHER READING :

Business environment by C.B. Gupta, Sultan Chand & Sons.

UNIT 3 INDUSTRIAL SICKNESS

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Structure

3.0 INTRODUCTION :

All industries established cannot be expected to get success. Some units are likely to fail. In India industrial sickness is wide spread and it is growing both in traditional industries like textile, jute etc and modern industries like, engineering chemical have been affected with sickness. In this unit an attempt is made to identify sick units, analyse the causes for sickness and the remedies available to them are discured.

3.1. UNIT OBJECTIVES :

- Identity the symptom of sickness.
- Explain the causes of sickness.
- Appreciate the consequences of sickness.
- Find the measure to revive the sick units.
- Know the machinery available for sickness.

3.2. DEFINITION OF A SICK UNIT

According to the Reserve Bank of India, "an industrial unit is regarded as sick if it has incurred cash loss for one year and in the judgement of the bank it is likely to continue to incur cash loss in the following years and it has imbalance in its financial structure such as current ratio being less than 1: 1 and worsening debt equity ratio." The Sick Industrial Companies (Special Provisions) Act 1985, defines a sick industrial company as an industrial company (being company registered for not less than seven years) which has at the end of

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any financial year accumulated losses equal to or exceeding its entire network and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year. As observed by V.N.Nadkarni, "To a layman, a sick unit is one which is not healthy. To an industrialist, it is a unit which is making losses and tottering on the brink of closure. To a banker, it is a unit which has incurred cash losses in the current Year."

3.3. SYMPTOMS OR SIGNALS OF INDUSTRIAL-SICKNESS

The following symptoms indicate that an industrial unit is sick or going to be sick:

(i) Continuous irregularity in loan repayments.

(ii) Low capacity utilisation.

(iii) Shortage of working capital to meet current liabilities.

(iv) Continuous decline in sales and profits.

(v) 'Failure to pay statutory liabilities.

(vi) Large and longer outstanding in the bills.

(vii) Non-submission of data to banks and financial institutions.

(viii) Rapid turnover of key personnel.

(ix) Frequent breakdown of plant and machinery.

(x) Rapid expansion and too much diversification within a short period.

(xi) Diversion of funds for non-business use.

(xii) Existence of a large number of law suits against the firm.

(xiii) Financing capital expenditure out of working capital funds.

(xiv) High rate of rejection of the firm's products.

(xv) Reduction in credit summations.

Magnitude of Industrial Sickness

Industrial sickness in India is growing at an annual rate of about 28 per cent and 13 per cent respectively in terms of the number of units and outstanding amount of bank credit. It is reckoned that as of today, there are more than 2.5lakh sick units with an outstanding bank credit of over Rs. 25,500 crores. Nearly 29,000 units are added to the sick list every year, i.e., about 90 units fall sick every working day. Almost every third or fourth small scale unit and every tenth unit in the medium and large sector is sick or dying. About 99 per cent of sick units are in the small scale sector.

3.4. WEAK UNITS

An industrial unit is considered as sick if its accumulated losses are equal to or more than its total networth. If sickness is detected in the early stages, it is possible to take remedial measures. The Reserve Bank of India has instructed commercial banks to take remedial measures in respect of units which face 50 percent erosion of their net worth. Such units

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are called weak units as distinct from sick units. An industrial unit is considered to De weak if:

1. The accumulated losses are equal to or more than 50 percent of its peak networth in the immediately preceding 5 accounting years.
2. Current -equity debt ratio is less than 1 : 1
3. There is cash loss in the immediately preceding accounting year.

3.5. CAUSES OF SICKNESS

Sickness is due to many reasons. As pointed out by V.N.Nadkarni, "some industries are born sick, some achieve sickness and some have sickness thrust upon them".

3.5.1. Born sick

Several industrial units are closed within a short period. They were born to die, having very little chances to survive from their very birth. Born sick units are due to the following reasons.

1. Inexperienced Promoters

Inexperienced promoters, selection of the wrong or unsuitable project, poor project planning, mushroom growth of consultancy firms & hasty implementation of self employment schemes etc., are responsible for the birth of born sick units.

2. Bad Financial Management

Under capitalisation and over capitalization are reflections of bad financial management. Consequently, paucity of funds, heavy investments in non productive areas, inadequate provision for contingencies, wrong estimates of fund flow and cash flow are experienced.

3. Delays & Cost Escalation

Delays in commissioning the project on time, delays in getting the machinery and its installation, delays in getting materials and other equipments in the initial stages lead to cost escalations ultimately resulting in capital shortage, liquidity crisis and high cost of production.

4. Wrong Location

Sometimes high tech projects are started in areas where there is no skilled labour or areas with no infra structure. Lack of well developed transport system, poor communication facilities, frequent power cuts etc., add to the problem, if the project is located at the wrong place.

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5. Technological Factors

The selection of outdated technology, wrong collaboration, substandard machinery, poor quality of raw materials etc., add to the problem and cause sickness

6. Wrong Estimates Of Demand

Sometimes the wrong estimate of market demand, changes in fashion, consumer tastes and competition are the direct causes for the birth of sick units.

3.5.2. Achieved Sickness

1. Bad Management

Tiwari Committee, 1984, pointed out that "the factor most often responsible for industrial sickness can be identified as management. This may take the form of poor production management, poor labour management, poor resources management, lack of professionalism, dissensions within the management, or even dishonest management" As pointed out by the Committee, 65% of the large sick units were affected due to their bad management.

2. Unwarranted Expansion

Unwarranted expansion without any consideration to the limitations of financial resources and managerial capability lead to sickness. Sometimes sick units are hastily bought without proper assessment of their viability. Lavish expenses also contribute to sickness.

3. Poor Inventory Management

Poor inventory management in respect of inputs as well as finished goods is an important cause of sickness.

4. No Modernisation

No modernisation, no change in the product mix, lack of productive apparatus are also reasons for sickness. —

5. Bad Industrial Relations

Bad labour management relations have their bearing on productivity and morale. Frequent strikes and lock outs ruin the industrial unit.

3.5.3. Thrust Upon Sickness

1. Energy Crisis

Power cut, coal and oil shortage have affected many industrial units.

2. Failure To Achieve Optimum Capacity

The failure to achieve optimum capacity due to raw materials shortage, production setbacks in industries which supply inputs, the decline in agricultural production, (sugar industry) and changes in import policy create sickness.

3. Infrastructural Problems

The absence of well developed transport and communication system causes sickness.

4. Short Angle Of Working Capital

Tiwari Committee pointed out that 24 percent of the sick units were affected due to shortage of working capital. Credit squeeze has a direct bearing OR industries.

5. Artificial Constraints

Artificial constraints such as Government controls, price regulations, and Labour attitude cause sickness.

3.6. CONSEQUENCES OF INDUSTRIAL SICKNESS

Industrial sickness leads to several harmful effects some of which are given below:

(i) Financial Loss : Banks and financial institutions suffer huge loss when the borrowing firms become sick. The amounts of outstanding bank credit to sick units has reached a staggering figure of Rs. 34.815 crore. When these large funds are locked up lending capacity of banks and financial institutions is affected. Recovery of overdue takes an unduly long time period and in many cases only a small percentage of overdue money is recovered.

(ii) Loss of Employment : Closure of sick and nonviable industrial units causes widespread unemployment in the country. Loss of jobs to millions causes tension and other social problems.

(iii) Industrial Unrest : Sick industrial units fail to pay their staff in time. As a result strikes and other forms of industrial unrest occur. Industrial peace is threatened and there is setback to production in industry.

(iv) Harm to Investment : Industrial sickness causes a great loss to entrepreneurs and investors. The value of investment declines considerably. Prospective investors and entrepreneurs are discouraged and get frustrated. Industrial climate becomes non-conductive tc industrial development.

(v) Wastage of Scarce Resources : In an underdevelopment country like India, capital is already scarce. Substantial investment in sick units causes a great national loss. Decline in production and blocking up of valuable capital lead to wastage of scarce resources.

(vi) Loss of Public Revenue : Government gets a sizeable proportion of its revenue by way of taxes and duties levied on industrial units. When a large number of industrial units become sick the scope for tax revenue to the Government is substantially reduced. The shortage of tax revenue ultimately affects various programmes of social and economic development in the country.

(vii) Lack of Competitiveness: Sickness makes the industry a high cost one which reduces the competitiveness of Indian industry in the international markets.

According to the Planning Commission, "the phenomenon of industrial sickness not only tends to aggravate the problem of unemployment, but also renders infractuous capital investment and generally creates an adverse climate for further industrial growth. While in advanced countries where there are adequate social security benefits, this is accepted as a normal feature of industrial scene, such sickness has much more serious economic consequences in a country where unemployment is a major problem and resources are scarce. Loss of employment and production in an economy suffering from chronic employment and shortages in a very serious matter".

3.7. SICKINSUSTRIESCOMPANIESACT, 1985

Check your progress:
Fullup the blanks:
1. Units which has increased cash loss in the proceedings accounting year and whose current ratio is below is called .... unit.
2. Unit whose accumulated losses is equal to or more than net worth is called .... unit.
3. Wrong location of industrial unit is .... cause of sickness.

The Sick Industries Companies Act (SICA) was enacted by the Central Government in 1985 to deal with industrial sickness. This Act is to give effect to the policy of the Government towards securing the principles stated in clauses (b) and (c) of Article 39 of the Constitution.

The Act extends to whole of India and applies to all the scheduled industries. The Act applies to registered companies, small scale and ancillary sick units. The Act is not applicable to Government companies and other companies specifically exempted under the Act.

3.8. BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION (BIFR)

The Act provides for the establishment of a Board for Industrial and Financial Reconstruction to exercise the powers and discharge the duties which may be conferred under the Act. For the purpose of hearing appeals against the orders of BIFR, the Central Government is empowered to constitute an Appellate Authority, with a Chairman and 3 members. The BIFR was established in January 1987 and started its operations from May 15, 1987.

The BIFR has wide powers in respect of renabilitation packages, including restructuring and revival of sick units. In cases of confirmed sickness BIFR has the power to decide the course of action to be followed:

BIFR may take up the following action:-

1. The company may be allowed to make its networth positive within a time limit.

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2. A scheme may be prepared by the operating agency and sanctioned by BIFR with a time schedule with provisions for financial assistance, merger, sale, lease, suspension of agreements etc., The BIFR's decision is binding on all the parties.

3. A decision to wind up the company may be taken. The Board of Directors of a sick company should report the sickness to the BIFR. The SIFR has the power to enquire and determine whether a company is sick or not. As per the Act, if 50 percent of networth of the company is eroded, the Board of Directors must get fresh mandate from its shareholders. The BIFR is empowered to appoint a Special Director for the sick company in case there is mismanagement. It can also debar the company management from getting credit from the organised sector.

3.9. KEY TERMS :

Sick industry : Units whose accumulated losses are equal to or more than its total networth.

Weak unit : Unit whose current ratio is below which has cash loss with preceding accounting year.

BIFR : Board for industrial and financies reconstruction – its main function is to revive sick units.

3.10. SUMMARY :

All the industrial units established are not getting success and few unit are likely to fail. The causes for sickness may start at the inception stage of a business or during the course of the business. In some cases sickness are thrust upon the industry by extreme forces which are uncontrollable. Govt. has enacted law and established a board for revival and reconstruction of sick units.

3.11. ANSWERS TO CHECK YOUR PROGRESS :

1. Weak 2. Sick 3. Internal.

3.12. QUESTIONS / EXERCISE :

Sec - A

1. Define a sick unit differentiate sick units from weak unit.

Sec - B

1. What are the causes for the industrial sickness.
2. Discuss the role of BIFR in reviving sick units.

3.13. FURTHER READING :

1. Business environment by Francis Chernulim.
2. Indian Economy by K.P.M.Sundaram & others

UNIT 4 SEBI – SECURITY EXCHANGE BOARD OF INDIA

Structure

4.0. INTRODUCTION :

Growing stock exchange operations and with ever expanding population of investors, several malpractices were developed on the part of the companies, brokers, merchant bankers, investment consultants and others involved in the primary (new issues) and secondary (stock exchange) markets. These malpractices erode the confidence of investors and hinder the development of capital market. Hence the govt has constituted SEBI to protect the interest of the investors. In this units the functions and guidelines of SEBI is discussed. Govt has enacted the consumer protection act to safeguard the interest of the consumer which are also discussed in this unit.

4.1. UNIT OBJECTIVES :

- Identity the objectives of SEBI.
- Appreciate the functions of SEBI
- Appreciate the role of SEBI in protecting the interest of investors.
- Perceive the rights of consumes.
- Explain the role of consumer redressal authorities.

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4.2 SEBI - AN OVERVIEW:

The Securities and Exchange Board of India (SEBI), was created in 1988 and clothed with statutory powers in 1992 SEBI has been entrusted with the responsibility of dealing with various matters relating to the capital market.

4.3. FUNCTIONS OF SEBI

1. Ensure better disclosure norms
2. Introduce free pricing of public issues.
3. Establish the norms for issue of stock invests.
4. Stop misuse of promoters quota.
5. Frame rules and norms for various market participants (lead managers, underwriters, bankers, portfolio managers, and so on)
6. Set up advisory panels for primary and secondary markets
7. Launch investor education campaigns.
8. Inspect the affairs of stock exchanges.
9. Register brokers.
10. Levy fee on brokers.
11. Develop norms for insider trading.
12. Ban kerb trading.
13. Regulate mutual funds.
14. Frame entry rules for foreign institutional investors.
15. Protect debenture holders.
16. Develop a code for mergers and takeovers.

4.4. SEBI GUIDELINES ON CAPITAL ISSUES

The following is the text of the guidelines issued by Securities and Exchange Board of India for capital issues.

4.4.1. A. First Issue of New companies:

A new company will be defined as one which has not completed 12 months of commercial operations and its audited operative results are not available, and where it is set up by entrepreneurs without a track record. They will be permitted to issue capital to public only at par.

Where a new company is being set up by existing companies with a five years track record of consistent profitability, it will be free to price its issue provided the participation of the promoting companies is not less than 50% of the equity of the new company and the issue price is made applicable to all new investors uniformly, provided that the prospectus or offer documents shall contain justification for issue price.

A draft prospectus containing the disclosures will be vested by SEBI before a public issue is made.

No private placement of the promoters share shall be made by solicitation of share contribution from unrelated investors through any kind of market intermediaries. The shares of the above companies can be listed on either the Over the Counter Exchange of India or any other stock exchange.

4.4.2. First Issue by Existing Private/closely held Companies:

Such companies with a three year track record of consistent profitability shall be permitted to freely price the issue and list their securities on the stock exchanges.

Not less than 20% of the equity should be offered.

The draft prospectus will be vested by SEBI to ensure adequacy of disclosures.

The pricing would be determined by the issuer and the lead managers to the issue and would be subject to specific disclosure requirements including:

a) Disclosure of the net asset value of the company as per the last audied balance sheet.

b) Justification for the issue price.

4.4.3. Public Issue by Existing Listed Companies:

a) These companies will be allowed to raise fresh capital by freely pricing their further Issues.

b) Pricing: The issue price will be determined by the issuer in consultation with the lead manager(s) to the issue.

c) Disclosures (i) the draft prospectus will be vested by SEBI to ensure adequacy of disclosures.

ii) The prospectus or offer documents shall contain the net asset value of the company and justification for the price of the issue.

iii) High and low price of the last share for the 2 years.

4.4.4. Underwriting:

a) Underwriting is mandatory for the full issue and minimum requirement of 90% subscription is also mandatory for each issue of capital to public. Number of underwriters would be decided by the issuers.

b) If the company does not receive 90% of issued amount from public subscription plus accepted amount from underwriters, within 120 days from the date of opening of the issue the company shall refund the amount of subscription. In case of dispute the company should refund the subscription if the above conditions are not met.

c) The lead managers must satisfy themselves about the net worth of the underwriters and the outstanding commitments and disclose the same to SEBI

d) The underwriting agreements may be filed with the stock exchanges.

4.4.5. Fully Convertible Debentures / Partially Convertible Debentures / Non-Convertible

Debentures:

a) Issue of FCDs having a conversion period of more than 36 months will not be permissible, unless conversion is made optional with "put" and "call" option.

b) Compulsory credit rating will be required if conversion is made of FCDs after 18 months.

c) Premium amount on conversion, time of conversion, in stages, if any, shall be pre-determined and stated in the prospectus. The interest rate for above debentures will be freely determinable by the issuers.

d) Issues of debentures with maturity of 18 months or less are exempt from the requirement of appointment of debenture trustee or creating a Debenture Redemption Reserve (DRR). In other cases, the names of the debenture trustees must be stated in the prospectus and DRR will be created in accordance with section (N. I). The trust deed shall be executed within six months of the closure of the issue.

e) Any conversion in part or whole of the debenture will be optional at the hands of the debenture holder, if the conversion takes place at or after 18 months from the date of allotment, but before 36 months.

f) In case of NCDs/PCDs credit rating is compulsory where maturity exceeds 18months.

g) Premium amount at the time of conversion for the PCD shall be pre-determined and stated in the prospectus. Redemption amount, period of maturity, yield on redemption for the PCDs/NCDs shall be indicated in the prospectus.

h) The discount on the non-convertible portion of the PCD in case they are traded and procedure for their purchase on spot trading basis must be disclosed in the prospectus.

i) In case, the non-convertible portions of FCD/NCD are to be rolled over with or without change in the interest rate, a compulsory option should be given to these debenture holders who want to withdraw and encash from the debenture programme Roll over shall be given in cases where debenture holders have sent their positive consent and not on the basis of the non-receipt of their negative reply.

j) Before rollover of any NCDs or non-convertible portion or the PCDs, fresh credit rating shall be obtained within a period of six months prior to the due date of redemption and communicated to debenture holders before rollover and fresh trust deed shall be made.

k) Letter of information regarding rollover shall be vested by SEBI with regard to the credit rating, debenture holder resolution, option for conversion and such other items which SEBI may prescribe from time to time.

l) The disclosures relating to raising of debentures will contain, amongst other things the existing and future equity and long term debt ratio, servicing behaviour on existing debentures, payment of due interest on due dates on term loans and debentures, certificate from a financial institution or bankers about their no objection for a second or pari passu charge being created in favour of the proposed debenture issues. .

m) SEBI may prescribe additional disclosure requirement from time to time after due notice.

4.4.6. New Financial Instruments:

Issues of capital shall make adequate disclosures regarding the terms and conditions, redemption, security, conversion and any other relevant features of the instruments such a Deep Discount Bond, Debentures with warrants, Secured Premium Notes, etc. so that an investor can make reasonable determination of the risks, returns, safety, and liquidity of the instruments. The disclosures shall be vested by SEBI in this regard.

4.4.7. Reservation in Issue

a) Unreserved offer of equity or instruments convertible into equity shall not be less than the minimum required for listing purposes in case of new issues made either by the new company or by the existing closely held private companies going public.

b) In case of issues of capital by new companies, reservations for employees of new companies, promoting companies, associate companies, working directors on a suitable percentage is permissible.

c) Shareholders of group companies in case of existing companies can be offered capital on a preferential basis.

d) Shareholders of promoter companies shall also be eligible for preferential allotment.

e) Reservations for NRIs shall be according to the schemes prescribed by RBI from time to time.

4.4.8. Deployment of Issue proceeds:

a) In case of issues, where on application and on allotment an amount together exceeding Rs.250 crore is raised, the issue will voluntarily disclose and make arrangements for the use of proceeds of the issue as per disclosure to be monitored by one of the financial institutions. A copy of their monitoring report shall be filed with SEBI by the institutions and by the company for purposes of record.

b) In issue of the above size and beyond, the amount to be called up on applications/ allotment and on various calls should not exceed 25% of the total quantum of issue.

4.4.9. Employee Stock Option Scheme:

This is a voluntary scheme on the part of the company to encourage employees to have a higher participation in the company. Suit2ble percentage of reservation can be made by the issuer for the employees of his company or the promoter's company as the need may arise. Reservation should not be more than 5%. Equitable distribution of shares among the employees will contribute to the smooth working of the scheme. The issuer may like to have non-transferability at his discretion in new issues. Employees' participation up to 5% (maximum 200 shares) shall be non-transferable for a period of three years.

4.4.11. Promoter's Contribution and Lock-in Period:

a) Equity capital to be subscribed in any issue to the public by the promoter i.e. those described in the prospectus as promoters, directors, friends, relatives and associates should not be less than 25%of the total issue of equity capital up to Rs.100 crore and 20% for the issues above Rs.100 crore. In the case of FCDs, one-third of issue amount should be contributed by promoters, directors, friends relatives and associates by way of equity before issue is made. In the case of PCDs one third of the convertible portion should be brought in as contribution by promoters, directors, friends, relatives and associates before issue is made. Minimum subscription by each of the friends/relatives and associate under promoter's quota should not be less than Rs.1 lakh.

b) The promoters contribution shall not be diluted for a lock in period of five years from the date of commencement of the production or date of allotment whichever is later. Promoters must bring in their full subscription to issues in advance before public Issue.

c) All firm allotments, preferential allotments to collaborators, share holders of promoter companies whether corporate or individual shall not be transferable for three years from the date of the commencement of production or date of allotment which is later.

d) The share certificate issued to promoters, friends, relatives and associates etc, should carry the inscription, "not transferable" for a period of three or five years as may be applicable from the date of commencement of production or date of allotment whichever is later.

4.4.10. Bonus Shares:

Subject to the provision to Sec.J(a) above, the company shall while issuing Bonus Shares, ensure the following:

a) The bonus issue is made out of free reserves built out of the genuine profits or share premium collected in cash only.

b) Reserves created by revaluation of fixed assets are not capitalised.

c) The Development Rebate Reserve or the Investment Allowance Reserve is considered as free reserve for the purpose of calculation of residual reserves test only.

d) All contingent liabilities disclosed in the Audited Accounts which have bearing on the net profits, shall be taken into account in the calculation of the residual reserves.

e) The residual reserves after the proposed capitalisation shall be at least 40% of the increased paid-up capital.

f) 30% of the average profits before tax of the company for the previous three years should yield a rate of dividend on the expanded capital base of the company at 10%.

g) The capital reserves appearing in the balance sheet of the company as a result of revaluation of assets or without accrual of cash resources are neither capitalised nor taken into account in the computation of the residual reserves of 40% for the purpose of bonus issues.

h) The declaration of bonus issue, in lieu of dividend, is not made.

i) The bonus issue is not made unless the partly-paid shares, if any existing, are made fully paid-up.

j) The company (1) has not defaulted on payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption thereof and (2) has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity, bonus, etc.

k) A company which announces its bonus issue after the approval of the Board of Directors must implement the proposals within a period of six months from the date of such approval and shall not have the option of changing the decision.

l) There should be a provision in the Articles of Association of the company for capitalisation or reserves, etc. and, if not, the company shall pass a resolution at its General Body Meeting making provisions in the Articles of Association for capitalisation.

m) Consequent to the issue of bonus shares if the subscribed and paid up capital exceed the authorised share capital, resolution shall be passed by the company at its General Body Meeting for increasing the authorised capital.

n) The company shall get a resolution passed at its General Body Meeting for bonus issue and in the said resolution the management's intention regarding the rate of dividend to be declared in the year immediately after the bonus issue should be indicated.

o) No bonus issue shall he made which will dilute the value of rights of the holders of debentures, convertible fully or partly.

4.5. SEBI GUIDELINES ON ISSUE OF DEBENTURES :

Subject to provisions of section 'F' Debenture Redemption Reserve (DRR) shall be created by all the companies raising debentures on the following basis.

a) A moratorium up to the date of Commercial production can be provided for creation of the debenture reserve in respect of debentures raised for project finance.

b) The debenture redemption reserve may be created either in equal installments for the remaining period or higher amounts if profits permit.

c) In the case of partly convertible debentures, DRR should be created in respect of non-convertible portion of debentures issue on the same lines as applicable for fully non-convertible issue. In respect of convertible issues by new companies the creation of DRR should commence from the year the company earns profits for the remaining life of debentures.

d) Companies may distribute dividends out of general reserve in certain years if residual profits after transfer to DRR are inadequate to distribute reasonable dividends.

e) DRR will be treated as a part of General Reserve for consideration of bonus issue proposals and for price fixation related to post tax return.

f) In case of new companies, distribution of dividend shall require approval of the trustees to the issue and the lead institution, if any.

g) Company should create DRR equivalent to 50% of the amount of debenture issue before debenture redemption commences. Drawl from DRR is permissible only after 10% of the debenture has been actually redeemed by the company.

h) In the case of existing companies prior permission of the lead institution for declaring dividend exceeding 20% or as per the loan covenants is necessary if the company does not comply with institutional condition regarding interest and debt service coverage ratio.

i) A company may redeem debentures in greater number of instalments. The first instalment may start from 5th instead of 7th year.

4.5.1. Protection of Debenture Holder's Interest:

a) Trustee to the debenture issue shall be vested with the requisite powers for protecting the interest of debenture of holders including a right to appoint a nominee director on the Board of the Company in consultation with institutional debenture-holders.

b) Lead institution/investment institution will monitor the progress in respect of debentures for project finance /modernisation /expansion /diversification/ normal capital expenditure. The lead bank for the company will monitor debentures raised for working capital funds.

c) Institutional debenture holders and trustees should obtain a certificate from the company's auditors in respect of utilisation of funds during the implementation period of projects. In the case of debentures for working capital, a certificate should be obtained at the end of each accounting year.

d) Debenture issues by companies belonging to the groups for financing replenishing funds or acquiring shareholding in other companies will not be permitted.

e) The companies shall, along with their application, file with SEBI certificates from their bankers that the assets on which security is to be created are free from any encumbrances and the necessary permissions to mortgage the assets have been obtained or a No Objection Certificate from the financial institutions or banks for a second or pari passu charge in cases where assets are encumbered. The security should be created within six months from the date of debentures. If for any reason, the companies are not in a position to create security within 12 months from the date of issue of debentures the company shall be liable to pay 2% penal interest to debenture holders. If security is not created even after 18 months a meeting of the debenture holders should be called within 21 days to explain the reasons thereof and the date by which the security would be created.

f) The trustees to the debenture holders will supervise the implementation of the conditions regarding creating of security for the debentures and regarding the debenture redemption reserve.

4.6. GENERAL GUIDELINES:

a) Subscription list for public issues should be kept open for at least 3 working days and disclosed in the prospectus.

b) Rights issues should not be kept for Inure than 60 days

c) The quantum of issue, whether through a right or public issue, shall not exceed the amount specified in the prospectus/letter of offer. No retention of over subscription is permissible under any circumstances.

d) Within 45 days of the closure of an issue a report in a prescribed form with a compliance certificate from the Chattered Accountants should be forwarded to SEBI by the lead managers.

NOTES

I. Check your progress :
1. A new company which has not completed 12 months of commencement of production has to issue shares only........
2. SEBI has made registration of brokers as ....
3. A district forum of consumer redressal consists of .... court judge.

e) The gap between the closure dates of various issue e.g. right and Indian public should not exceed 20 days.

f) In case of issue of debentures fully or partly convertible made in the past:-. Where the conversion was to be made at a price to be determined by the Controller of Capital Issues at a latter date, the price of conversion and time of conversion shall be determined by the company in a duly organised meeting of the debenture holders and shareholders. The decision, in the above meeting may be ratified by the shareholders in their meeting. Such conversions will be optional for acceptance on the part of individual debenture holders. The dissenting debenture holders shall be the right to continue as debenture holders if the terms of conversion are not acceptable to them. The letter of option to debenture holders should be vested by SEBI.

g) SEBI will have right to prescribe further guidelines for modifying the existing one to bring about adequate investor protection, enhance the quality of disclosures and to bring about transparency in the primary market.

h) SEBI shall have right to issue necessary clarification to these guide lines to remove any difficulty in its implementation.

i) Any violation of the guidelines by the issuers/intermediaries will be punishable by prosecution by SEBI under the SEBI Act.

j) The provisions in the Companies Act, 1956, and other applicable laws shall be complied with in connection with issue of shares and debentures.

The Securities and Exchange Board of India (SEBI) has issued the following clarifications on certain points relating to the "guidelines for disclosures and investor protection." The references to the sections are as per sections in the original guidelines.

Preamble to the guidelines -The guidelines "not inconsistent" with the terms and conditions of the CCI consent.

If the company prefers to abide by the terms and conditions mentioned in the consent order already issued by the CCI, the same will hold good. Accordingly if the company intends to retain 15% oversubscription, the same is permissible only if it has been noted as such by the CCI. In such cases, all conditions including prior CCI consent will apply.

A. First Issue by New Companies:

The issue price stated therein is applicable uniformly to all investors in new companies including promoters and the promoters contribution being subject to lock in period of five years as already mentioned in Section 'L' of the guidelines.

B. First Issue by Existing Private / Closely Held Companies:

Three year track record (item B (I)) means three years record of which at least two should be completed years of 12 months each and one should be not less than 6 months.

C. Public Issue by Existing Listed Companies:

Companies wishing to enhance their foreign shareholding up to 51 % or more as permissible under the relevant guidelines of Government/Reserve Bank of India can make issues at the price determined by the shareholders in a special resolution under Section 81 (1)(A) of the Companies Act. This will also apply to issue of shares to foreign investors by closely held companies and also by other companies where there is no foreign shareholding at present.

D. Underwriting:

Underwriting should be only for issue to the public which will exclude reserved/preferential allotment to reserved categories. In other words, underwriting is mandatory only to the extent of net offer to the public.

Minimum subscription clause is applicable for both public and rights issue with a right of renunciation.

E. New Financial Instruments:

In regard to new financial instruments, whether issued by way of rights or otherwise, the disclosure requirements shall be vested by SEBI. The debt instruments having maturity beyond 18 months will require credit rating.

J. Minimum Interval Time between Two Issues:

Issue of bonus shares after 12 months of any public/rights issue is subject to Section M (O) of the guidelines.

Capital issue should be made fully paid up within 12 months from date of issue except in cases which are subject to monitoring requirements under section I.

H. Promoter's Contribution and Lock in-Period:

The term "Promoters Contribution" will mean contribution by promoters, directors, friends, relatives and associates. For the first issue, promoter's contribution shall not be less than 25 percent or 20 percent of the total issue of equity capital as the case may be, with five year lock-in period.

In respect of further issues, if there are no promoters, the "promoters contribution" will mean contribution by directors, friends, relatives, associates and contribution from them shall not be less than 25 percent or 20 percent of the total issue of equity capital as the case may be, with lock-in period of five years.

In the case of FCDs, the intention is that over and above the proposed issue amount of FCDs the promoters, directors, friends, relatives and associates should bring in by way of contribution to equity equivalent to one third of the amount proposed to be issued as FCDs. Likewise in case of PCDs one third amount of equity should be with reference to convertible portion of PCDs. Alternatively out of total issue of FCD or total issue of PCD, they can take promoter's quota of 25 percent or 20 percent as the case may be at the time of issue, with the same conversion price as stipulated for public.

P .General:

Letter I of offer for rights issue containing disclosure will be vested SEBI as hitherto.

While SEBI has done a great deal, it has a long way to go in accomplishing its mission. It has a Herculean task ahead of it. One can hope that as SEBI acquires adequate powers (to notify regulations without government approval and to persecute without Government sanction) as SEBI develops greater expertise, maturity, and professionalism in regulating the capital market, and as the market participants become more cooperative, the regulation of the Indian capital market will become more meaning fill and effective in the years to come.

Predictably, this improvement would make the stock market more effective in years to come. True, the process of development would throw up new problems and challenges and the progress may appear somewhat slow and jerky because the changes that are being contemplated may be against vested interests, non-progressive outlook, lack of resources, inadequate imagination, and general apathy and inertia. Not withstanding these impediments, it is hoped that the stock market will emerge as a vibrant and vigorous institution in the years to come.

4.7. CONSUMER PROTECTION ACT

The Consumer Protection Act was passed in 1986

1. to protect consumer rights and for
2. the redressal of consumer disputes by establishing consumer protection councils.

The Act provides for the establishment of a Central Consumer Protection Council by the Central Government and a State Consumer Protection Council by each State. The Central Council consists of a Chairman (Minister, Department of Food & Civil Supplies) and other official and non official members as prescribed by the council. The Council shall meet at least thrice every year. The State Council shall consist of such number of members as prescribed by the State Government.

4.7.1. The objects of the Central council:-

The objects of the Central Council are to protect consumers rights such as the following:-

1. the right to be protected against marketing of goods which are hazardous to life and property:

2. the right to be informed about the quality, quantity, potency, purity, standard and price of goods so as to protect the consumer against unfair trade practices:

3. the right to be assured of access to a variety of goods at competitive prices:

4. the right to be heard and assured that consumers interests will receive due consideration at appropriate forums.

5. "'he right to seek redressal against unfair trade practices or unscrupulous exploitation of consumers and

6. The right to consumer education

The objects of the State Councils are to protect the interests of consumers within the State as listed above.

4.7.2. Consumer Disputes Redressal Agencies

The Act provides for the establishment of a three tier structure;

1. A District Forum in each district in each State;

2. A state Commission in each State; 3. A National Commission

The National Commission was established in August 1988 by the Central Government.

The other two agencies are to be established by the State Governments with the approval of the central government.

The District Forum shall consist of a person

a. who is qualified to be a district judge nominated by the State Government for the post of president of the District Forum

b. an expert in the field of education, trade or commerce.

c. A lady social worker

The State Commission shall consist of a person who is qualified to be a judge of a High Court, appointed by the State Government for the post of president of the state Commission and two other Members (one of whom shall be a woman) who have the ability to deal with problems relating to economics, trade, law, industry and administration.

The National Commission shall consist of a person who is qualified to be a judge of the Supreme Court appointed by the Central Government for the post of president of thc

National Commission and two other Members (one of whom shall be a woman) who have the ability to deal with problems relating to economics, trade, law, industry and administration.

If the value of goods and services and compensation is less than Rs.1 lakh but does not exceed Rs. 10 lakhs, it shall be dealt with by the State Commission.

If the value of goods and services and compensation is more than Rs. 10 lakhs, it shall be dealt with by the National Commission.

Appeals against the orders of the State Commission can be made to the National Commission.

Appeals against the orders of the National Commission can be made to the Supreme Court.

The State Commission has powers to call for records from the District Commission relating to any dispute pending before the district commission. If the district commission has jurisdiction not vested by law or if the district has failed to exercise jurisdiction or if the district commission has illegally exercised jurisdiction. Similarly, the National Commission has jurisdiction over the State commission.

II. Check your progress : True or false :

1. When the value of goods exceeds 15 lakhs the redressal forum is national commission.
2. Right shares can be issued to public prior to existing share holders.
3. Minimum period for keeping shares by the promoter is called lock in period.

A complaint with the District Forum, or State Commission can be filed by:

1. the consumer to whom such goods or services were provided,

2. any recognised consumer association irrespective of whether the aggrieved consumer is a member of such association or not or

3. the Central or State Government.

4.7.3. Remedial Action

If the allegations in the complaint are true, the redressal agency shall pass orders directing the opposite party to do one or more of the following things.

1. to remove the defects from the goods under dispute

2. to replace the goods with new goods of same description, free from defects.

3. To return to the complainant, the price or the charges paid.

4. To pay such amount as compensation to the consumer for any loss or injury suffered by the consumer due to the negligence of the opposite party.

If a trader or person against whom an order is passed fails to comply with the order of the redressal agency, he shall be awarded an imprisonment term up to 3 years or a fine up to Rs.10000 or both.

4.7.4. Amendments to the Act

Some progressive amendments to the Act were introduced in 1993. They are:

1. the pecuniary jurisdiction of district forum has been raised to Rs.5 lakhs and that of the State Commission to Rs.20 lakhs.

2. State Government can establish more than one district forum, if necessary.

3. An aggrieved person can lodge a complaint at any place where there is a branch office of the opposite party.

4.8. KEY TERMS :

First issue : Securities issued for the first time for public subscription.

Right issue : Shares offered to an existing shareholder during further issue.

Primary market : Market which deals with the new securities which were not dealt earlier.

Secondary market : Market where existing securities are traded is referred to as the secondary market or stock market.

Stock exchange : An organised market where securities (shares, debentures, bonds etc) are bought and sold.

Bonus share : Profit distributed in the form of shares to the share holders instead of dividend.

Listing of shares : Process where by shares are included in the official list of a recognised stock exchange for the purpose of trading.

4.9. SUMMARY :

Large numbers of investors are involving in the security market and malpractices are also growing in both primary and secondary market. Hence the govt. has constituted SEBI in order to regulate the activities and players of the market. It has laid down various guidelines for the issue of shares, debentures and other securities. It regulates the activities of players such as broker, merchant banker, mutual fund, financial institutions etc in order to protect the interest of the investors and to develop the capital market. Govt has enacted the consumer protection act to protect the interest and rights of the consumer. It has established tribunals and councils for redressing the grievances of the consumers.

4.10. ANSWERS TO CHECK YOUR PROCESS :

I. 1. at par 2. Compulsory 3. District

II. 1. False 2. False 3. True

4.11. QUESTIONS/EXCERCISES :

Sec - A

1. What are the rights of a consumer.
2. State the objectives of SEBI.
3. What is new issue market.
4. Distinguish between primary and secondary market.

Sec – B

1. Discuss the SEBI guidelines regarding the new issue
2. Explain the functions of SEBI
3. Explain in detail the SEBI guidelines for primary market.
4. What are the SEBI guidelines for Bonus shares.
5. State the objects of consumer protection act.
6. Discuss the three tier structure of consumer grievances redressal machinery.

4.12. FURTHER READING :

1. Finance market and services by E Gordon & others, Himalaya Publishing House, New Delhi.
2. Business Environment by C.B.Gupta. Sultan Chand & Sons, New Delhi.

UNIT 5 SOCIAL RESPONSIBILITIES OF BUSINESS

NOTES

Structure

5.0. INTRODUCTION

Society has become increasingly aware of the inter dependent between business and its environment. Business organisations are no longer viewed as totally private bodies free to pursue their own goals. Instead they are increasingly expected to contribute to the betterment of the society. As business firm grow in size and power society expects more from them. Several forces have led to the increasing concern for socially responsible business behaviour. In this unit the concept of social responsibility, responsibilities of business towards various sections, and the argument for and against the social responsibilities are discussed more over, how the social performances are evaluated are discussed in social audit.

5.1. UNIT OBJECTIVES :

- Understand the concept of social responsibility.
- Define social responsibility.
- Appreciate the dimensions of social responsibility.
- Argue against social responsibility.
- Know the meaning of social audit.
- List the features of social audit.
- Evaluate the social audit.

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- Define the SSI and tiny units.
- Identity the financial institution available for SSI.
- Perceive the incentives available to SSI.

5.2. MEANING AND DEFINITION OF SOCIAL RESPONSIBILITY OF BUSINESS:

The object of social responsibilities of business has become a most fashionable topic for everybody to talk about and it had become almost customary for company chairmen nowadays to show their deep interest to it in their annual speeches. It is widely accepted that accountability to owners is too narrow a concept for today's business and that there is no reason why owners' interests should take precedence over the interests of other claimants-employees, consumers, community and the society at large. But there is no definition of the concept of social responsibility which is valid for all business concerns and (or all times. This is because responsibilities of business should be related to the changing societal expectations, which is dependent upon the social, cultural, political, and other environmental forces, which are dynamic too. However, a study of some definitions would be very much useful to have an understanding of the concept.

According to Raymond Bauer, "social responsibility is seriously considering the impact of the company's actions on society". This definition is quite broad and provides a frame of reference which suggests that business responsibility to the society goes beyond simply assuming the profit-making role. However, this definition does not pinpoint the meaning of the term social responsibility operationally for the management.

According to Keith Davis and Cobert Blomstrom, "Social responsibility refers to a person's obligation to evaluate in the decision-making process the effects of both his personal and institutional decisions and actions on the whole system". According to them, corporate social responsibilities mean "the obligation of decision-makers to take actions which protect and improve the welfare of society as a whole along with their own interest". 'To Protect' implies avoiding negative impact on society. 'To improve' implies creating some positive benefits to society. Thus, corporations have a responsibility to accomplish social benefits along with the economic goals.

In the words of Joseph Mc.Guire, "the idea of social responsibility requires clarification here. Social responsibility does not counter profit objectives of business. It does not mean profit is to be sin. Profiteering is different from profit making. Selfish interest is different from self-interest. Social responsibility is against profiteering and selfish business behaviour. But profit making and self-interest should be the basic elements of corporate responsibilities. Economic concerns and social concerns need not be viewed as opposite ends. They are complementary to each other. They are consistent with one another. The mistaken views of social responsibility are shown below diagrammatically.

From what all is said above, the definition developed by Archie B. Carrol seems to be more appropriate. He says: "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations placed on organisations by society at a given point of time". Thus, the nature and content of business responsibilities depend upon the societal expectations and these expectations include invariably the economic performance and legal obligations, and go beyond them. How far it goes beyond depends on the economic, social and political environment in which the business and society operate.

5.3. ARGUMENTS AGAINST AND FOR SOCIAL RESPONSIBILITY:

The argument against and for assumption of social responsibilities by business represent basically the classical and neoclassical school of economic thought respectively. Adam Smith and the Milton Friedman belong to the classical school of thought. The thoughts of John Maynard Keynes, Elton Mayo, Adolf Berle, George Goyder, and Mahatma Gandhi provide support to the neo-classical idea of social responsibility of business. An outline of the 'pros' and 'cons' of social responsibility of business follows:

5.3.1. Arguments Against Social Responsibility:

The arguments against business assumption of social responsibility are based on the belief that society assigns business a strictly economic role.

1. Business should mind its business:

The business of business is business and nothing but business. Business should mind its costs and improve its economic performance. The sole purpose of business should be maximisation of profits to the owners. Involvement in social matters is not the concern of business people. Social problems can be best solved by government and social welfare organisations. Business is fit performing economic functions only. Free market mechanism and the principle of survival of the fittest would automatically ensure discipline in the business world and a happy society.

2. Burden of additional costs:

Assumption of responsibilities beyond economic necessities and legal stipulations would mean some additional costs. Business cannot afford to spend on social goals unless they will pay back in due course. Spending economic resources on social goals would tell upon the economic performance of the business, unless such expenditures are self-renewing.

Further, if business is pushed into social obligations the additional cost burden would push out the marginal firms out of the industry. The struggle of the small planners in controlling water pollution is a case in point.

3. Lack of competence:

Another reason against is that the businessmen may lack perceptions and skills to do the job. The outlook of businessmen are primarily economic and technological. Their outlook may not broaden and transfer skills. Government and social service organisations are better equipped than business organisations to deal with social action programmes.

4. Dilution of business's primary purpose:

Involvement in social goals might dilute business's economic objectives of improving economic productivity and maximising profitability. Diversion of business interest into social action programmes would weaken business in the market place. The dilution of business's basic mission would lead to failure of business both in its economic and social roles. Thus, society will become poorer both economically and socially.

5. Business should not be given more power:

Business already has enough economic and social power. Business influence is felt throughout the society in education, in the home, in government and in the market place. If business is given a chance to involve itself in social action programmes also it would lead to excessive concentration of power. Some people believe that business would not care to keep up 'high values' in society, and so it should not be given more power in the society.

6. Lack of accountability:

Another argument against assumption of social responsibilities is that the business has no means of accountability to the society. Responsibility and accountability should go together. Since there is no means or mechanism of social accountability for business, it should refain from social goals and should confine its responsibility and accountability to its internal claimants only, viz., owners, management and labourers.

5.3.2. Arguments for Social Responsibility:

The arguments in support of business assumption of social responsibilities are based on two key facts: (a) Business operation causes serious social problems and so business has a moral responsibility to solve them or at least ameliorate them. (b) Even in problem areas where business in not guilty of causing them directly, business should do something in its own enlightened self-interest to promote social welfare.

SEBI - Security Exchange Board of India

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(1) Business can build up better public image:

By assuming responsibilities beyond the economic and legal obligations, business shows its concern for the well-being of the other constituencies of the society. This helps the business to earn the goodwill and support of the society as a whole. The public image of the business gets a boost.

(2) Business can safeguard its own self-interest of long-term survival:

Society endows business with economic resources and expects the business to use them for achieving the maximum possible social benefit. If business fails to serve society's expectations, it would earn the wrath of the society and endanger its very survival in the long-run. As Davis and Blomstrom state "to the extent businessmen do not accept social responsibility obligations as they arise, other groups eventually will step in to assume those responsibilities". This means that "those who do not use power in a manner which society considers responsible will tend to lose it". Davis and Blomstrom call this the Iron Law of Responsibility. Thus, it is in its own interest of long term survival that business should assume social responsibilities in accordance with societal expectation.

(3) Avoidance of government regulations:

Irresponsible behaviour of business in relation to various pressure groups in the society like the labour class, the consumers and the community would necessitate governmental controls and regulations. Businessmen by their voluntary acceptance of social responsibilities can prevent the governmental intervention and regulations.

(4) Business has the resources:

Business has the managerial talent, functional expertise and financial resources to take up social obligations, besides fulfilling its economic obligations. The efforts of government and social organisations have to be supplemented by business concerns so that social problems can be more effectively solve. Business has the inovative ability and with its productivity-oriented approach to problems, it can consistently assume a social role.

(5) Pro-action is better than reaction:

Prevention is better than curing. If business anticipates the social impacts of its economic operations and initiates preventive action to set off the ill-effects on society it would be beneficial both for the business and the society. To create social problems and then solve them upon public pressures would mean loss of reputation and good will as well as loss of more money. Therefore it would be wise and economical to 'pro-act' than to 'react'.

I. Check your progress.

True or False

1. Social responsibility of the business is framed in law.
2. Measuring social performance of the business is called social audit.

Fill up the blanks

3. The first social audit was conducted in the year .... in India.

5.4. SOCIAL OBJECTIVES OF BUSINESS

1. Service to society is an important objective of business. It can render service to society by providing quality goods and service to the community. It should ensure safety of

consumers by providing products which are in no way injurious to them in any way. In this process of providing quality goods and services, the business firm will ensure its own escape from product liability which is becoming very harsh with the passage of time.

2. The business has social responsibility of providing adequate employment opportunities to the members of the society. It is all the more important in the case of developing countries like India where the pressure of population is very high and the government is unable to fulfill her obligations in this regard. Business being an integral part of the society can not be indifferent to this pressing need of the peel..

3. Another important social objective of business is to produce goods and provide service to the people in society on a mass scale at reasonable prices. Production of goods on large scale will enable a firm to enjoy internal as well as external economies and thereby in lowering the cost of production. A firm should produce quality goods and supply the same to the community at economic prices. This will go a long way in (I) enhancing material well being of the community and (ii) raising the average standard of living of the people.

4. A significant social objective of business is to ensure control of pollution of water, air, noise etc. With the growth of industries the pollution problem has assumed a serious threat to the health of the people in society. Discharge of effluent in a lake or river by the industrial enterprise may result in water pollution. Its effects may be very damaging to the plant life, animal life, fish and birds. Pollution of all kinds reduces the quality of life. Business must make sincere efforts to control pollution and avoid disaster.

5.5. SOCIAL RESPONSIBILITY TO DIFFERENT SECTION:

There is no unanimity of opinion as to what constitutes social responsibility of business. Generally accepted responsibilities towards various section are as follows

5.5.1. Responsibility to Consumers

Peter Ducker remarks rightly "There is only one valid definition of business purpose; "to create a customer, "The cu3tomer is the foundation of a business and keeps it in existence. He alone gives employment. To supply the wants and needs of a customer society entrusts wealth producing resources to the business enterprise'"' Among the various responsibilities of the business to the customers are:

i) To improve the efficiency of the functioning of the business so as to increase productivity and reduce prices. At the same time the business concern should see to the improvement of quality of goods and products and that the goods are easily available to the consumers.

ii) To do research and development to improve quality and introduce better and new products.

iii) To take appropriate steps to remove the imperfections in the distribution system including, hoarding, black-marketing, profiteering by middlemen or anti-social elements.

iv) To supply goods, at reasonable prices even when there is a seller's market.

v) To provide the required after sales services.

vi) To ensure that the product supplied has no adverse effect.

vii) To avoid misleading the customers by improper advertisements or otherwise.

viii) To provide an opportunity for being heard and to redress genuine grievances.

ix) To understand customer needs and to take the necessary measures to satisfy these needs.

In India most of the businessmen pay scant attention to their responsibilities

to customers.

5.5.2. Responsibility to the Community:

i) To prevent environmental pollution and to preserve the ecological balance.

ii) Rehabilitating the population displaced by the operation of the business.

iii) Assisting in the overall development of the locality.

iv)Taking all steps to conserve scarce resources and developing alternatives wherever possible.

v) Improving the efficiency of the business operation.

vi) Contributing to research and development.

vii) Development of backward areas.

viii) Promotion of ancillary and small scale industries.

ix) Making possible contribution to population control.

x) Contributing to the national effort.

In fact the list of social responsibilities of business towards different sections can be extended endlessly. Hint of all the business has certain responsibilities towards itself, responsibilities towards owners and shareholders responsibilities towards suppliers, responsibilities towards creditors, and responsibilities towards the government and so on.

The Indian situation:

It is gratifying to note that some leading companies in India have shown recognition of the social responsibility of the corporate sector. They have been instrumental in setting up of institutions, college, management and research institutes, hospitals, temples, and dharamalshalas. They have risen up to the occasion to help the victims of droughts, floods, earth quakes and other natural calamities. But when we see the vast country and the population this meager service of business to the community is just a drop in the ocean. Sachar committee has suggested that industries in the private sector as well as public sector must reckon with the social benefits. The Sachar Committee observes that the acceptance of the concept of social responsibility must be reflected in the information and disclosures that the company makes available for the benefits of the community. It has suggested that a provision may be made in the Company's Act that every company shall give a social report which will indicate and in precise terms the various activities relating to social responsibility which have been carried out by the company in the previous year. There has been a growing concern about the environment and the problems of pollution, consumer protection, worker's safety and equal employment opportunities.

The Social responsibilities of business towards.

(a) Shareholders (b) employees and (c) government.

The operations of business enterprises affect a wide spectrum. The shareholders, the suppliers of resources, the consumers, the employees and society at large are all affected by the way of all enterprise function. According to Goyder, industry today can no longer be regarded as a private arrangement for enriching shareholders. It has become a joint enterprise in which workers, management, consumers, the locality, government and trade union officials all playa part. If the corporation has to function effectively it has to be accountable to the public at large.

The directors of a company must become trustees not merely for shareholders but for the entire community. Gandhiji advocated the concept of trusteeship the aim of which was to ensure that private property was used for the common good. The international seminar on social responsibility of business held in India in 1965 also co-related the Gandhian concept of trusteeship with the social responsibility of business as 'responsibility to customers, workers and the community"

5.5.3. Responsibility to Shareholders:

The responsibility of a company to its shareholders who are the owners is indeed a primary one" As the shareholders take the risk of the business they must be adequately rewarded. To protect the interest of the shareholders "the primary business of a business is to stay in business". To safeguard the capital of the shareholders and to provide a reasonable dividend, the company has to strengthen and consolidate its position. Hence it should develop and improve its business and build up its financial independence. Adequate reserves should be built up so that it will be able to declare a reasonable dividend during a lean period as well. The shareholders are interested not only in the protection of their investment and the return on it but also in the image of the company" The company should, therefore, endeavor to ensure that its public image is such that the shareholders can feel proud of their company. Briefly its responsibilities towards the owners or the shareholders are the following:

i) To safeguard the investment of the shareholders.

ii) To ensure a fair return on the investment in the form of dividends.

iii) To pay dividends to the shareholders in time.

iv) To treat all the shareholders on basis of parity.

v) To keep the shareholders well informed about the activities and position of the company.

vi) To prepare the balance sheet and profit and loss accounts carefully for the information of the shareholder.

vii) To ensure safety of the investments by employing them only in safe channels only. viii) To supply all the necessary information demanded by the owners.

5.5.4. Responsibilities Towards Employees:

The success of a business organisation depends to a very large extent on the morale of the employees and their whole hearted cooperation. Employee morale depends to a large extent in the discharge of the company's responsibilities to them and the employer- employee relationship. The employees spend more than half of their active life in business. It is natural for them to expect a reasonable treatment from employers. Enlightened business managers provide for full social justice to their employees in the form or better conditions of service. The responsibility of the organisation to the workers includes:

i) The payment of fair wages:

Social justice requires that workers get fair reward for their contribution to the production process. This may indirectly benefit the organisation itself for satisfied employees tend to work more efficiently and honestly.

ii) Good Working Conditions:

Apart from the relevant statutory requirements, a modem business organisation should ensure safe, healthy and humane work environment for employees wherein they can work with honour and have job satisfaction. In such an environment, they may put in their best and increase productivity leading to increased profitability of the organisation.

iii) Provision of medical aid, education and other facilities:

Since government is not in a position to make adequate provision for medical and educational and other facilities, it is highly desirable that a business organisation itself takes care of these aspects for its employees. This will enhance loyalties of the employees towards the organisation and ensure their complete devotion.

iv) Encouraging creativity, initiative and provision of growth opportunities to employees:

It is in the interest of an organisation to encourage creativity and initiative in its employees. This induces them a sense of confidence and satisfaction. A modem organisation is also conscious of providing reasonable growth opportunities to its employees so that they may bear more responsibilities and help in the growth of their organisation itself. An employee will assume responsibility for peak performance only if he has managerial vision. This vision he can attain only through the experience of participation.

v) Participation in management:

Nowadays employees should not be regarded as mere servants of the business organisation; they are in a way partners whose contribution should not be underestimated. It is highly desirable that they are permitted to have a say in the management and also provided opportunities for a sense of accomplishment. The only basis for genuine pride, accomplishment and importance is the active and responsible participation of people in the determination of their own work.

vi) The establishment of fair work standards and norms:

It is also the responsibility of the business organisation to establish fair work standards and norms in the function of each department.

vii) Arrangement for proper training and education of the workers:

The business organisation must make arrangements for proper training and education of the workers so that they may be able to rise and contribute their best to the organisation. It will also ensure reasonable chances for accomplishment and promotion.

viii) Proper recognition, appreciation and encouragement of special skills and capabilities of the workers:

It is not surprising that most of the improvements and inventions are on the suggestions of the workers. They should be encouraged to suggest ways and means to increase productivity and proper recognition be made of their special skills and capabilities.

ix) The installation of an effect grievance handling system:

The organisation should never take lightly the grievance of the employees. There should always be an efficient grievances handling machinery and these should be promptly listened to and redressed fairly and justly. Satisfied workers go a long way in improving productivity. They should be given opportunity for participating in managerial decisions to the extent desirable.

5.5.5. Responsibilities to Government:

SEBI - Security Exchange Board of India

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Gone are the days of laissez faire and the concept that the government that governs the least is the best. The modern welfare State is expected to take care of the citizens from the womb to the tomb. The government takes active interest in the development of industries in the country. The government delegates and promotes business in the country. It protects the infant industries from unfair competition. It maintains peace and order to enable business to flourish. To perform these functions efficiently the government requires adequate funds. Hence the business concerns should pay the taxes regularly and in time. The responsibility of the organisation to the government includes:

i) Payment of Taxes:

The Central Government and the State government impose certain taxes on business. These taxes should be paid honestly and regularly in time to the authorities. These taxes form the major source of government resources which are needed to enable the government to perform various functions in a welfare state.

ii) To implement all the statutory rules and regulations and Factories Act such as minimum wages, safety regulations, submission of returns, licensing etc.

iii) Not to misuse their political connections:

Corrupt ways in securing, misuse of government facilities etc., should not be employed. It is seen business houses advance subscriptions to political parties for elections etc., and expect to secure favorable deals from these parties, when they come to power. Such corrupt practices should be avoided.

iv) Business enterprises should not to resort to malpractices of bribing government officer and employees for getting undue advantages and facilities. Such malpractices spoil the image of both the business organisation and the government.

v) Other responsibilities to government include:

a) Avoidance of black marketing and adulteration and co-operating with the government in identifying of such black sheep who resort to such anti-social practices.

b) Implementing the government policies.

c) They should not exercise their economic and political powers contrary to the public interest.

5.6. SOCIAL AUDIT

Social audit - meaning

Social audit is a systematic study of the social perfoffi l ance of a business unit.

It is the organisation's social perfoffi l ance that matters more than its economic performance.

5.6.1. Features of Social Audit

Social audit covers any activity, which has a great social impact -environment, consumers etc., Social audit measures the organisation's perfoffi l ance in social areas. It is very difficult to conduct social audit because most of the results occur outside the gates of the company. Firstly, data are not readily -available. Secondly, it is very difficult to find out whether the results are directly due to the social activities of the enterprise. Social audit uses quantitative and qualitative data.

Quantitative data are used to a large extent. No doubt, quantitative data are precise, convincing and ensure objectivity. But when quantitative data alone are used, they do not reveal the whole truth. Therefore quantitative data should be supplemented with qualitative data.

5.6.2. Evolution & Growth of Social Audit

Social audit is of recent origin. Theodore Kreps evolved the idea.

He made a study of the social perfoffi l ance of 72 industries for a period of two decades (1919 -1938) He took into consideration the following factors for purposes of measurement.

1. employment
2. production
4. consumer funds used
5. pay rolls
6. dividend and interest

Krepps indicated that these factors did not help to constitute a comprehensive social audit due to the following limitations:

1. Extent of capacity utilisation is not covered.
2. Investment outlets not studied
3. Stability of operations not considered
4. Whether there is full use of patents and modernisation are not known Later, Howard Bowen made some improvements to social audit. He suggested that an independent appraisal of a company's work should be made once in five years, for company's internal use only by a group of outside consultants/auditors.

Howard Bowen pointed out the following areas for appraisal.

1. price
2. wages
3. research
4. advertising

5. public relations
6. human relations
7. community relations
8. employment stabilisation.

Though Bowen's approach is an improvement over Krep's, it failed to suggest specific parameters for conducting social audit.

In 1970's, Prakash S. Sethi suggested some improvements to social audit.

"At the risk of over simplification, we may say that the purpose of social audit is to help break down the broad term social responsibility of business into identifiable components and to develop scales that can measure these components".

In 1979, Tata Iron and Steel Company (TISCO) appointed a committee to conduct social audit at TISCO.

The terms of reference to the committee were:

"To examine and report whether and to the extent the company has fulfilled the objectives contained .in clause 3 of its articles of association regarding its social and moral responsibilities to the consumers, employees, -shareholders, society and the local community".

Following the TISCO, the UTI also planned for a social audit in 1993-94.

In course of time, business concerns such as JK Synthetics, SAIL, National Thermal Power Corporation, Escorts etc., took to social audit.

5.6.3. Organisation for Social Audit:

Social audit may be conducted by a team of internal auditors or by outside consultants or by both inside auditors and outside consl l ltants. As the internal auditor is familiar with the business, it is a great advantage but his decisions are likely to be influenced by his loyalty to the company. Outside consultants arc not familiar with the company and so they may ignore vital areas. So a combination of both internal and external consultants will prove to be ideal.

5.6.4. Scope of Social audit

As pointed out by Keith Davis and Blomstrom, social audit should cover the following activities.

1. Ecology and environmental quality
2. consumerism
3. community needs
4. Government relations

5. business giving
6. Minorities and disadvantaged persons
7. labour relations
8. shareholder relations
9. economic activities.

5.6.5. Benefits of Social Audit

The benefits of social audit are:

Social audit enables the company to know where exactly it stands and how far it has fulfilled its social objectives.

1. Social audit instils the consciousness for social performance throughout the company.

2. Social audit provides data with the help of which the effectiveness of the various programmes can be compared.

3. The company can relate the data provided by Social audit to budgets, objectives and expected benefits

4. The information made available through social audit will be beneficial to external claimants as they come to know what exactly the company is doing.

5.7. SMALL SCALE SECTOR

5.7.1. Definition of Small Scale Industry

Small scale industrial units are those which are engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed Rs.1 crore. These would, inter alia, include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary units, the investment in plant and machinery (original cost) should also not exceed Rs.1 crore to be classified under small- scale industry.

The investment limit of Rs.1 crore for classification as SSI has been enhanced to Rs.5 crore in respect of certain specified items under hosiery and hand tools by the Government of India.

a). Definition of Tiny Enterprise

The status of "Tiny Enterprises" is given to all small scale units whose investment in plant & machinery is up to Rs.25 lakhs, irrespective of the location of the unit.

b). Small Scale Service & Business Enterprises (SSSBE's)

Industry related service and business enterprises with investment up to Rs.10 lakhs in fixed assets, excluding land and building will be given benefits of small scale sector. For computation of value of fixed assets, the original price paid by the original owner will be considered irrespective of the price pa. . y subsequent owners.

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5.7.2. Incentives for Promotion & Development of SSIs

As the SSI units occupy an importc it place in generating employment, promoting industrialisation and entrepreneurship a earning foreign exchange, they have been given a strategic position in all the Five Year Plans. Realising their importance, the Central and State governments have been giving a lot of facilities. The various facilities are listed below.

A. Development Programmes

1. District Industries Centres

District industries centre programme was launched in 1978 to promote small, village, tiny and cottage industries and to provide service and support, all under one roof. The main idea behind such centre is to create er. l ployment.

2. Incentives for Backward Areas

Government provides many incentives for setting up industrial units in the declared backward areas.

They are

1. concessional finance
2. outright subsidy
3. preferential treatment in licensing

3. Entreprenurial Development Programmes

The Small Scale Industries Development Organisation has been conducting entrepreneurial development programmes since 1970 with the help of commercial banks, SFCs and other agencies for engineers, women, unemployed etc.,

4. Marketing Assistance

As the government is the largest purchaser of various items, many items manufactured by SSIs have been reserved for purchase by government.

5. Tender Marketing

The SSI corporations and States can tender on behalf of SSI units.

6. Modernisation Programmes

The IDBI grants 100 percent refinance to SFCs, which grant loans for modernisation. Modernisation may be to improve production technology, product development design, machinery and equipment or for purchase of proper inputs.

7. Industrial Estate

The State Governments provide industrial estates with built up factory sheds and all other infra structural facilities.

8. Items Reserved for Production

In order to give protection to SSI units several items have been reserved to be produced by the SSI units.

9. Export Promotion

Export promotion is given a lot of weightage as it results in earning more foreign exchange, fuller utilisation of capacity and in the production of quality goods.

10. Seed Margin Money:

The scheme came into existence in 1982 for the purpose of assisting the State governments to reduce the incidence of sick units and to ensure fuller utilisation of installed capacity.

B. Financial Assistance

I. Institutions Promoting Small Industries

National Small Industries Corporation (NSIC), State Small Industries Corporations, a network of State Financial Corporations, commercial banks, and regional rural banks provide financial assistance to SSI units. The Small Industries Development Bank of India (SIDBI) grants refinance facilities to these institutions which had extended loans to small scale units. The Khadi and Village Industries Commission (KVIC) is to promote and develop Khadi and village industries. The National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 for providing refinance assistance to state cooperative banks and regional rural banks. The District Industries Centre (DIC) provide all service and support to under one roof.

a). National Small Industries Corporation (NSIC) & State Small Industries Corporations:

The NSIC and SSICs supply machineries to SSI units on hire purchase basis and the payment is made directly to the supplier. The hire purchase value is recovered in 13 installments.

A rebate of 2 percent is allowed for prompt repayment. The NSIC supplies both foreign and local machineries to SSI units. The SSICs supply indigenous machineries only to SSI units. Small scale units are enlisted for Government purchases. NSIC and SSIC help to market the products of SSIs. Prototype development cum training centre is also operated.

b). State Financial Corporations

SFCs grant loans for the following purposes:-

for the purchase of land

for the construction of factory buildings

for purchase of machinery and equipment

to set up new industrial units and for modernisation.

25 percent margin is prescribed

A loan holiday of 2 years is allowed.

A loan holiday up to 5 years is allowed for backward districts.

c). Commercial Banks

Commercial banks provide short term and medium term credit.

Short term credit is granted for working capital requirements.

Medium term credit is granted

For the purchase of land

For the construction of factory buildings and

For purchase of machinery and equipment

The loans are for a period of 5 to 7 years.

Letters of credit and guarantees are also given.

d). Small Industries Development Bank of India (SIDBI)

SIDBI is a wholly owned subsidiary of IDBI. It was set up in April 1990 to promote, to finance and to develop tiny and small industries

and to coordinate the activities of institutions engaged in providing assistance to small scale industries.

Full details are given under the heading SIDBI.

e). NABARD

NABARD was set up in 1982 to provide refinance to State Co-operative Banks, regional rural banks and other institutions which provide assistance to small industries. Full details are given under the heading NABARD.

f). Indirect Finance to Small Scale Industrial Sector:

Indirect finance to SSI includes the following important items.

Financing of agencies involved in assisting the decentralised sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.

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Finance extended to Government sponsored corporation/organisations providing funds to the weaker sections in the priority sector. Advances to handloom co-operatives.

Term loans in the form of lines of credit made available to State Industrial

Development Corporation / State Financial Corporations for financing SSSIs.

Funds provided by banks to SIDBI / SFCs by way of rediscounting of bills.

Subscription to bonds floated by SIDBI, SFCS, SIDCS and NSIC exclusively for financing SSIs

Subscription to bonds issued by NABARD with the objective of financing exclusively non- farm sector

Financing of NBFCS or other intermediaries for on -lending to the tiny sector

Deposits placed with 5mBI by Foreign banks in fulfillment of shortfall in attaining priority sector targets.

Bank finances to HUDCO either as a line of credit or by way of investment in special bonds issued by HUDCO for on-lending to artisans, handloom weavers, etc. under tiny sector may be treated as indirect lending to SSI (tiny) sector.

C.Other Facilities

1. Registration

Registered small scale industries are eligible to get facilities and financial assistance from the government and other institutions. Provisional registration is granted by District Industries Centre. Provisional registration enables a unit to get facilities like shed, financial assistance, power and machinery. After commencing production, the unit can apply for permanent registration.

2. Extension Services of SIDO

The Small Industries Development Organisation (SIDO)

is to formulate policies and to coordinate and monitor the development of small scale industries at the national level. The SIDO provides

Economic information, survey reports, project profiles, feasibility reports, technical assistance and consultancy services, training programmes etc.,

Problems of Small Scale Units

The problems faced by SSI units are many and serious. They are given below.

1. Sickness

Sickness is the continuing problem of SSI units. Whatever are the reasons for sickness, it is necessary to take steps to set them right. An agency like the BFIR may be se up to look after the problem.

2. High Employee Turnover

If the SSI units are to achieve anything worthwhile, they must have efficient" personnel. But the SSIs are not able to compete with the giants in attracting the hest talents. Consequently, there is a very high employee turnover.

3. Finance Problem

The SSI units are not able to get the required financial assistance.

The commercial banks meet a part of the needs only. The SFCs are very strict.

The SSI units are not in a position to tap the capital market as they are small in size. In this context, the lending agencies must adopt a flexible approach.

4. Marketing Problem

Another serious problem faced by the SSI units is the marketing problem.

With the meager resources at their command the SSIs are not able to undertake intensive marketing. Their limited finances do not permit them to extend credit sales to intermediaries.

5. Lack of Modernisation

There are two hurdles to modernisation. Firstly, it is the lack of finance and secondly, it is the ceiling placed on the assets limit. Low technology results in poor returns.

6. Formalities

Another major problem is the non-availability of inputs at reasonable price and proper quality. Consequently, the SSI units are unable to work to their full capacity.

7. Competition from Giants

The SSI units are not able to face the competition from the giants.

8. Small Sized Units

The small sized nature of SSIs prevents them from entering the capital market.

They must change the organisational form but it is very difficult. Restructuring is a difficult process.

9. Frequent Policy Changes

Too many and frequent changes in the definition of a Small scale unit creates more problems. There are conventional definitions, operational definitions and revised definitions.

With the proliferation of definitions on SSI units many small entrepreneurs do not know whether they fall within the purview of SSI unit at any point of time.

5.8. INSTITUTION PROMOTING SMALL INDUSTRIES

a) Refinance by NABARD

All the financial assistance given by KVIC / State co-operative Banks / Regional Rural Banks for the village and agro based industries are being refinanced by National Bank for Agriculture and Bank (SIDBI).

The refinance of National Bank for Agricultural and Rural Development is available to co-operative Banks, Regional Rural Banks and KVIC, in respect or finance provided by them to production units located in 'Rural areas' as defined in the NABARD Act 1981. 'Rural areas' cover all the villages irrespective of their population and the towns with a population not exceeding 10,000 or such other figures as the Reserve Bank may be specifying from time to time, Refinance to State Co-operative Banks and State Land Development Ranks is available irrespective of the location of the units financed by them.

The rate of interest charged by the National Bank on its refinance as well as the rate of interest charged by the financing institutions to ultimate borrowers is determined form time to time taking into account the-general interest rate structure prescribed by the Reserve Bank of India.

NABARD refinances the loan given to the agro industries, by the funding institutions to the extent of 75% of the loan amount.

I. Types of units eligible for assistance

Under the refinance scheme of NABARD, assistance is available for setting up of new units as well as modernisation of units that are in existence, atleast for five years. Modernisation of agro industries include replacement of old and obsolete machinery, acquisition of balancing equipments for fuller and more effective utilisation of the installed capacity and change over to new process of manufacturing on introduction of new technology, computerisation, etc.,

II. Mode of refinance

Refinance from NABARD is made available to banks on either automatic basis or schematic basis with prior approval. Automatic Refinance Facility under a very simplified procedure has been extended to ensure speedy dispensation of credit by the banks to the rural artisans and entrepreneurs for setting up of cottage, village, tiny and agro industries covered by twenty two broad groups of industries and also the rural industrial activities covered by various sponsored programmes of the Government.

In case of schemes not covered by Automatic Refinance Facilities, prior approval of the National Bank is required. The schemes are approved subject to various terms and conditions depending upon merits of each case.

Credit facilities under the Automatic Refinance facility for setting up cottage and village Industries in rural areas can be classified into three broad categories as under.

1. General Refinance Scheme,

2. Refinance Scheme for Infrastructural and promotional support and

3. Refinance Scheme for financing Small Road Transport operators.

Under the General Refinance Scheme three types of loan are given:-

(i) Composite loans to Rural artisans, craftsmen and individual small entrepreneurs, to meet the block capital, working capital or both, to the extent of Rs. 50.000/-

No margin money is required to be contributed by the entrepreneur. Repayment period is upto 10 years. 12 months to 18 months moratorium is allowed at the beginning period.

(ii) Integrated loans are given to individual artisans, group of individuals, proprietary or partnership concerns and industrial co-operative societies to meet the block capital and working capital for one operating cycle. Repayment period is 3 to 10 years. 5% to 10% margin money is to be contributed by the entrepreneur. Maximum limit for the loan is Rs.10 lakhs. Moratorium and repayment is available at the first 12 to 18 months.

(iii) Loans for project formulation and consultancy services to promoters entrepreneurs 1 units availing assistance under integrated loan scheme.

Refinancing scheme for Infrastructural and promotional support is available for financing to work sheds excluding the cost of land. The beneficiaries under the scheme shall be individuals" promotional organisations Government/ Semi Government/ voluntary agencies. Quantum of loan is from Rs.3000/- to Rs.2500/- repayment period given is 10 years with one year moratorium.

Refinancing of Small Road Transport operators are available to Commercial Banks, Co-operative Banks and Regional Banks. Beneficiaries include individuals, group of individuals and Co-operative entrepreneurs. Purpose of this loan shall be to acquire one or two new vehicles, light commercial vehicle having gross weight up to 6 tones. Refinance is available only in respect of transport vehicles registered as Goods Carrying Vehicle with regional Transport Authority and use for transportation of farm produce / products of village industries in rural areas. Vehicle meant for passenger transport are not included in this scheme.

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b). Industries Commission (KVIC)

Assistance Given by Kadhi and Village

The main objective iC is to generate employment in rural areas through village industries using locally available raw materials and intermediate technology suitable to rural conditions.

According to the KVIC, a village industry means any industry which is located in a rural area in which the fixed capital investment in land, building and machinery and equipment per head of employment does not exceed Rs.15,000/-

KVIC helps development of Kadhi and Village Industries mainly in the following ways.

(i) Provides financial assistance in the form of loan directly from its funds to Co-operative Societies, Public Charitable Trusts and Voluntary agencies, registered under the Tamil Nadu Registration of Societies Act 1975. Individuals are assisted through State Kadhi and Village Industries Board.

(ii) Provides interest subsidy on Bank and other financial institution's loan availed by beneficiary institutions for Kadhi and village industries recognised by KVIC.

(iii) Arranges for training of rural people in Kadhi and various village industries at the training centres run directly by them or through its financed! recognised institutions.

(iv) In a limited way, marketing of Kadhi and Village Industries products, through its own sales outlets.

I. Terms of Loan

The loans advanced by KVIC for village Industries, carries only 4% interest per annum. The capital expenditure loan is repayable over ten years and working capital loan is repayable over four years period. Interest subsidy is sanctioned by the KVIC on loans availed by the beneficiary institutions from Banks and other financing institutions. The liability of the beneficiary institution is limited to 4% interest and the rest of the interest is borne by the KVIC.

KVIC pays special attention to schemes for the development of women and Scheduled Caste and Scheduled Tribes members by considering on a priority basis. Proposals for financial assistance to institutions formed exclusively by or for women and SC/ST members.

Some important industries under the preview of KVIC are as follows.

1. Manufacture of Cotton, Silk, Woolen Cloth and Garments.
2. Cottage Pottery Industry.
3. Limestone, Lime shell and other Lime product industries.
4. Hand made paper and paper based products.

5. Manufacture of Gums
6. Cottage Match and Agarbathi Industry.
7. Cane and bamboo industry.
8. Manufacturing of Herbal products.
9. Processing of cereals and pulses.
10. Palm Jagary and palm products manufacture.
11. Bee-keeping.
12. Khandsari Sugar production.
13. Processing of Fruits and Vegetables.
14. Oil Crushing Industry.
15. Manufacture of Detergents and Washing Powder.
16. Manufacture of fibre products.
17. Soap industry.
18. Village leather industry.
19. Biogas plants.
20. Rural Engineering industry.
21. Rural Electrical and Electronics Industry.
22. Tailoring and Readymade Garments.
23. Manufacture of Poly Vasthralaya Cloth.
24. Various service industries like laundry, plumbing services, electric and electronic industries, cycle repair etc.
25. Pottery and Brick making industry.

KVIC gives suggestion/guidance in setting up of village industries in non farm sector to individual entrepreneurs, group of individual entrepreneurs and voluntary agencies.

c) Assistance Given by the District Industries Centre

District Industries Centres have been set up to provide help for the promotion of small, tiny, village and cottage industries and it aims at providing all services and support to the decentralized industries sector under a single roof at the pre investment and post investment stages. Moreover, District Industries Centres identify the eligible poor required to be rehabilitated and take the responsibility of identifying the appropriate industrial opportunities. The DIC helps the beneficiaries in the preparation of projects to be submitted to financial agencies and provides continued support services to the beneficiaries.

The Government, in order to reduce poverty and unemployment, as well as under employment has formulated important programmes which are being implemented in collaboration with various agencies. These include the Integrated Rural Development Programme (IRDP), National Rural Employment (NREP), Rural Landless Employment

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Guarantee Scheme (RLEGS), and Training of Rural Youth for Self-employment (TRYSEM) and Self-Employment Scheme for Educated unemployed.

District Rural Development Agency and District Industries Centre are Implementing all the above said programme jointly.

Both these agencies are functioning by way of identifying the prospective beneficiaries willing to take up the projects on these schemes, assessing their capacity to carry out the activities to increase their income generation sources and to assist them in all the possible means by providing financial and other assistance.

At the District level, along with DIC and DRDA, the Lead Bank also takes more care in the development of Small Scale Tiny Industries at the village level.

India has about six lakh villages. Commercial Bank's branches are located in 22618 villages and 9,036 Semi urban centres. Regional Rural Banks have opened around 6000 branches in villages and primary agricultural credit societies are in existence in 94,000 villages. All the branches of the credit agencies should at least collect relevant data from villages and formulate credit schemes in these areas.

> **II. Check your progress**
>
> Choose the best answer.
>
> 1. Which of the following is not a social responsibility towards workers.
>
> a) Fair wage b) Fair price c) Fair working condition d) None.
>
> 2. The maximum limit for investment in fixed asset to SSI is
>
> a) 1crore b) 75 lakhs c) 5crore d) None.
>
> **True/ False**
>
> 3. NABARD provides finance directly to SSI.
> 4. Social audit is compulsory.
> 5. DIC is located at head quarters of state only.

DICS provide leadership and endeavour to develop a village as a model one for development of rural and Cottage industries by pooling experience and expertise from all sources.

DICS, in coilsultation with the Lead Bank officials and experts from NABARD, should give a fair trial to these schemes on a pilot basis by providing finances, and study the implementation process. This would help all these agencies to review the schemes already formulated and then give an opportunity to redesign the scheme.

Since the inception of District Industries Programme in 1978-79, till 2003, 422 DICS have been established covering 431 districts out of 436 districts in the country. By 2002 -2003, these DICS identified 5.56 lakh entrepreneurs and established 4,55,392 units comprising of 1,17,719 small scale units and 3,37,673 artisan based units spreading in rural and semi urban areas of the country. These units provide employment to 14,80 lakh persons. During this period, the credit assistance by fi9ancial institutions to DICS amounted to Rs.2094.69 crores and technical assistance were given to around 96,000 units.

d) Small Industries Development Bank of India (SIDBI)

Government of India announced in the budget for 1988-89, its decision to establish the Small Industries Development Bank of India as a subsidiary of I.D.B.I. The Bank commenced its operations form April 2, 1990, with five regional offices and 20 branch offices in different states of the country.

SIDBI has taken over the outstanding portfolio of IDBI relating to small scale sector as on 31st March, 1990. The Branch is authorised to carry out functions as below.

a) Refinancing of loans and advances extended by primary lending institutions to small scale Industries.

b) Extension of seed capital/soft loan assistance under National Equity Fund, seed capital schemes through specified lending agencies.

c) Granting direct assistance as well as refinancing of loans and export of products manufactured in SSIS

d) Extending financial support to State Small Industries Corporation for providing scarce raw materials to and marketing the end products of SSI units.

e). The Immediate thrust on SIDBI will be on

i) Promotion of employment oriented industries, especially in semi-urban areas to create more employment opportunities and thereby checking migration of population to urban and cosmopolitan areas.

ii) Expanding the channels for marketing the products of Small Scale Industries in domestic and overseas market, and

iii) Initiating steps for modernising of existing units and for technological upgradation.

The financial assistance of SIDBI to the small scale units will be channelised through the existing credit delivery mechanism, comprising of the lending units. The total number of institutions eligible for assistance from SDIBI is 869, till March 2003.

SDIBI extends its financial assistance through the following schemes for village and agro industries.

1. Refinance scheme for industrial loans for small and village industries.
2. Composite Loan Scheme
3. National Equity Fund Scheme.
4. Seed capital scheme
5. Single window clearance scheme.
6. Scheme for women entrepreneurs and
7. Refinance scheme for rehabilitation and modernisation of SSI, Village Industries and Agro Industries.

5.9. KEY TERMS :

Social responsibility: What the business does over and above the statutory requirement.

Social audit: Systematic study of the social performance of a business unit.

NABARD: National Bank for agriculture and rural development – it provides refinance to state co.op. Bank, regional rural bank etc which provide financial assistive to SSI

SIDBI : Small industries development bank of India – it provides finance and develop SSI and tiny units

DIC: District industries centre. It is located at the head quarters of each district and provides many assistance to SSI under one roof – it involves mainly in developmental activities.

5.10 SUMMARY

Responsibility of the business beyond the basic economic responsibility of efficiency and profitability is known as social responsibility. A business has to discharge its responsibility towards its shareholders, employees, community suppliers and consumers. These social responsibly are measured through social audit small scale industry is one whose investment in fixed arrests does not exceeds 5 crores. Tiny unit's maximum investment limit is 25 lakhs.

Govt provides various incentives and conducts several development programmes to develop SSI. Special incentives are provided to entrepreneurs, starting industries in backward areas. Govt has established financial institutions like NABARD, SIDBI, SFC etc to provide financial assistance to SSI.

5.11 ANSWER TO CHECK YOUR PROGRESS

I 1. False 2.True 3.1979

II 1.Faripriсe 2. 5 crores 3.False 4.False. 5.False.

5.12. QUESTIONS / EXERCISES :

Sec - B

1. Discuss the social responsibility of a business to various sections.
2. Explain the case for and against the social responsibility.
3. Social audit is a tool to measure the social responsibility of the business"-comment.
4. Discuss briefly the various incentives available to SSI.
5. Briefly analyse the problems of SSI?
6. Briefly discuss the role of various financial institution in promoting and developing SSI.

5.13 FURTHER READING

Business environment text and cases by Francis Cherunilam, Himalaya Publishing House, New Delhi.

UNIT 6 ECONOMIC SYSTEM

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Structure

6.0 INTRODUCTION:

A basic knowledge of the salient features of the different types of economic systems is essential for a better understanding of the problems of business - society relationships. This chapter gives an account of the various types of economic systems and the Gandhian and Sarvodhaya philosophies which provide a framework of value system for the business world.

Economic systems of today have a long history of evolutionary process with the changing times and cultures, primitive communism, slavery system, feudal system and the mercantilistic system, being the important stages in such evolutionary process. The mercantilistic system which dominated the European countries till about the middle of the. 18th century got replaced by capitalism. The main force behind the emergence of capitalism was the Industrial Revolution which occurred in England during 1760-1820 and spread all over the wor'd. Modem capitalism sprang from the traditional or pure capitalism that prevailed until the middle of this century. The basic tenets of the traditional capitalism are (a) freedom of property,(b) consumer sovereignty (c) freedom of enterprise. These principles mark the difference between the traditional capitalism and the other economic systems that preceded and succeeded it.

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6.1 UNIT OBJECTIVES

- Understands the meaning of economic systems
- Identify the features of each economic systems
- list the merits and demerits of each economic system.
- Learn the meaning of capital, money and foreign exchange markets.
- Distinguish between capital and money market.
- Appreciate the development of capital market in India.
- Analyse the problems in Indian money market.
- List the participants in foreign exchange market.

6.2 CAPITALISM:

"The capitalist system is one characterised by the private ownership of the means of production, individual decision-making, and the use of the market mechanism to carry out the decision of individual participants and facilitate the flow of goods and services in markets".

"In a capitalist economy, households and firms are the basic production units. Each individual household is the owner of productive factors. These factors include the household's own labour and may also include land, capital and raw materials. Each household sells the services of its factors to the basic production unit, the firm. Private firms, organised by individuals combine these productive factors to produce goods. The difference between revenues and costs constitutes profits, which then forms the income of the firm's organizers. The income earned from the sale of a household's productive factors enables it to purchase the finished products of the firms".

The capitalist system is also known as free enterprise economy and market economy.

Two types of capitalism may be distinguished, viz.,

i) The old, laissez-faire capitalism, where government intervention in the economy is absent or negligible; and

ii) The modern, regulated or mixed capitalism, where there is a substantial amount of government intervention.

Features of Capitalism:

I) Private ownership of means of production:

The most important feature of capitalism is the existence of private property and the system of inheritance. Everybody under the system has a right to acquire private property to keep it and after his death to pass it on to his heirs. The result of this system is that inequalities of wealth distribution are perpetuated. The rich persons become richer and the poor become poorer.

2) Profit Motive:

The instruments of production are not only owned by private individuals; but they are also managed by owners for their own benefits. The individual owners carry on their business, trade and industry for their own personal benefit and not for the benefit of the society. The lions share of the national dividend goes to the powerful capitalists and the rich land lords. The common man is exploited and does not get a fair return on his labour.

3) Class Conflict:

Under capitalism there is constant class conflict. The society gets divided into two classes the "haves" and the "have nots" which are constantly at war with each others. There is a conflict of labour and capital going on in all capitalistic economies and there seems to be no near solution to this problem. The class conflict is inherent in capitalism.

4) Economic Freedom:

There is economic freedom in a capitalist society. The freedom consists of three things.

(a) Freedom of enterprise (b) Freedom of contract and (c) Freedom to use one's property. Everybody is free to take up any occupation that he likes and to enter into contracts with fellow citizens in matter most profitable or suitable to him. But in actual practice there is no absolute freedom. Certain restrictions are imposed by all States on individual rights. It is done in the interest of general welfare. Freedom to choose one's occupation is only in name. Social restrictions stand in the way of a person choosing the occupation that he likes with the result that only very poorly paid occupations are left upon to the poor man.

5) Un co-ordinated nature of economic activity:

A very outstanding feature of the capitalist order is its unco-ordinated nature. There is no conscious regulation of economic activities like production, consumption and distribution. Every thing seems to go on automatically. The consumers preferences or aversions decide what should be produced and what should not be produced. Somehow, the demand and supply adjust themselves to each other. Prices serve as the sign post which influence both the producers and the consumers. Capitalism is amply called the 'government by price'.

6) Vital role of the Entrepreneur:

The entire production machinery of the country is under the direction of the entrepreneur. It is he who hires the other factors of production and undertakes to pay them. He is the sole agent of the community in the matter of production. It is difficult to imagine how the present system can work at all in the absence of the entrepreneur. He is the captain of the ship of industry and every thing hinges on him.

7) Control of Business goes with Risk:

This is called the golden rule of capitalism. He who risks his money must also control the business. He who pays the paper must call the time. The persons who have no stake in business are not supported to manage things in a proper way.

8) Competition and Co-operation:

It has also to be noted that the capitalist order is not only based on competition but also on co-operation among the various interests. The buyers compete with buyers, 'the sellers with sellers and the labourers compete with one another in order to get jobs and promotions. The workers also combine in trade unions to fight for their rights and interests. Similarly the producers not only compete among themselves but they also combine to form associations to safeguard their interests. Thus, under the present economic order, combination and competition go hand in hand.

6.2.2. Achievement of Capitalism:

Capitalism has to its credit a number of achievements. The following are the main advantages of capitalism.

(I) Abundant supply of goods and services:

The profit motive encouraged the producers to bring about improvements in the organisation's set up and in the methods of production. The profit motive provides people with the necessary initiative and drive to produce rich variety and abundant supply of goods and services.

(2) High Standard of Living:

The line of profit compels the entrepreneurs to take risks and to conquer new fields in production. The costs of production are reduced. Availability of goods at comparatively cheap rate raises the standard of living of the people. Comforts of life have decidedly increased under capitalism. Life has become richer and fuller. This is the greatest service rendered by capitalism to society.

(3) Economical use of limited Resources:

The resources of production at the disposal of any country are strictly limited under capitalism. These limited resources of the community are put to the most economical use with as little waste as possible. The person responsible for the waste receives prompt punishment for his miscalculation in the form of losses.

(4) Reward according to Merit:

The richest reward under capitalism goes to the ablest, the most daring as well as prudent entrepreneur. A man who takes the initiative and shows extra-ordinary resourcefulness makes the 'highest profits. Nothing seems to be more just than that the rewards should be apportioned according to merit.

(5) Control of Business goes with Risks:

The golden rule of capitalism is that he who risks his money must also control the business. This prompts the producers to take decisions wisely and carefully.

(6) Democratic Set up:

The consumer's control gives the system a democratic tinge. Nobody likes that his consumption should be dictated by some superior authority. In the capitalist economy, an attempt is made to adjust production according to consumer's wishes. The consumer is said to be sovereign under capitalism.

(7) Its adaptability to the changing conditions:

As the system is based on competition and co-operation, it is very sound and strong. If the survival of the fittest is any criteria of a system, capitalism is indeed very sound and strong. So many crises have undertaken the system from time to time; but it somehow always emerged a bit crippled no doubt but victorious. Its adaptability in the changing economic conditions is remarkable. It has stood the strain of two costly global wars.

(8) Automatic working of the system:

Like every other economy, a capitalist economy has the three fundamental problems of what, how and for whom to solve. All these basic problems of the economy are solved automatically through market mechanism or pricing system. It controls and regulates economy without the need of a central authority.

6.2.3. Shortcomings of capitalism:

Capitalism is now being assailed from all directions. The following are the main criticisms against capitalism.

(a) Wastage of Resources: Capitalism is based on competition. The cut -throat competition leads to giagantic waste. Colossal expenditure is incurred on advertisement and publicity simply to defeat and crush the rival producers. Resources employed by those who are defeated in the race of survival go to waste.

(b) Exploitation of the Consumers: The sovereignty of the consumers is a myth. The interest of the producers and the consumers are never identical. Therefore, there is no harmony between the interest of the two. Lack of free competition, deliberate deceit

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practised by unscrupulous producers and the ignorance of the individual consumer turn the consumer king into an object slave, a victim of exploitation at the hands of producers.

(c)Factors of production are not fully utilised: The efficiency of the capitalistic system depends on the existence of free competition and the mobility of the factors of production. But perfect competition and mobility of the factors are nowhere to be found. There are legal, social and economic hindrances in the way of free competition with the result that the factors of production often lie idle.

(d) Recurrence of Trade Cycles: Due to over competition and over saving resulting in over production, a period of depression is followed by a period of boom. There are wide fluctuations in price which in turn affect the different classes of the society differently. Production is unplanned and is being augmented by ever increasing accumulation of capital while the bulk of consumers are being increased more and more. In these circumstances, it will be a miracle if there is proper balance between production and consumption.

(e)Perpetual threat of dismissal to the workers: The workers who constitute the bulk of the nation have to live under perpetual threat of dismissal. During the period of depression, the producers curtail their production or close units to escape heavy losses. It results in the dismissal of the workers causing wide spread unemployment.

(f) Human rights are ignored: Capitalism lays undue emphasis on property rights against human rights. In a system which is based on self interest, virtues of sympathy, love, co-operation are dominated by envy and selfishness. Man is treated like a machine.

(g) Eternal Social Unrest: Gradually the society is divided between two classes, the rich and the poor. Their interests are quite different. Capitalism thus shows the seeds of eternal social unrest. The two hostile camps of labour and capital look suspiciously at each other and ever on the look out for an opportunity to fight. Social peace is frequently disturbed by strikes and lock outs.

(h) Inequality of wealth Distribution: In a capitalist society there are two main classes of people, the rich and the poor. The poor are in majority. There is gross inequality in the distribution of national income. About 50% of the national income goes to the handful of rich persons and the remaining 30% to the vast majority of about 80 percent of the population. It leads to wasteful consumption and production. G.D.H.Cole has remarked "there is a world of difference in terms of happiness between the high priest and the slaves in the temple of the industry".

(i) Capitalism is full of anomalies: It is pity to see that a few indulge in all conceivable luxuries and the majority lives under semi -starvation conditions. Machines are lying idle inside the factories while unemployment is raging in all its fury outside.

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6.2.4. Modern Capitalism:

Modern capitalist economies are mixed or regulated systems. Such regulated capitalist or market economies include the United States, Canada, Australia, the United Kingdom, France, Italy, the Federal Republic of Germany (West Germany), Japan, Spain, New Zealand, the Netherlands, Belgium, Denmark, Sweden, Switzerland, Norway, etc., The principal reasons for Government intervention in the modern capitalist economies have mentioned in the chapter Economic Role of Government.

6.2.5. Evaluation of Capitalism:

Pure capitalism is an idealised system. It is very difficult to realise the avowed virtues of a free enterprise economy in the real world. There is no invisible hand that ensures the smooth functioning of the capitalist system.

Unregulated capitalism suffers from certain drawbacks.

(i) As investment allocation is guided by the profitability criterion and sufficient investment may not take place in areas where profitability is low, however essential they may be. Profitability would be generally high in sectors which cater to the need of the upper income strata. A large part of the resources of the nation may, therefore be utilised for the satisfaction of the needs of the well-to-do. Resources allocation under pure capitalism will not, therefore, be optimal.

ii) The right to property and freedom to enterprise are likely to lead to concentration of income and wealth and the widening of interpersonal income disparities.

(iii) Though, according to the theory, there will be free competition, in the real world the large firms are likely to gain an advantageous position which would eventually lead to monopolies.

Check your progress :

1. Choose the best answer :

1. Profit is the only motive in

a) capitalism b) socialism c) mixed economy d) none

2. Resources are wasted in

a) capitalism b) socialism c) none

3. Long term requirement of business is met out in

a) capital market b) money market c) foreign exchange market d) none

6.3. SOCIALISM

6.3.1. Meaning of socialism:

Socialism is an economic system in which the means of production are owned by the State and operated by the government and community and in which production is based on the welfare of the community and not for the profit of a few individuals. This is only a general definition and to define socialism in exact terms is very difficult, as it is a very exclusive concept having different definitions and shades of meaning. There are as many definitions of socialism as there are socialists, each differing from one another, mainly on the issue of (I) Private property and the extent of private property to be allowed; (ii) Management of public enterprises; (iii) Methods of distribution; and finally, (iv) Modus operandi to usher in socialism by removing capitalism. Another difficulty in defining socialism is the word "does not describe any past or present society which can be empirically observed to furnish unimpeachable evidence for what is or is not socialism".

6.3.2. Definition:

As defined by Dickinson: "Socialism is an economic organization of society in which the material means of production are owned by the whole community according to a general economic plan, all members being entitled to benefit from the results of such socialised planned production on the basis of equal rights.

This is fairly a comprehensive definition indicating the various aspects of socialism. Based on the variations of approach, there are different schools of socialism, viz., Marxian Socialism, Guild Socialism, State Socialism, etc.,

6.3.3. Essentials of Socialist Schemes:

1) Abolition of Private Property: They all believe in the abolition of private ownership in the instruments of production like land, factories, railways, mines etc., .

2) No Private Enterprise: There is to be no private enterprise. All production is to be initiated and controlled by the State. The State will be the capitalist, landlord and entrepreneur and hence no question of payment of interest, rent and profit will arise.

3) Living on unearned income is to be condemned: Remuneration for work is according to the nature of work and not to be equal. It will vary according to ability.

4) Equality of opportunity: No economic equality is to be guaranteed. What can be assured is equality of opportunity for all irrespective of rank.

5) State to be in charge of production and distribution: The State is in charge of all production and distribution. The profits of production go to the State.

6.3.4. Salient features of a socialist System are:

(i) Government ownership/control: The major part of production is either owned by the Government or their use is controlled by the Government. In Communist countries like China, the means of production are owned by the State.

(ii) Central Authority: There is a central authority to formulate the national plan for development and to direct resources mobilisation allocation and investment to achieve the plan target.

(iii) Restriction on consumption: There is no consumer sovereignty because the state decides what may be made available to the community.

(iv) Fixation of wages and Prices: The wages rates and price~ are fixed by th~ Government and not by market forces.

(v) Distribution of Income: An equitable distribution of income is an important feature of the socialist system which aims at perfect equality in income distribution. Wage differentials depending on the nature and requirements of the Job are recognised in socialist economies.

6.3.5. MEATS OF SOCIALISM:

Theoretically, the following merits are attributed to the socialistic order of society:

(1) Best Utilization of Resources:

Socialistic economy can bring about efficient and best utilization of resources because of (1) centrally directed planning; (ii) absence of private property, (iii) ,absence of motive; and (iv) well-defined objective..

(2) Elimination of unemployment:

Since the economy is a planned one, it can reduce the forces causing instability and unemployment. The system eliminates cyclical fluctuations in the economy and tries to attain stability. During the 'Great Depression' in the early thirties, when all countries of the world were under the grip of depression and unemployment, Russia was markedly' unaffected by the world-wide depression, the reason being the socialistic type of economy which protected against business and economic instability.

(3) Economic Equality:

The most important merit of socialism is its attempt to bring about a far greater degree of economic equality than what is possible under capitalistic enterprise. Inequality cannot be justified under any circumstance, morally, socially, politically and economically. It leads to suffering and degradation. It denies equality of opportunity and prevents the poor with ability to rise to full stature. Though attempts are made to remove inequalities even in capitalistic economies, it cannot go or succeed beyond a certain stage.

(4) Maximum Social Welfare:

Socialist economy tries to ensure maximum social welfare through maximization of satisfaction. This means that in socialistic economy, maximum number of people will have maximum satisfaction. In capitalistic economy, because of profit motive, things will be produced for consumers who are willing to pay. Consequently, only the rich will get the commodities wanted by them. The rich alone, who are minorities in the community will get maximum satisfaction. The poor will not get even the basic necessities of life. But in socialism, commodities needed by the poor will be produced. Hence, the satisfaction will be maximum for the largest number of people.

6.3.6. ARGUMENTS AGAINST SOCIALISM:

1. Inefficient bureaucratic running of the economic machinery: A civil servant lacks initiative and resourcefulness. There is no reward for a man of extra-ordinary talents. The government personnel are not willing to conquer new fields. Dead routine and redtapism rob a man of all his initiative and enterprise. No first rate work can be expected by second rate men.

2. Prompt decisions cannot be taken. Public Undertakings cannot score success where quick decisions have to be taken and bold policies are called for.

3. No indicator for the economical allocation of the resources: Under capitalism there are consumers preference which through price mechanism bring about an optimum distribution of these resources-Under socialism, it will be all groping in the dark, resulting in maladjustment in demand and supply.

4. Loss of Sovereignty of consumers: The consumer is not able to maximise his satisfaction.. It means hardships, sacrifice and privation for the consumer.

5. Price fixation is arbitrary: The state will no doubt fix the prices but it will be all arbitrary. It will necessarily be rigid and will lack the resilience of market mechanism.

6. Incentive to hard work and self improvement will disappear: When personal gain .and self interest is eliminated stimulus to self improvement will disappear altogether. People will not give their best. Enterprising spirit will languish and creative work will become almost impossible.

7. Free choice of occupation is not possible: When the freedom of enterprise disappears even the free choice of occupation will go. The workers will not be able to choose the work once assigned to them by the planning authority.

8. Failure to bring about economic equality: In Russia where socialism has been in operation, it has failed to bring about economic equality. The idea of a classless society is a dream.

9. Full employment under socialism is an illusion: It is claimed that under socialism. there is no unemployment. There is no unemployment in a jail also. The socialist State is like a big prison house where the prisoners are kept employed at the cost of their liberty.

10. Labour is the sole cause of value is not true: Marxian socialism is not scientific as it appears. Labour is not the only cause of value and has not the sole right to its appropriation. Economic motives are no doubt very strong but they are not the only ones to sway human action.

6.3.7. Marxian Socialism:

It was with the appearance of Karl Marx, the socialism came to be known as working class socialism and also 'Scientific Socialism' as against 'Boureoisie Socialism'. The marxian socialism or the socialism of the marxian type is also called communism.

The approach of Karl Marx to socialism.

The central idea of Marx can be described as the theory of value and of exploitation, submerged into the study of the progress of history and the property regarding the decay of the capitalist system. The principal tenets of Marx are as follows:-

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1) The dominating and determining factor in all history is economic in character.

2) Secondly, this materialistic conception of history finds its expression in "Class Struggle". History is merely a record of class struggles. As soon as one is resolved, another is engendered. The materialistic conception of history and the class struggle furnish the sociological basis of the Marxian structure.

3) Thirdly, coming to Economics, there is the Marxian theory of value. The value of commodity is determined by the amount of labour invested in its production.

4) Fourthly, applying this, we get the notion of Surplus value i.e. the worker produces more than what he receives in the form of wages. The difference between the two is the surplus value which is appropriated by the capitalist and this constitutes the exploitation of labour and this is .the root-cause of the conflict between the capitalist and the proletariat, i.e. workers. The labour theory of value and that of surplus value formed the pivot of the Marxian economic system.

5) Fifthly, the uncontrollable thirst of capitalists to increase the surplus value in every possible way leads to the formation of Industrial Reserve Army of unemployed and underemployed. This will increase the miseries and degradation of working class.

6) Lastly, there is the law of capitalistic accumulation. The large capitalist devours the smaller, so that the means of production become concentrated in the fewer hands. Society becomes increasingly rent by commercial crises until the expropriators will be expropriated and the proletariat will enter into their heritage. In other words, the 'have nots' dominate and overthrow the 'haves'.

The above. six tenets form the socio-economic fabric of Marxian thought. In his attempt to. teach his socialism, Karl Marx, through his celebrated book **DAS KAPITAL**, published In 1867, attempted to provide a scientific basis for the theory of socialism.

6.3.8. Criticism on Marxian Socialism:

1) The material conception of history and the class struggle enunciated by Karl Marx are scarcely economic doctrines and his analysis is only partly true. The history of man is moulded by several factors and we cannot ascribe it to one particular factor. The economic factor is one such factor and perhaps not necessarily the most important.

2) The class struggle is also merely an unjustifiable generalization of a very partial truth. The dividing lines in society are many. The consciousness of solidarity is not the cause of common action, but is rather consequence of such common action. Men group themselves into classes as a result of ever so many causes. The idea of an inevitable, universal, all embracing solidarity of the working class is only a delusion.

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3) Marx visualized the proletariat as an 'idealised worker' and that power of unity was invested in him and the worker does not possess it.

4) The labour theory of value and the surplus value have not been explained in a convincing manner. The concepts are not only outmoded but also absurd.

5) Finally, the Marxian prophecy of the over-throw of the capitalist system by the 'proletariats' exhibits his short-sightedness and lack of proper appraisal of capitalism. The prophecy is more his 'wish, born out of his abundant love for the working class and apathy towards the propertied class.

6) There is no historical proof for Marxian theory of Industrial Reserve Army.

6.3.9. Features of Socialism:

The Salient features of a socialist system are:

(i) Government Ownership & Control: In socialist countries the major means of production are either, owned by the Government or their use is controlled by the Government. In Communist countries like the USSR and China, the means of production are mostly owned by the State. In some socialist economies, the private sector also plays a very important role. In such cases, the Government directs and regulates Investment allocation and production pattern in accordance with national priorities. In some countries, such as India some of the basic sectors, including a major part of institution finance, are in the public sector so that the resource allocation and investment pattern of the private sector may be regulated by regulating the flow of the basic inputs to the private sector. When the State owns almost the whole of the means of production, it is much more easy to achieve the desired pattern of resource allocation. State Capitalism, of course, has its own defects. Communist countries like China have now wide opened their doors to foreign private capitalists to foster development.

(ii) Central Authority: The socialist economies generally have a central authority like the central planning agency to formulate the national plan for development and to direct resource mobilisation, allocation and investment to achieve the plan targets. Socialist economies are sometimes called command economies because the central planning authority commands the pattern of resource utilisation and development. They are also called centrally planned economies. Centrally planned economies include the USSR, China, the German Democratic Republic (East Germany), Poland, Romania, etc.,

(iii) Restrication on Consumption: In communist countries, there is no consumer sovereignty because the State decides what may be made available to consumers. Unlike in the market economies where the consumers have the freedom to choose from a wide variety. The consumers in a communist system, thus have to content themselves with what the State thinks is sufficient for them.

(iv) Restriction of Occupation: The freedom of occupation is absent or restricted in socialist countries. An individual may not have freedom to choose any occupation he is qualified for. Similarly, individual freedom of enterprise is absent or regulated.

(v) Fixation of Wages and Prices: The wage rates and prices in a communist economy .are fixed by the Government and not by market forces. Non-communist socialist countries may also fix wages and prices or regulate them by certain means.

(vi) Distribution of Income: An equitable distribution of income is an important feature of the socialist system. This does not mean, however, that socialist systems aim at perfect equality in Income distribution. Wage differentials, depending on the nature and requirements of the job, are recognised in socialist countries. The object of equitable income distribution may be achieved by fixing the wage rates and other economic rewards by means of fiscal and other appropriate measures.

All the above are the important theoretical features of socialism. But in the real world, there are many socialist systems. All of them have one thing in common, namely greater government control of the means of production than capitalist systems.

The traditional socialism emphasised government ownership of factors of production. But a number of today's socialist systems are based on government control of the means of production rather than pure State capitalism. Even the Euro communism have a moral liberal view than the Russian and Chinese systems. However, the Chinese and Russian systems are becoming somewhat liberal.

6.3.10. Market Socialism:

Market socialism is characterised primarily by the public ownership of the mean of production. Decisions with reference to the allocation of resources are made both collectively and by individual producing and consuming units. Prices and markets are the primary mechanisms used to facilitate the exchange of products". The Yugoslavia economy contains many of the elements of market socialism.

6.4. MIXED ECONOMY SYSTEM :

A compromise system between capitalism and socialism is the 'Mixed Economy' concept. It inherits the virtues of both capitalism and socialism, while at the same time tries to avoid the evils of both those systems. It attempts to secure individual liberty as well as collective peace and happiness. It tries to ensure economic development as well as maximum social justice or growth with justice.

The following are the important characteristics of Mixed Economy.

1. Co-existence of both private sector and public sector: In a mixed economy both public and private sector have each a substantial share of the economic activities of the nation. The State clearly demarcates the fields open to the two sectors. Generally, agriculture, consumer goods industries, and retail trade are open to the private sector. Public utilities, basic and heavy industries and other strategic sectors of the economy are brought under public sector. Joint sector means certain industries are owned and managed jointly by private entrepreneurs and the State. The idea behind co- existence of different sectors in a mixed economy is to make a most rational and expeditious allocation and utilisation of nation's resources and to have general and strategic control over the national economy.

2. Economic Planning: The operation of the economic system under a mixed economy is planned and directed centrally so that the different sectors of the economy function in a co-ordinated manner. The economic planing may not be as authoritarian and comprehensive as in Russia but still lays down a broad framework of social and economic objectives for different sectors of the economy.

3. Positive role of Government: In a mixed economy, individual initiative and enterprise are neither crushed nor let free. The State interferes, directs and controls the economic behaviour of individuals in such a way that individual freedom is encouraged and utilised in a manner beneficial to the individual interest and social interest. The State combines in a balanced way the individual freedom and broad national interest.

Thus, mixed economy system is a middle path lying between capitalism and socialism.

6.4.1. Advantages of Mixed Economy:

Mixed economy is characterised by co-existence of private and public sectors. Production is carried on both sectors side by side for the well-being of the economy. Advantage of capitalism such as private property, freedom to take up any occupation, richest reward going to the ablest etc., are available. At the same time, drawbacks of capitalism like evils of cut throat competition, recurrence of trade cycles, in-equalities of income etc., are eliminated. Similarly the system claims to enjoy all the advantages of socialism and all evils of socialism are eliminated.

It is thus clear that under mixed economy all the advantages of capitalism and socialism are retained and their disadvantages are tried to be eliminated. Mixed economy has to prove its superiority over capitalism and socialism. It is said that it is a short lived economy. In due course, it either assumes the form of capitalism or degenerates into socialism. As for the basic problems of the economy what, who and for whom to produce are not solved in the best interests of the people. The economy fails to develop first, the reduction of inequality of income and wealth is not possible; there is also no full and stable-employment.

6.4.2. The Mixed Economy of India:

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The Indian economy is a mixed economy characterised by the co-existence of private, public and joint sectors, co-operatives sectors and small, cottage and medium industries. Certain areas are earmarked for different sectors with a view to achieving certain socio-economic objectives. The ideal of a mixed economic system has been adopted because it has been found to be the best system for the realisation of the goal of democratic socialism. A properly balanced system where such of the sectors have a specific role to play can make.: significant contribution to growth with social justice. The mixed system is a via media between the free enterprise-economy and state capitalism or communism. Such a mixed economy harnesses al l d harmonises the resources and skil l s of both the private and public sectors for national development. It is expected to have the positive effects of the free enterprise and state capitalism without their negative effects.

With a view to effectively regulate the private sector, not only is the private sector subject to a number of checks and controls, but the public sector has acquired control over" the commanding height of the economies. However, the private sector is given positive support for growth and development in the areas in which it is expected to function.

There is no denying the fact that the public, private, joint and co-operative sectors have made their own contributions to the economic development of the country, though each suffers from some drawbacks and deficiencies. The mixed economic system has: assisted in the acceleration of the pace of development for it has facilitated the augmentation of the productive resources and their channclisation and utilisation in I accordance with policy. This is not to say that there have not been distortion or improper developments. But such distortions are the result of defective policy.

The mixed economic system no doubt, is best suited for a vast developing country like India. Our development experience since independence bears testimony to this. Had not the public, private and other sectors played their respective roles, it would not have been possible for India to achieve whatever growth and diversification it has attained. The regulation of the private sector and the dominance of the public sector in certain areas are necessary for the attainment of the objective of the prevention of concentration of economic power in a few hands to the common detriment, to check the economic dominance and power of the private sector against social interest and promote social justice. At the same time, the pace of development has been accelerated by allowing the private sector to function in a number of areas. A lot of resources including skills would otherwise have gone unutilized.

The joint sector is an attempt at utilising the resources and talents of both the public and private sectors with social orientation to achieve development in the desired direction. The co-operative sector, which involves the operation to the democratic spirit has been

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encouraged in a number of areas to augment the resources of the common man and to facilitate their greater involvement in the development process.

Mixed economy could undertake projects which would not ordinarily be undertaken in a free capitalist economy. The government could undertake to start those projects which might have been beyond the capacity of private entrepreneurs. After working of the mixed economy over thirty-years in India, some drawbacks of the system have come to light. It is seen that sometimes the two sectors the private and the public instead of complementing each other begin to stiple each other. The private industries could not be effectively controlled by the government resulting in failure to prevent concentration of economic power and failure to achieve regional dispersal of industries.

The following Table draws a comparison among the three economic systems.

6.5. DEMOCRATIC SOCIALISM:

Origin:

Democratic Socialism has its origin in England. There, a compromise was arrived I at between democracy and capitalism peacefully. The capitalists agreed to the demands of the working community while in USSR, it was a hard fought battle between the capitalist and industrial workers.

6.5.1. Meaning:

Democracy is government by consent. As against autocratic leadership, it stands for responsible rule. Socialism implies social ownership of means of production. Democratic socialism was formed by taking some good aspects from both capitalism and socialism.

Democratic socialism respects the opinions of others, while the totalitarian communism uses violence to wipe out terrorism. The democratic socialist movement owes much to the ideas of Robert Owen, Sidency, Deatrice webb, Twawney, Laski, Burdin and others. Britain rejected Marxism and accepted democratic socialism.

Democratic Socialism and Communism:

A democratic socialism is a political system and the mixed economy is the economic system, following the features of democratic socialism.

6.5.2 Democratic Socialism in India:

Indian constitution has established socialistic pattern of society, where the principal means are under social ownership or control production is progressively speeded up and there is equitable distribution of national wealth. A resolution in this regard was passed by congress at the Avadi session in 1955. The 68th session of Indian National Congress also reiterated this view for bringing out a welfare state, following the path of democratic socialism.

India got the inspiration from Britain and the communists failed in their attempts to introduce their ideology in Indian sub-continent. There is no scope for Marxism and Leninism in India.

6.5.3. Principles of democratic Socialism:

1) Principle of equality:

The State should prevent the concentration of wealth in a few hands. Democratic socialism seems that the fruits of the labour art' not robbed off by their employers.

2) State Control over means of production;

Social ownership of means of production is essential and the State has to see that those means are utilised for common welfare.

3) Co-operation in the place of competition:

Free competition which is the basis of democracy exploits the poor consumers. Democratic socialism has to see that the co-operation must exist between private capitalists and public undertakings, replacing the competition between these two.

4) Against selfish individualism:

Democratic Socialism has borrowed the principle of welfare of the society from, socialism. Selfish individualism gave way to social welfare.

5) Rights respected:

There is no compulsion in the cultural and religious fields, affecting individual' liberties; Democratic socialism allows individual freedom and gives respect to the rights of individuals.

6) Supression of anti-Social Activities:

The state has to ensure that anti-social activities do not happen (and effective legislation is to be brought about to check this menace), Equitable opportunities must be given to all.

7) Widening the scope of democracy:

The principles of democratic socialism must be applied in the areas of production and distribution and they should go far beyond the frontiers of politics.

Merits of Democratic Socialism:

1) Upholds Dignity of the human Personality:

By respecting the individuals rights and adorning the principles of equality, the democratic socialism claims at upholding the dignity of human personality.

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2) Serves for common good:

It considers the society above the individuals and the selfish individualism in no Jway affects the welfare of the society.

3) Property as agency of service:

Property must be used as an agency of service, rather than being utilised as an instrument of exploitation.

6.5.4 Defects of Democratic Socialism:

1) Stepping stone to Totalitarianism:

Democratic Socialism gives enormous powers in the hands of government which may ultimately lead to totalitarianism.

2) Little incentive to produce:

As the state largely acquires the means of production, the incentive to increase the production is not given to the enthusiastic individuals.

3) Inefficiency:

With the absence of competition, production may start declining and quality may deteriorate, which are the signs of inefficiency of the state.

4) Red-tapism and corruption:

Since the State disallows the private enterprise functioning effectively, a wide scope is created for red tape, bribery and corruption.

5) Degeneration of character:

Individuals character may face degeneration as individualism is discouraged and individual freedom is curtailed.

6) Hardship to consumer:

As there is a little chance of competition, the consumers have to adjust their needs according to what is available in the market. Their freedom to choose among the lot is curtailed.

7) Materialistic:

Democratic socialism is criticised as utilitarian and materialistic as it does not care for ethical principles.

6.6. CAPITAL MARKET

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6.6.1. Definition :

Capital market is the market for long-term funds (just like the money market is for short-term funds). It is the market in which lenders and investors provide long-term funds in exchange for financial assets offered by borrowers or holders. It refers to all the facilities and institutional arrangements through with the savings of the community are made available for industrial and commercial enterprises and public authorities. It has nothing to do with capital goods; it is concerned with the raising of money capital. The commodity dealt with irl the capital market is long-term money, that is, money which is either lent for long periods, or is invested more or less perpetually. The demand for long-term capital comes predominantly from private sector manufacturing industries and from the government and to a very small extent from agriculture. The supply of funds for the capital market comes largely from individual savers, corporate savings, banks, specialised financial agencies and the government.

An ideal capital market attempts to provide adequate capital at reasonable rate of return for any business or industrial proposition which offers a prospective yield high enough to make borrowing worthwhile. According to Livingston, "It is the business of the capital market to facilitate the movement of the stream of command over capital, to the point of highest yield. By doing so, it enables control over resources. to pass into the hands of those who can employ them most effectively thereby increasing productive capacity and swelling national dividend". An efficient capital market is t! l erefore an essential prerequisite of economic development.

6.6.2. Divisions of the Capital Market:

The capital market may be divided into two parts, viz.,

(i) the market for new securities; and

(ii) the market for invested capital

The market for new securities directs the demand for new capital by expressing it in the form of securities adopted both in amount and the degree of risk to a widespread investing public. It comprises, various-trust and finance companies, company promoters, underwriters, brokers, issue houses and others who participate in the new issue activity. In the casc of new issues of corporate securities, company promoters float companies which offer securities, underwriters guarantee the subscription of the whole or part of an issue, brokers of repute lend their names to prospectuses and open up a market among their clients, bankers receive subscription and in return issue securities, while the well organised machinery of the issuing house enables them to carry out the necessary publicity work in connection with the issue. In the case of new issues of gift-edged securities, the government or the concerned local authority utilises the services of the central bank of the country in placing the issue before the investing public.

The work of the market for invested capital, i.e., issued securities the stock exchange is an important adjunct to the function of obtaining supplies of new capital from the public. This purpose it serves by providing facilities by which securities, when purchased, may readily, be exchanged among the people who hold them.

The market for new securities and the market for invested capital are equally / important, but often the new issue market is more important, from the point of view of economic growth. However, the functioning of the new issue market will be facilitated only when there are abundant facilities for transfer of existing securities.

Capital markets originate as new issue markets; as soon as considerable volume of issues come into existence, trading in invested capital (outstanding issues) begins Capital markets in which trading in outstanding securities is rather "thin" exist in many countries. However, markets in many countries have not yet developed the volume of trading that makes it possible to regard long-term financial assets as liquid. Markets in which this is possible are said to have breadth when orders to buy or sell come from many different groups, depth (when there are both buy and sell orders below and above current market price) and resiliency when new orders come into the market in volume when prices fluctuate. Capital markets with these characteristics provide significant liquidity for assets that otherwise would not be liquid: investors are induced to hold these assets because risk is reduced or minimised and borrowers find it easy to obtain funds.

6.6.3. Distinction Between Capital Market and Money Market:

The capital market may be distinguished from the money market. The money market is the mechanism whereby funds are obtained for a short period of time and financial assets representing short-term claims are exchanged. But the capital market is the mechanism whereby funds are obtained for long periods of time, and financial assets representing long term claims are exchanged.

Capital market facilitates investment and provides a degree of liquidity for financial assets that would not otherwise be liquid. The money market facilitates short-term financing and assures the liquidity of short-term financial assets.

The variations in the supply and demand for funds in the capital market are cyclical rather than seasonal as in the case of money market.

The money market is the main focus of central bank's activities in implementing monetary policy, although central banks do occasionally deal in the long term capital market.

Conceptually the distinction between a capital market and a money market is easy to understand. But as has been pointed out by Robbins Sydney "like the precise moment when a plain woman becomes pretty, the precise point at which the money market blends into the capital market is difficult to determine" The line of demarcation between a money market and capital m'1lfket is fast tending to be thin partly due to a changed concept of liquidity in recent years and partly due to the preponderance of fixed deposits in commercial bank which take an increasing part in long term investments. The operations in one market normally produce reactions in the other. For instance, when the dividend or interest is paid on the industrial or government securities, the funds in the money market swell up although it is the result, of operations in the capital market. Similarly, a relative rise in the rate of interest in the money market, may increase the demand in the capital market, and a relative increase in the rate of interest or yield in the capital market will increase the demand in that money market. Further many institutions deal both in the money market as well as in the capital market. For example, the commercial banks lend funds both for short periods as well as for long periods. Thus the two markets are so inter -related that some writers use the term 'money market' to include both the long-term capital market and short-term money market proper.

6.6.4. Importance of Capital Market:

The capital market performs several important functions in the process of economic development. Its two primary functions are:

i) Promotion of savings and investment; and

ii) efficient allocation of funds among competing users.

The major determinant of aggregated savings is, of course national income. But the provision of certain incentives for investment can raise the total savings cut of a given level of national income. The capital market is responsible for providing such incentives. It creates a variety of financial assets and ensures their liqlJidity and marketability. Thus it can help to increase the propensity to save.

In the process of growth, the saving capacity of certain classes of people and institutions increases and they have varied asset preferences. Their preferences are not static. They change from time to time. Similarly, the needs of entrepreneurs who use the savings for productive purposes are also varied. The capital market brings alliance between the tastes of savers and needs of investors through its financial instruments and institutions.

* One might have at fruitless debate as to what is 'long' period and what is short period. International convention is to regard any period longer than a year as long term, though it is also customary to divide the long term period itself into medium term say upto 5-7 years and long-term proper. S.L.N. Simha.

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The Capital Market Of India. P.2

** Robbins Sydney. The Securities Market p.14

If facilities the sale and purchase of securities representing capital that has already been issued. It also carries the newly issued securities until they are purchased by the public.

6.6.5. Growth of Capital Market:

The growth of capital market in a country depends upon the availability of-savings, proper organisation of intermediary institutions to bring the investor and business ability together for mutual interests, regulation of investment, etc.

Savings are influenced by the economic and industrial policy, political stability, prospects of profit earning, and monetary and credit policies followed by the government. The pattern of taxation pml icularly direct taxation of individuals and corporate enterprises, also has a direct impact on the rate of savings and investment.

Mobilisation of personal savings for industrial investment involves the breaking down of old habits and traditions which die hard. It requires imaginative and coordinated efforts in various directions besides creating a measure of confidence that savings invested in industrial concerns would be safe, secure, remunerative and readily marketable. Considerable educational and instructional publicity must be taken up to impress upon the public the value of diverting part of their savings of well -organised and long established concerns with good record of paying regular dividends.

The existence of specialised financial institutions and agencies, which are always on the look out for investment in new ventures is a sine qua-non of capital market. Availability of underwriting facility is an important feature of organised capital market. But the institution of underwriting will grow only if private savings are diverted -increasingly to industrial investments to relieve the load of underwriters. Similarly investment houses, banks, insurance companies and finance corporations have got a definite place in the successful functioning of the capital market. They help not only in the mobilisation of resources but also in the channeling of resources.

6.6.6. Capital Market in India

The capital market in India may be classified into two categories viz., organised and unorganized. In the organised sector of the capital market, the demand for long-term capital comes from corporate enterprises, government and semi-government institutions. The sources of supply of funds comprise individual investors, corporate and institutional investors like banks, investment trusts, life insurance corporations general insurance corporatiol1s, finance corporations, government and international financing agencies. The unorganised sector of the capital market consists of indigenous bankers in towns and moneylender in rural areas. There is no close contact between different constituents. This sector remains more or less cut off from the organised sector. The supply of funds by the constituents in this sector falls short of the requirements made on them. They finance mostly consumption rather than production and the rates of interest charged by them are exorbitant.

1) Reasons for its ill development :

Till recently, even the organised sector of the Indian Capital market was ill- developed because of the following reasons:

i) Agriculture, constituting the main occupation, did not warrant the flotation of securities.

ii) Foreign business enterprises which accounted for a greater part of industrial development in the past, depended on the London Capital market rather than on the Indian capital market. This also hampered the growth of the Indian capital market.

iii) Managing agents acted both as promoting and marketing agencies and thus prevented the development of specialised issue houses and underwriting institutions, which are so common in western countries.

iv) The total number of listed securities were small and the government securities accounted for nearly half of the total volume of issues in the capital market. Ordinary shares were the predominant type of security, while debentures and preference shares, whose price movements usually showed a close correlation with those of government securities, occupied a limited place.

v) Individual investors were only a few, limited to the affluent classes in the urban and rural areas. Besides, the government had placed many restrictions on the investment pattern of the various financial institutions, the institutional investors primarily invested in government and semi government securities. Further, the speculators operating on the various stock exchanges were mostly interested in a short list of speculative shares. As a result, the class of investors to purchase industrial securities on a wide basis was small and there was absence of continuous dealings in a large range of corporate securities. Therefore the capital market remained circumscribed.

vi) Conservative attitude of the commercial banking system and the absence of investment banking were the other reasons for the ill-developed nature of the Indian Capital market.

The situation has vastly improved in recently years with the expansion of investment activity, the awakening of investment consciousness among the people and the emergence of several specialised financial institutions.

2) Structural developments in recent years:

The capital market in India, till recently, had all the characteristics of an underdeveloped market. It was conspicuous by the absence of institutions like professional promoters, investment or issue houses, underwriting agencies and financial intermediaries. Serious flaws existed in the structure of capital market in India: Since independence and particularly after 1951, there has been a marked trend towards an organised growth of capital market and the volume of saving and investments has shown generally steady improvement. The following developments which aimed at removing the basic deficiencies of the capital market are worth mentioning.

1. Legislative Measures:

A fairly adequate legislative code for the protection of investors has been adopted by the government. The most important enactments are as follows.

a) The Companies Act 1956:

It is aimed at weaving an integrated pattern of relationship as between promoters, investors and management in order to increase the efficiency of corporate business. It has made considerable changes in the matter of prospectus, allotment of shares, terms and conditions on which companies may be floated and the share structure of companies in order to safeguard the interests of the prospective shareholders.

b) The Securities- Contracts (Regulation) Act. 1956:

The main object of this Act is to have a strong and healthy investment market in which public may invest their savings with full confidence. The Act permits only the recognised stock exchanges to function in the country and has introduced reforms in stock exchange trading methods and practices.

c) The Monopolies and Restrictive Trade Practices Act:

This Act which came into force on June 1, 1970 is intended to check the concentration of economic power in private hands which is detrimental to the common interests of the society and to control monopolies and restrictive trade practices.

2. Investment Consciousness:

There have been several indications in recent years, showing that more and more people have become investment conscious and are ready to Invest their savings in corporate securities. Moreover, they have shown eagerness to take up new issues as well. In some cases, shares of newly started companies, which offered no prospect of dividend for some years to come, had gone at a premium. From this it is clear that people have become not only investment-conscious but also 'growth conscious". This is a healthy sign indeed.

3. Decline in underwriting proportion:

The underwriting activity has made satisfactory progress in the recent years largely due to the impetus given by ICICI, IFCI, LIC, UTI and IDBI. Besides, banks and various stock brokers have also shown interest in this line. The proportion of amount devolving on the underwriters to the amount underwritten has continued to decline since 1967. This reflects the growing public response to new issues.

4. Change in the attitude of banks:

The commercial banks have contributed to the growth of the capital market rather indirectly by granting more advances against the shares and debentures. Although such advances may be essentially for providing working capital, the fact that bank credit is available against the shares and bonds tends to encourage investment in industrial finance corporation~ by purchasing their shares and debentures. Moreover, they also participate in underwriting either singly in association with other banks and institutions.

5. Establishment of specialised financial institutions:

In order to provide funds for large-scale industrial development, after independence in 1947, many special finance and development corporations have been established in the country. At present India, has an adequate network of special institutions for providing medium and long-term finance to industry.

6. Nationalisation of insurance & the setting up of UTI :

The nationalisation of life insurance business and the establishment of LIC in 1956, the establishment of UTI in 1964, the nationalisation of the General Insurance business and the consequent inauguration of the General Insurance Corporation in November, 1972 are the other important steps in the direction of strengthening and broadening the framework of the capital market.

7. Efforts to integrate the organised and the unorganised sectors of the capital market on the one hand and the money and capital markets on the other, have begun to bear fruits. The notable contribute factors in this direction are, the growth of joint stock form of business, the expanding role of the R.B.I. in the sphere of rural credit, the establishment of various finance corporations, the extension of banking into the interior! the diversification of the functions of commercial banks, government assistance to industry, etc. The pool of investible funds is widening and from this common reservoir, funds are being channelised into different directions, partly in accordance with statutory requirements and partly in accordance with the rate of return on investment.

Because of the aforesaid structural developments, the organisation of capital market in India does not compare much unfavourably with that of the developed countries. However, more concerted efforts are essential on the part of government & investors in this direction.

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Constituents of the Capital Market

There is a vast superstructure of financial institutions mainly in the public sector and the cooperative sector. Besides the RBI, commercial banks and cooperative banks, there is a large network of all India and State level developmental financial institutions which are serving agriculture, industry, services, export and housing. Further, there are specialised financial institutions such as insurance and investment companies, UTI and mutual funds, hire purchase and leasing companies" venture capital funds and factoring organisations. All these institutions employ a variety of instruments to mobilize resources and channel them for short term credit and also for medium and long-term investment. The IDBI, the Small Industries Development Bank (SIDBI), NABARD, EXIM Bank and the National Housing Bank (NHB) serve as apex institutions, in their respective area of specialisation. 24 Stock Exchanges further strengthen the Indian capital market.

1950s and 1960s is a period of transition for the capital market. 1969 to 1985 is a period of expansion and diversification. The period commencing from 1985 is a period of consolidation, innovation and liberalisation

Indian capital market remained dormant till 1970s. The directives under the FERA 1973 to dilute the share holdings of foreign companies gave an impetus to the market. This was followed by a series of steps which have helped to diversity the capital market:-

1. Relaxation in terms & conditions of debenture issue
2. Encouragement to PSU to float bonds carrying high yields
3. Liberalisation of investment facilities to NRIS for investment in Indian companies.
4. Encouragement to banks to increase their participation in primary markets.
5. Extension of membership of stock exchanges to financial institutions.
6. Disinvestment by PSU
7. Abolition of the office of the controller of capital issues.
8. Liberalised Industrial policy announced in July 1991.

For the orderly functioning of the securities markets, the National Stock Exchange of India Ltd., (NSEIL) was incorporated by banks and financial institutions with IDBI as the nodal agency.

Narasimham Committee on Monetary Reforms

The Report of the Narasimham Committee on Monetary Reforms (tabled In Parliament on December 17, 1991) has recommended capital market liberalisation.

1. Substantial and speedy liberalisation of capital market has been suggested by abolishing any prior approval of any agency for any issue in the market.

2. Securities and Exchange Board of India (SEBI) should formulate a set of prudential guidelines to protect investors by replacing the existing restrictive guidelines issued by the Controller of Capital Issues.

3. Capital market should be opened up to foreign portfolio investment gradually with efforts to improve the depth of the market by facilitating issue of new types of equities and innovative debt instruments.

4. New legislation should be enacted' for mutual funds on the lines obtaining in i several countries with a view to providing appropriate general framework.

6.6.7. Shortcomings of the capital market:

Indian capital market suffers from paucity of resources and several shortcomings also which detract the usefulness of its services.

1. The link between different constituents of the market such as the equity market, gilt edged market and other financial institutions is not so strong. These constituents function in an uncoordinated manner.

2. There are no advisory facilities to guide the individual investors. This is one of the factors responsible for the low level of investment. The stock brokers also do not provide any effective service in this regard.

3. The rates of return vary widely in respect of different kinds of securities. This also indicates that the different constituents are not effectively interlinked. There are also wide differences between yields on government and corporate securities. The loans by institutions carry interest rates which also differ widely from yields on other kinds of investment.

4. The rates at which funds are available in the capital market are comparatively high.

Therefore, our efforts to develop the capital market must aim at removing the shortcomings.

Model Question

1. Define a capital market. What steps have been taken to develop Indian capital market?

6.7. MONEY MARKET

"Money Market" according to McGraw Hill Dictionary of Modem Economics "is the term designating the financial institutions which handle the purchase, sale and transfer of short term credit instruments. Money market includes the entire machinery for the channelizing of short-term funds. Concerned primarily with small-business needs for working capital, individual borrowing and government short-term obligations, it differs from the long-term capital market which devotes its attention to dealing in bonds, corporate stocks and mortgage bonds". In the words of Geoffrey Crowther "the Money Market is the collective name given to the various firms and institutions that deal in the various grades of

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near money". From these two definitions, it is clear that money market refers to the whole network of financial institutions dealing in short term credit. The money market brings together the lenders (who have surplus short term investable funds) and the borrowers (who are in need of short-term credit). The dealers in the money market consist of the central bank of the country, commercial banks, commercial and industrial concerns, stock exchange, brokers, dealers in government and other securities and also the government.

The money market deals in short-term credit instruments. No single definition or list of short-term credit instruments can apply to the money market of all countries, nor will the list remain the same, through the years, in the money market of a given country. Although they vary among countries, the touch stone of any money market instrument is : the closeness of its substitutability for money. So long as the institution making use of the money and so long as the Central Bank acquires in or approves this approach, the instrument is (in practice) a money market asset. Some of tile common money market instruments are bills of exchange, treasury bills and other short term government papers.

The money market does not to a particular place where money is borrowed and lent by the parties concerned. Negotiations between the borrowers, lenders and other dealers are carried out through the telephone, the telegraph and the mail. The term "market" in the context of money market simply refers to an arrangement that helps the buyers and sellers to come together and allows them to seek opinions about the value of things traded quickly and cheaply. Geographically, the money market may be associated with a particular place or locality. Examples are the London Money Market, the New York Money Market and the Bombay Money Market. A hall or any other common meeting place is, however, a matter of convenience although the London and New York money markets operate largely in the Lombard and Wall streets through dealers and brokers talking over the telephone.

6.7.1. The Composition of the Money Market

The money market is not a single homogeneous market, but is composed of several sub-markets. Each sub-market specialises in a particular type of short-term credit. However, as each money market has different types of sub-markets, it is impossible to speak about the composition of a money market in general, without specifying the market we are studying. The most important components which are common to most markets of the world are the following:-

a) Call Money Market

This market deals with extremely short-period loans. This market is composed of mainly the bill brokers and the commercial banks.

(i) The bill brokers and dealers in the stock exchange require financial accommodation for short periods to finance their customers trading on margin and their holdings of securities on the one hand.

(ii) Commercial banks provide call loans. Loans may be given for a day, overnight or upon a maximum period \)f seven days without any collateral securities. Such short period loans are referred as call loans because they can be recalled by the lending bank concerned at any time it deems it necessary. The investment of funds in call loans is found to be very useful by banks for two reasons. First, call loans can be converted into cash at the shortest possible notice and are therefore almost like cash; that is why banks consider their call loans the second line of defence after cash. Secondly, unlike cash, the call loans earn some income for the banks in the form of interest. The call money market is an important section of the money market.

b) Acceptance Market:

It is the market for banker's acceptances which arise out of trade-both inland and foreign. Banker's acceptances are bills accepted by bankers on behalf of their customers. A bill carrying the signature of a banker can be easily discounted in the money market. In London money market, there are specialist firms known as acceptance houses which accept bills drawn on them by traders. Bills accepted by well known acceptance house can be sold or discounted anywhere in the money market. The acceptance market, which was a prominent section of the London money market, has declined in its importance in recent years. The function of the acceptance house is performed by the commercial banks in several countries.

c) Bill Market:

It deals with short-dated commercial bills and treasury bills. Since discounting of bills is the main business in this segment of the money market, it is often referred to as ' discount market. Till the end of the first quarter of the present century, the most important paper discounted in the London money market was the commercial bill. Thereafter the importance of commercial bills declined and their place has been taken by the treasury bills.

But it must be pointed out that these sub-markets are not watertight compartments. These are intimately related to one another. Indeed the purpose of developing specialised submarkets "is not to build up separate kingdoms, but to construct bridges between the several parts of the money market" The growth of specialisation is to favour on the whole, the development of fuller and more complete integration of the several markets that constitute the money market complex by facilitating the flow of funds both between as well as within markets.

Institutions in the Money Market

We may also analyze the money market on the basis of the different institutions engaged in lending and borrowing short term funds The nature of these institutions may vary from country to country. The institutions may also function both as borrowers and lenders in the market. The most important among them are the following:

Commercial banks are at the centre of most money markets, both as suppliers and as users of funds; and in many markets, a few large commercial banks serve also as middle men. They obtain funds by accepting deposits and borrowing from other banks and from the central bank. They provide mostly short term loans and discount or buy money market instrument.

I. Central Bank:

The central bank is the leader of the money market. Being the lender of last resort and the ultimate authority and controller of monetary and banking conditions in the country, it controls and guides the institutions of the money market. The effectiveness of the controls of the central bank is determined by the character and the structural pattern of the money market. The more organised a money market, the more effective shall be the control of the central bank.

II. Institutional Investors:

They include financial and non-banking financial institutions like savings bank, insurance companies, trust companies and investment trusts. The portion of their funds which is invested in liquid assets finds its way into the money market.

III. Acceptance houses and discount houses:

They constitute an important part of the money market in the U.K. The bills' accepted or guaranteed by acceptance houses become easily discountable in the money market. The discounting of bills is the business of discount houses.

IV. Others:

There are various other institutions that deal in short term money. It is not possible as pointed out above to give a comprehensive list of all such institutions. The government has become probably the biggest borrower everywhere. Industrial and trading concerns, stock exchange, brokers and dealers in government and other securities are the other important borrowers in the money market.

6.7.2. Characteristics of a Developed Money Market :

Some type of money market exists in every country. But only a few countries have developed money markets, Prof. S.N. Sen has described the characteristics of developed money market in his well-known book "central banking in underdeveloped money-markets". If one or more of these characteristics are absent, the money market may be regarded as underdeveloped one. The basic features of a developed money market are the; following:

1. Highly organised commercial banking system:

A fully developed money market implies the existence of a highly organised banking system. The commercial banks are the nucleus of the whole money market. They are the main dealers in short-term funds. They employ their funds in different parts of the market. They are the most important suppliers of short-term funds and, therefore, their policies regarding loans and advances have an impact on the entire money market. The banking system in a developed country should be not only well developed but also well co-ordinated and well integrated. In the absence of a developed banking system, a country; cannot have a developed money market.

2. Existence of Central Bank:

The presence of a central bank, capable and willing to act as the leader of the money market, is a basic prerequisite of a developed money market. Just as a state cannot exist and function properly without a head, so also a money market cannot function properly without a central bank. As the lender of last resort, it comes to the rescue of member banks in times of need and emergencies. Through its open market operations, the central bank absorbs surplus cash duri! l g off-seasons and provides additional liquidity in times of financial stringency. Its credit control measures direct the volume and tempo of activities in the money market. Thus, the central bank is the leader of the money market as it is the controller and guide. In an undeveloped money market, either the central bank does not exist or is in its infancy without adequate capacity to influence and control the money market.

3. Existence of a number of submarkets and competition:

A developed money market is one which is composed of a number of sub-markets, each specialising in a particular type of short-term credit.

As Prof. S.N.Sen has pointed out "the larger the number of sub-markets the broader and more developed will be the structure of the money market". Further there must be "reasonably" workable competition in each sub-market. In other words, the contacts among all participants must be sufficiently open and free to assure each supplier or user of funds that he will get, or pay, a price that fairly reflects all influences (including his own) that are currently affecting the whole supply and the whole demand. The important sub-markets, especially the bill market, are absent in an undeveloped money market. The dealers in each submarket are neither sufficient in number nor well informed in an undeveloped money market to ensure reasonable competition.

4. Proper co-ordination among sub-markets:

The sub-markets should not be independent or isolate but should form an integrated structure in which every part of the money market is in intimate relationship with each other. This is essential for the free flow of funds from one sub-market to another, for the existence of a common rate of interest in all sub-markets and for the effective control of the entire money market by the central bank.

5. Existence of an integrated interest structure:

A developed money market is characterized by the existence of a well coordinated and well integrated interest-structure in the economy. The various types of current interest rates in the market are properly integrated with each other. Any change in the bank rate of the country produces proportionate changes in the interest rates in the market. In fact, it is through this integrated interest structure, that the central bank exercises control on the functioning of the money market.

6. Availability of proper credit instruments:

A continuous supply of highly acceptable and therefore negotiable credit instruments such as bills of exchange, treasury bills, short-term government bonds etc., is necessary for the effective functioning of the money market. An undeveloped money market is characterized by absence of sufficient short-term credit instruments Such a situation circumscribes the dealings in such a market.

7. Availability of ample resources:

Yet another important condition for a developed money market is the availability of ample resources to finance the dealings in the various sub-markets. These resources generally come from within the country but it is also possible that foreign funds may also be attracted. While developed money markets like London and New York attract funds from all over the world, undeveloped money markets do not attract foreign funds mainly because of political instability and absence of stable exchange rates.

8. Other contributory factors:

Apart from those listed above, there are many other contributory factors such as a large volume of international trade leading to the emergence of a stock market, stable political conditions, absence of discrimination against foreign concerns, sensitiveness to international influences, and so on.

A well developed money market is the basis for an effective monetary policy. It is in the money market that the central bank comes into contact with the financial sectors of the economy as a whole and it is through varying the liquidity in the market and thereby influencing the cost and availability of credit that the central bank achieves its economic objectives. In the light of this, let us examine the features of the Indian money market.

"So long as India was a British dominion she relied largely on the London Money Market's facilities for the requirements of her banks industry and commerce". Soon after independence, the Indian national government adopted the policy of developing a modem money market.

Present structure of the Indian Money Market:

One of the characteristics of money market in developing countries is that their primitive indigenous money markets continue to co-exist with more recently developed modern money markets. India is not an exception to that. The money market in India comprises of two sectors which may broadly be termed as the organised and unorganised markets with substantially higher rate of interest in the unorganised sector. The organised market consists of the Reserve Bank of India, public sector banks and other joint stock' banks - Indian and foreign. Some years back quasi-government bodies and large-sized joint stock companies also used to participate. The commercial banks, have opened their doors to small industrialists and traders. At any rate with the substantial improvement in the geographical coverage of the organised sector and the efforts to the financing of the small man, the share of indigenous bankers in the fil1ancing of trade is declining.

Sub-markets of the Indian Money Market:

The various sub-markets in the organised sector of the Indian money market are as follows:

1. Inter-bank call money market:

The core of the Indian money market is the inter-bank call money market. Although the magnitude of funds dealt in this market is not large in relation to the deposit resource of banks, perhaps this is the most sensitive sector of the money market. It is situated in Bombay, Calcutta and to a smaller extent in Madras. The foreign exchange banks borrow more frequently in this market than others. They borrow call money whenever they find the value of bills offered to them for discount exceeds that of bills maturing for payment of that day. Indian joint stock banks borrow call money to make up any deficiency in the cash reserves that they are compelled by law to keep with the Reserve Bank of India. The State Bank of India does not participate in the call money market but other banks obtain loans and advance from it.

Most transactions in the inter-bank market are unsecured. Brokers are seldom used I; in the market, but they are active in acting as intermediaries between banks and non-bank lenders or borrowers. The rate of interest on call money varies between 3 and 10% depending upon the nature of season (busy or slack) and the purpose for which money is borrowed.

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2. Short term government securities market:

The absence of well developed bill market makes the market for short term government securities an important segment of the Indian money market. Till the Second World War, the volume of government securities was very small and then onwards it has increased considerably. Before the Second World War, the Imperial Bank and a few other banks used to purchase treasury bills and other short term securities of the government. Now these securities are spread over a large number of commercial banks, co-operative banks, insurance companies, individual investors, etc. The R.B.I. is the largest holder of government securities and it sells and buys securities. In such operations, the RBI usually employs the services of established brokers.

3. Collateral Loans Market:

This constitutes yet another important segment of the Indian money market. Usually 85 to 90% of the loans made by scheduled commercial banks are covered by collaterals like government securities, gold and silver, stocks of corporations, merchandise and real estate. Collateral loans may take the form of loans, overdrafts and cash credits. Stock brokers borrow usually large amount against stock and bonds although private individuals also take such loans.

4. Bill Market:

The bill market in India is not well developed.

(Please refer Bill Market Scheme in India)

6.7.3. Defects of the Indian Money Market

The Indian money market was loosely organised and exhibited a number of deficiencies before the inauguration of the RBI in 1935. Some of the deficiencies are found even now. We shall now explain them below.

(1) Existence of unorganised money market:

The major defect of the Indian money market is the separation of the Indigenous bankers from the organised money market. "At around the time the RBI was established, the unorganised money market was the most important money market accounting for according to one estimate, as much as 90 percent of the transactions". Since then its importance in overall terms has fallen considerably but for the certain sectors like agriculture, retail trade, various classes of small borrowers and also to some extent, small scale industry. This market, continues to remain an important source of finance. Its chief advantages are flexibility in operation and ease of access for the borrower. But these advantages are more than off set by the highly onerous terms on which it makes its resources available to the borrowers.

This unorganised money market follows its own rules ofbanking and finance. Though the indigenous bankers operating in the unorganised sector enjoy rediscount facilities from the organised banking system, they prefer to remain outside the control and regulation of the R.B.I. To the extent, that these indigenous bankers are outside the organised money market, the R.B.I.'s influence over the entire money market is limited

(a) With the substantial Improvement in the geographical coverage of the organised

sector and the efforts to cater to the requirements of the small man.

(b) The recent statutory curbs imposed on the operations of indigenous bankers, the importance of unorganised market has fallen considerably.

(2) Inadequate connection between the component parts:

Another important defect of the Indian money market was the division of the money market into several sections, loosely connected to each other. There was a time when each section such as the Imperial Bank of India (now the State Bank) the exchange banks, the Indian owned joint stock bank, co-operative banks and indigenous bankers limited itself to particular class of business and remained independent in its own sphere. Moreover the relations between the various members of the money market were not cordial. With the emergence of the R.B.I., as the genuine central bank of the country in 1935, this defect is being gra9ually removed. All sections of the money market are treated equally by the R.B.I. as regards licensing, opening of branches, share capital, the type of loans and e advances to be given etc.

The R.B.I. is now fully effective in the organised sector as it is in a position to control the operations of the organised sector. Both commercial and co-operative banks have come to rely increasingly on the rediscounting and borrowing facilities provided by the R.B.I. especially during the busy season. Besides, the R.B.I.. guides them in their lending policies and regularly inspects the books of commercial banks.

(3) Diversity in rates of interest:

Another major defect of the Indian money market related the confusion of the money rates. Long ago, the central banking enquiry committee wrote: "The fact that a call of rate of 0/4% a hundi rate of 3% a bank rate of 1 % a bazaar rate of small traders of 6 *3f4%* and a Calcutta bazaar rate for bills of small traders of 10% can exist simultaneously indicates an extra ordinary sluggisheness of movement of credit between various markets;". The basic reason for the existence of so many rates of interest was the immobility of funds from one section to another section of the money market. This defect has been more or less removed. Nowadays, the different money rates of interest promptly adjust themselves to changes in the bank rate.

(4) Seasonal stringency of money :

A very striking characteristic of the Indian money market IS the seasonability of *the* demand for money and credit which broadly follows the course of agricultural seasons. The busy season which extends roughly from the end of October to end of April requires finance for the post-harvest movement of agricultural operations, the money lent by being usually termed as "house money" In recent years, such "house money" has declined to negligible proportions. Besides these institutions, there are also financial intermediaries, such as call loan brokers, general finance and stock brokers and underwrites.

The unorganised market which itself is not homogeneous, is largely made up of "indigenous" bankers. In this market there is no clear demarcation between short term and long term finance, not even between the purpose of finance, in as much as there is usually nothing on hundi to indicate whether it is for financing trade or for providing financial accommodation (in other words, whether it is genuine trade bill or only an accommodation bill). By and large, these hundis are accommodation bills.

The co-operative credit institutions occupy a somewhat intermediate position between the organised and unorganised sectors of the money market. These institutions were set up mainly with a view to supplying the indigenous sources of rural credit, particularly the money lenders, since the credit provided by the money lenders was subjects to many drawbacks, especially high interest rates. Besides stepping up substantially the scale of RBI assistance to the co-operative sector, closer links have been forged between the co-operative credit system and the organised money market particularly with the State Bank and its subsidiaries. The following chart shows the structure of the Indian money market.

The RBI occupies a strategic position in the money market. It is the key constituent of the money market being the residual source of supply of funds. It is this which makes the RBI's operation assume great significance.

The money market structure in India is not entirely unco-ordinated. The indigenous bankers enjoy rediscount facilities from the commercial banks which in turn have access to the RBI. Recourse on the part of the indigenous money market to the resources of the organised money market takes place usually during the busy season when the crops are being harvested and moved from the producer to the wholesaler. Recently, such recourse by the indigenous bankers to the organised sector has been reduced considerably. The State Bank of India has completely withdrawn from hundi business and even the other banks have restricted their business of rediscounting hundies. Since commodities from the producers to final consumers for meeting the needs of seasonal industries like sugar and to some extent coal and for meeting the generally higher tempo of economic activity in the post-monsoon period. The incidence of closing of accounts of the government at the end of the financial year in March also adds to the element of seasonality in the money market.

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From the end of April, these pressures begin to subside and all till the end of October the banking system experiences a lean period for the demand for money and credit.

"Similar seasonal influences exist more or less in most other countries, but in few countries is their extent comparable with the seasonable influences in India". These seasonal fluctuations in the demand for credit lends to wide fluctuations in the money rates. Before 1935, the call money rates rose sometimes to 7 to 8 percent in the busy season while in the slack season they fell to as low as 1 % (percent) or even to 0.5. percent. The RBI has done a useful job by pumping in funds during busy seasons and reducing them during slack seasons. Besides, the bank rate of the RBI has noticeably reduced the seasonal fluctuations in interest rates.

(5) Interest rate disparity in different centres:

The interest rates prevailing in the different parts of the country, including the two principal financial centres viz, Bombay and Calcutta are not uniform. In certain parts high interest rates may co-exist with low interest rates in certain others. That is due to the fact that funds do not move from one financial centre to another. The R.B.I. has rationalised and cheapened the system of remittance of funds between different parts of the country and has thereby helped to bring down to a considerable extent the disparity in interest rates in different centres.

(6) Absence of a bill Market:

Another defect of the Indian money market was the absence of the bill market. A well organised bill market is essential for the smooth working of the credit system, It is also necessary for linking up the various credit agencies ultimately and effectively to the Central Bank of the country. The first scheme introduced by the R.B.I. in 1952 to develop a bill market was a failure. Therefore, in 1970 the New Bill Market Scheme was introduced. The Scheme has begun to bear fruits.

(7) Absence of a well organised banking system:

Finally, a major defect of the Indian money market was the absence of a well organised banking system. The most obvious shortcoming of the Indian banking system was its utter inadequacy. Further there was urban orientation and wide geographical disparity. Since independence and especially after passing of the Banking Regulation Act, 1969 the R.B.I. has been exercising considerable influence and control over the banking system. After the nationlisation of the 14 major banks in 1969, the nation has witnessed a very strong-all-round growth in banking.

Is our money market an underdeveloped one?

It is usual to think of the Indian money market as being undeveloped. Admittedly, Indian money market is a loosely knit one and there is no developed bill market. But it must be

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pointed out that "a money market must be a product of its environment and simply because certain markets have been built upon the basis of particular class of business is no reason for believing that all money markets must follow the same pattern. Even in the absence of a bill market there will still be in evidence a system of organised relationship and a specialisation of function similar to (though not identical with) those characteristics of money markets elsewhere". Therefore, just because there is no developed bill market, we should not come to the conclusion that the Indian money market is undeveloped..

As has been claimed by the official publication of the R.B.I. from the point of view of specialisation of functions and organised relationships, the organised sector of the Indian money market may be considered to be comparatively well developed. However, it must be admitted that the RBI has not succeeded in removing the defects of the Indian money market to such an extent as to make the Indian money market comparable to the London or New York money market. Therefore we conclude saying that a considerable progress has I been made in developing our money market, yet something more still remains to be done.

Bill Market Scheme in India

A developed bill market is considered to be an essential ingredient of developed money market. Much importance is attached to the development of a bill market because it offers the following principal advantages. -

1. The Bill Market is highly sensitive to bank rate fluctuations. The impact of bank rate changes can be transmitted to the rest of the banking system through this bill market easily. Therefore it makes the bank rate an effective weapon of monetary control and thereby helps the central bank to effectively control and influence the volume of credit.

2. The assets of a lending bank representing cash credit advances cannot be shifted to another bank in case the lending bank wants liquid funds urgently. But bills discounted can be shifted to other banks or the central bank with greater ease.

3. It is advantageous to the borrowers of short term funds as a high class bill of exchange can be discounted at rates lower than those charged by banks for advances.

4. The use of bill imposes financial discipline on the traders who purchase goods on credit and helps the suppliers to plan their financial commitments in a realistic manner.

Till recently, there was no bill market in India because of the following reasons.

1. Lack of uniformity in drawing bills as between different parts of the country.

2. The practice among traders of extending credit not subject to any specified time limit and the collection of credit by travelling salesman.

3. The large use of cash credit as the main form of borrowing from commercial banks.

4. The preference for cash transaction in certain lines of activity.

5. The absence of adequate warehousing facilities for storing agricultural produce.

6. The high stamp duty on usance bills

7. The preference of commercial banks to secure financial accommodation from the R.B.I. by way of loans on the security of government bonds rather that by rediscounting of commercial papers

8. The practice of considering the rediscounting of bills *by* commercial banks as a sign of weakness of the bank concerned.

9. The reluctance of the indigenous bankers who specialised in hundi business to convert themselves into discount houses. (similar to those in the London Money Market)

a). Bill Market Scheme 1952:

The RBI's efforts to create a bill market in India took the fonn of the Bill Market introduced by it in January, 1952.

(i) The RBI undertook to grant scheduled commercial banks in the form of demand loans against their promissory notes supported by 90 days usance bills or promissory notes of their customers.

(ii) The scheduled banks were permitted to' convert a part of their advances viz.., their loans, cash credits and overdrafts into usance promissory notes for 90 days for lodging as collateral for advance from the RBI.

(iii) As a further inducement to banks to create a bill market the RBI undertook to bear half the cost of the stamp duty incurred in converting demand bills into time bills.

(iv) The minimum limit for an advance which a bank might take from the RBI at anyone time was fixed at Rs. 25 lakhs and that each individual bill tendered by scheduled banks should be for not less than Rs. 1 lakh.

The scheme was originally restricted during the first year of its working to scheduled banks having deposits of Rs. 10 crores or more. In June 1968 the scheme was extended to cover all the scheduled bal1ks. To enable the scheduled banks to provide finance to exporters on a liberal scale, the scheme was later extended to cover export bills.

This scheme was based not on any genuine bills but on 'created' bills to enable the commercial banks to obtain accommodation from the RBI (obviously it did not succeed in promoting a genuine bill market in India. Neither trade nor industry found any necessity to accept the discipline of a bill of exchange so long as finance could flow to them easily under the cash credit system. All that they had to do under this scheme was to create a bill in favour of their bank against the existing facility, as and when needed by the latter. The

Banking Commission has rightly pointed out, "it (i.e. the bill market scheme of 1952) was primarily a scheme of accommodation for banks : The scheme did not however develop a market in genuine bill).

c) New Bill Market Scheme, 1970:

Conditions changed rapidly and fundamentally with social control and nationalisation of banks. The Dahejia Committee on finance for Trade and Industry in its report to the National Credit Council (now defunct), exposed the abuses of cash credit system and suggested the use of bill financing for the supervision of the end-use of funds lent by commercial banks. The RBI constituted a study group in February, 1970 under the chairmanship of Shri. M.Narasimhan to go into the question of enlarging the use bill of exchange as an instrument for providing credit and the creation of a bill market in India. The group submitted its report in June 1970 and immediately thereafter the RBI announced the new bill market scheme under section 17 (2) (a) of the Reserve Bank of India Act. The scheme came into force on 1st November, 1970. The main features of the scheme are given below.

I. All Licenced scheduled commercial banks including the public sector banks are eligible to offer bill of exchange for rediscount.

2. The scheme covers only genuine trade bills which are an evidence of sale of goods. The bills of exchange should indicate on the face therefore the nature of the transaction and the particulars of the document of title to goods relating thereto.

This committee was constituted in October, 1968 by the National Credit Council under the chairmanship of V.T.Dahejia to examine "the extent to which credit needs of industry and trade are likely to be inflated and how such a trend could be checked". It submitted its report in September 1969.

3. The bill should normally be of usance not exceeding 90 days and in exceptional cases it may have usance upto 100 days provided that at the time of offering to RBI for rediscount, the bill should have a maturity period of not exceeding 90 days.

4. As required under the Reserve Bank of India Act, the bill should have at least two good signatures, one of which should be that of a Licenced scheduled bank. Accordingly, the following four types of bills are deemed eligible for rediscount.

(a) A bill drawn on and accepted by the buyer's banker.

(b) A bill drawn on the buyer and his banker and accepted by both of them jointly.

(c) A bill drawn and accepted by the buyer under an irrevocable letter of credit and certified by the buyer's bank, which has opened the letter of credit, in the manner specified under the scheme, and

(d) A bill drawn on and accepted by the buyer and endorsed by the seller in favour of his bank and bearing an undertaking signed by a Licenced scheduled bank who should be an endorser of the bill confirming that the bill will be paid on the due date.

5. The scheme would exclude bill of exchange arising out of sales of such commodities as the RBI may indicate from time to time.

6. Rediscounting facilities for the present would be made available at the RBI's offices at Bombay, Calcutta, Madras and Delhi.

7. The bills should be given in bunches in order to avoid rediscounting of a number of small bills, the amount of a single bill offered for rediscount should not be less than Rs.5000 (now reduced to Rs.1000) and the total value of the bills offered at a time should not be less than Rs.50,000.

In July 1971, the scheme was extended to cover bills of exchange arising out of sale of goods to government departments and guasi-government bodies as statutory corporations and government companies provided such bills confirmed to the requirements of the scheme. In October 1971, it was decided to dispense with the actual lodgment of bills each of the value of Rs. 2 lakhs and below by the banks with the RBI and to authorize the ba.'1ks to hold such bills with themselves as agents of the RBI. This decision was taken to reduce the work involved in delivering and redelivering the rediscounted bills to and from RBI. This minimum amount of a bill eligible for rediscount with the RBI was reduced from Rs. 5000 to Rs. 1000. Bills of exchange drawn and accepted by the ICICI on behalf of its purchaser's constituents singly or jointly with them were also made eligible for rediscount under the scheme in April 1972. Further with a view to widening the scope of the scheme, the RBI suggested to banks in appropriate cases that books debts limits might' be converted into bills limits to the extent feasible. The banks were also asked to avail of bills rediscounting on increasing scale.

The scope of rediscounting facility under the scheme was modified in 1974-75 to prevent the use of the preferential treatment accorded to bill as a means of circumventing overall credit restraints. Two developments relating to rediscounting facility may be noted. First, the scheduled commercial banks were permitted to rediscount genuine trade bills of exchange held by them, with any of the following institutions, viz., commercial banks, LIC, UTI, General Insurance Corporation and ICICI besides the RBI. However, banks are not permitted to rediscount bills with any state level term lending institution or other institutions except those specified above. Secondly bill rediscounting facilities were also made available with effect from April 1 511975, at the Ahmedabad office of the RBI.

6.8. FOREIGN EXCHANGE MARKET

6.8.1. Meaning of Foreign Exchange :

To an ordinary man, international finance is synonymous with exchange rates and a large part of the study of international finance involves the study of exchange rates. In the words of Prof. H.E. Evitt, the subject of foreign exchange is that section of economic science which deals with the means and methods by which rights to wealth in one; country's currency are converted into rights to wealth in terms of another country's currency. Dr. Paul Einzig states that, "foreign exchange is the system or process of converting one national currency into another and of transferring money from one country to another". The term foreign exchange is used to refer to foreign currencies. For example, in the Foreign Exchange Regulation Act 1973, exchange is used to refer to foreign currencies. For example, the Foreign Exchange Regulation Act 1973, [FERA] defines foreign exchanges as foreign currency and includes all deposits -credits and balance payable in any foreign currency, and any drafts, travelers cheques, letters of credit and bills of exchange expressed or drawn in Indian currency but payable in any foreign currency.

6.8.2. Foreign Exchange Market : Meaning :

Foreign exchange market is the market in which individuals, firms and banks buy and sell foreign currencies or foreign exchange. The foreign exchange market for any currency, for example, the U.S.dollar is composed of all the locations such as London, Paris, Frankfurt, Singapore, Hong Kong, Tokyo where dollars are bought and sold for other currencies. These different monetary centres and coll.'lected by a telephone network and Video screens and are in constant contact with one another and thus forming a single international foreign exchange market.

The interbank foreign exchange market is the largest financial market on earth with a daily volume in excess of $ 100 billion. It is an informal arrangement of the larger commercial banks and a number of foreign exchange brokers for buying and selling foreign currencies. The banks and brokers are linked together by Telephone, Telex and a satellite communications network called the Society for Worldwide International Financial Telecommunications (SWIFT). The computer based communications system, based in Brussels, links banks and brokers in just about every financial center.

6.8.3. Participants in Foreign Exchange Market

The participants in foreign exchange market are

(i) ***Traditional users:-*** They are exporters, importers, tourists and investors who exchange domestic currencies for foreign currencies to pay for their international' transactions. Also traders, and speculators (individuals, investment managers and corporate treasures)

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who trade currencies, seeking short term profits by betting on the direction of changes in their relative price.

(ii) ***Commercial banks :*** which buy from and sell currencies to traditional users, traders and speculators.

(iii) ***Brokers*** who arrange currency deals among commercial banks. It is called as inter - bank or wholesale market.

(iv) ***Central banks*** will intervene in foreign exchange markets to, stabilise the value of their currency in relation to other currencies. Thus *four* levels of participants can be identified in foreign exchange markets.

6.8.4. Organisation of the Market

The organisation of the foreign exchange is given in the following *exhibit.*

The participants in the foreign exchange market are represented by a pyramid of four layers. Layer I at the bottom, the exporters, importers and tourists generate either a supply or demand for foreign exchange. These ultimate users and suppliers of foreign exchange do not deal directly with one another. They are using the services of commercial banks which are represented by layer 2. Each commercial bank acts as a clearing house by purchasing foreign exchange from some of their customers while selling it to others. Sometimes some commercial banks total purchases of foreign exchange exceed their sales; or otherwise their purchases tall short of their sales.

To clear out their net balances, commercial banks do not transact directly with one another. They use the services of the foreign exchange brokers who form the layer 3 in the pyramid. The brokers keep in constant touch with commercial banks. The brokers also act as link between commercial and central bank. Competition among brokers is very severe. Central banks are represented by the top layer. The foreign excl l ange activities of central banks depend crucially on the existing exchange rate system.

International Transactions and Foreign Exchange

What is the foreign exchange market? In brief, it is the market in which national currencies are bought and sold against one another. Why the foreign exchange is needed? In general, the flow of goods and services between countries requires the conversion of the currency of the importing country into the currency of the exporting country. This flow of goods and services among nations generates a large part of the supply and demand for currencies in the foreign exchange market. Along with it, foreign exchanges are also demanded by tourists travelling abroad. Tourists at the foreign airport rush to the exchange counter to convert their own currency into the foreign currency. Also many people in India who receive remittances from their relatives who emigrated to "Gulf" countries enter into foreign exchange market to exchange the foreign currencies for their domestic currency. Finally, people may demand foreign currencies because they want to buy assets from foreigners.

There are so many national currencies as there are so many sovereign states. The multitude of national currencies makes the international economic transactions more complex. Every international economic transaction by an exporter, importer, tourist or emigrant requires a foreign exchange transaction that is the conversion of one currency into another. Thus the primary function of foreign exchange market is to perform this conversion of or the transfer of purchasing power from one currency into another. In if general, foreign exchange includes in addition to foreign currencies, bank deposits and other short-term financial instruments denominated in foreign currencies. In practice, most foreign exchange transactions involve purchases and sales of bank deposits denominated in foreign currencies.

6.8.5. Functions of Foreign Exchange Market

The foreign exchange market performs *three* important functions.

1. It *transfers* purchasing power from one currency to another and from one country to another.

2. It *provides* credit for foreign trade.

3. *It furnishes* for hedging foreign exchange risk.

1). Transfer of Purchasing Power

It is the primary function of the foreign exchange market. This international clearing function plays an important role in facilitating international trade and capital movements. Usually transfer of purchasing power from one nation and currency to another is accomplished by a telegraphic transfer which is a cheque that is wired rather than mailed. With it, a domestic bank instructs its correspondent bank in a foreign monetary center to pay a specified amount of the local currency to a person, firm or account.

The foreign exchange market solves the conversion problem by performing an important *clearing function.* This clearing function is explained in the exhibit -2 by assuming that there are only two currencies namely Canadian Dollar and Japanese Yen. The clearing house announces, it is willing to exchange either currency at the rate of say 1 Canadian dollar equals to 2 Japanese yen and the inflow of each currency will approximately match the outflow. The initial working balances of the clearing house are represented by the level of the water in the middle tank. This tank consists of two chambers. The level of water in chamber 1 shows the initial stock of dollars held by the clearing house and the level of water in chamber 2 shows the initial stock of Yen.

Exhibit: 2 - The Clearing Function

Striped arrow "a" at the upper left hand comer shows the flow of dollars into chamber 1 that results from the activity of Canadian importers, Japanese exporters, Canadian tourists to Japan etc. The individuals who demand for Japanese yen is shown by striped arrow "d" at the lower right hand comer; which represents an outflow of yen from the clearing house. The arrows "a" and "d" that is, the inflow of dollars and outflow of yen are similarly striped in order to show that the same group of transactors turn them on and off simultaneously.

Dark arrows "b" and "c" at the upper right hand and lower left hand comers respectively, represent the conversion of Yen into Canadian dollars that is required by Japanese importer, Canadian exporter, Japanese tourists in Canada etc. Arrow "b" shows the inflow (supply) of yen into chamber 2 of the middle tank and arrow "c" shows the outflow of (demand for) dollars from chamber 1.

When the inflow of a currency into the clearing house does not completely match its outflow, the difference is reflected in the level of the stock of that currency held by the clearing house. When the inflow is larger than the outflow, the stock held by clearing house tends to rise; when the inflow is smaller them the outflow, the stock tends to fall.

For the world as a whole, the total of foreign exchange trading has been estill l ated to be above $200 billion per day. Most of these foreign exchange transactions, take place through debiting and crediting bank accounts rather than through actual currency exchanges. Only about 10 percent of the foreign exchange traded on the foreign exchange market each day now finances traditional forms of international trade and investments. The rest represents transactions by traders (banks) and speculators who buy or sell currencies in the expectations that they can earn quick profits by anticipating changes in relative currency values. The volume of such transactions has increased sharply in recent years due to the vast improvements in the communication; and the existence of a 24 hour foreign exchange market around the world.

With direct dialing telephone service anywhere in the world, foreign exchange markets have become truly global in the sense that currency transactions now only require a simple telephone call and take place twenty -four hours per day. For example, as banks end their regular business day in San Francisco, they open in Singapore and Tokyo. Thus foreign exchange transactions take place throughout the country throughout the 24 hours of a day.

2. Provision of Credit :

Another function of foreign exchange market is the credit function. It plays a very important role in the growth of foreign trade for international trade depends to a great extent on credit facilities. Credit is usually needed when goods are in transit and also to allow the buyer time to resell the goods and make the payment. In general, exporters allow 90 days for the importer to pay. The exporter usually discounts the importers' obligations to pay at the foreign department of this commercial bank. As a result, the exporter receives payment right away; and the bank will eventually collect the payment from the importer when due.

3. Provision of Hedging Facilities :

The other important function of the foreign exchange market is to provide hedging facilities. Hedging refers to covering of exporters and importers to guard themselves against losses arising from fluctuations in exchange rates. In a world of foreign exchange uncertainty, the ability of traders and investors to hedge greatly facilitates the international flow of trade and investments. Without hedging there would be smaller international capital flows, less trade and specialisation in production and smaller benefits from trade.

Transactions in Foreign Exchange Market

A commercial bank which deals in foreign exchange maintains a foreign exchange department. The function of this department is primarily to convert foreign currency into home currency and vice versa for customers who have received remittances from abroad and have to make them to other countries and for other banks with which the bank concerned may enter into deals for certain business purposes. A foreign exchange transaction is like any other transaction a purchase or sale deal.

The following are the important types of transactions conducted in the foreign exchange market.

1 & 2 Spot and Forward Exchanges

The term spot exchange refers to the class of foreign exchange transaction which requires the immediate delivery on exchange of currencies on the spot. In practice, the settlement takes place within two days in most markets. The most common type of foreign exchange transaction involves the payment and receipt of the foreign exchange within two business days after the day the transaction is agreed upon. The two-day period gives adequate time for the parties to send instructions to debit and credit the appropriate bank accounts at home and abroad. This type of transaction is called spot transaction and the exchange rate at which the transaction takes place is called the spot rate and the market for spot transactions is called the spot market.

Besides spot transactions there are forward transactions. These involve an agreement, to-day to buy or sell a specified amount of a foreign currency at a specified future date at a rate agreed upon to-day. The forward rate. For example, an individual would enter into an agreement to-day to purchase £ 100 three months from 1-1-95 at \$ 2.02 = £ 1. At

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the time the contract is signed no currencies are paid, except the usual 10 per cent security margin. After three month on 1 -4 -'95, the individual will get £ 100 for $ 202 regardless of what the .spot rate is at that time. The typical forward contract is for one month, three months or six months; with three months, the most common. Forward contracts for longer periods are not so common because of the uncertainties involved. However, forward contracts can be negotiated for one or more periods when they become due. In brief, a forward transaction is merely an agreement (called the forward contract) between two parties (either a bank and a customer or two banks) that calls for delivery at some prescribed time in the future of a specified amount of foreign currency by one of the parties against payment in domestic currency by the other party at a price (called the forward rate) agreed upon *how* when the contract is sighed.

The foreign exchange regulations or various countries generally regulate the forward exchange transactions with a view of curbing speculation in the foreign exchange market. In India, for example, commercial banks arc permitted to offer forward cover only with respect to genuine export and import transactions.

The relationship of forward rate with spot may be at par, discount or premium.

At Par

If the forward exchange rate quoted is exactly equivalent to the spot rate at the time of making the contract, the forward exchange rate is said to be at par.

At Premium

The forward rate for a currency say yen is said to be at a premium with respect to the spot rate when one yen buys more units of another currency, say rupee, in the forward, than in the spot market. The premium is usually expressed as a percentage deviation from the spot rate on a per-annum basis.

At Discount

The forward rate for a currency, say yen is said to be at discount with respect to the spot rate when one yen buys fewer rupees in the forward than in the spot market. The discount is usually expressed as a percentage deviation form the spot rate on a per-annum basis.

Forward discounts (FD) or premiums (Fr) are usually expressed as percentages per year from the corresponding spot rate and can be calculated by wing the following formula.

FD or FP = FR-SR x 12 (months) x 100 SR 3 (months)

FR = Forward rate

SR = Spot rate

12 months / 3 months = FD (-) or FP (+) on a yearly basis. Multiplication by 100 is to express the FD or FP in percentages.

3. Swap Operation

"Swaps" are operations comprising a simultaneous sale or purchase of spot currency accompanied by a purchase or sale, respectively of the forward of the same currency. They are also known as "double deals". An investor who purchases a spot currency for making a short-term investment or deposit at a foreign center, sells the currency forward to secure himself against an adverse change in the rate of exchanges at the time of repatriation of his funds. The rate of reconversion of the foreign funds into home currency is thus secured, and he can calculate his profit on the basis of the interest on his investment and the margin on the forward sale.

Banks undertake swaps as cover for their normal forward transactions with customers. A bank selling a currency forward to a customer, covers it with a spot purchase in the market. But this involves acquisition of funds at the foreign center, which will be unused till the maturity of the forward sale market. Therefore to untie its funds, the bank carries out a swap, that is, a simultaneous purchase if forward and sale of spot. Similarly, cover of a forward purchase by a spot sale: up the banker's fund at the home centre. This is undone by a swap comprising a simultaneous purchase of spot and a sale of forward currency.

The scope for swaps is restricted in India by the exchange control regulations. Banks have some freedom in this regard only for dealings in sterling.

4. Arbitrage

Arbitrage is the simultaneous buying and selling of foreign currencies with the intention of making profits from the differences between the exchange rates prevailing at the same time in different markets. Thus it refers to the purchase of a currency in the monetary center when it is cheaper for immediate resale in the monetary center when it is more expensive in order to make a profit.

Arbitrage in foreign currencies is possible because of the ease and speed of modem means of communications between monetary centres throughout the world. Thus an operator in London might buy pound sterling and sell them a few minutes later in New York. For example, if the pound price of a dollar was £ 0.99 in London and 1.01 in New York; an arbitrageur (usually a foreign exchange dealer of a commercial bank) would purchase dollar at £ 0.99 in London and immediately resell them in New York for £ 1.01 thus realising a profit of £ 0.02 per dollar. When the profit per dollar transferred seems small, on one million dollar the profit would be £ 20,000 for only a few minutes work.

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When only two currencies and two monetary centres are involved in arbitrage, it is known as two-point or *Spatial arbitrage.* When three currencies and three monetary centres are involved, it is known as three-point or *triangular arbitrage.* While triangular- arbitrage is not very common, it operates in the same manner to ensure consistent indirect or cross exchange rates between the three currencies in the three monetary centres. What is an indirect rate? Suppose an individual wants to convert £ 1 into Yen. The direct rate which a bank can give for £ 1 is 250 yen. However, it is possible to obtain yen for pound

by first exchanging it for dollars. The exchange rate between dollar and pound is 1 £ = $2 and the two dollar is exchanging for 260 yen. The number of yen obtained in this indirect way is known as indirect rate. In this example, the direct rate (250 yen) is less than the' indirect rate (260 yen). Hence it is possible to make a profit by selling pound indirectly for 260 yen and buying it back directly for 250 yen.

In the case of two-point arbitrage, triangular arbitrage increases the demand for the currency in the monetary center where the currency is cheaper, increases the supply of the currency in the monetary center where the currency if more expensive and quickly eliminates inconsistent cross rates and the profitability of further arbitrage. In the real world more complicated forms of arbitrage involving four, five or more currencies can take place.

Check your progress :

II. Fill up the blanks :

1. .... deals with short dated commercial bill and treasury bill.
2. .... is the simultaneous buying and selling of foreign currencies with the intention of making profit.

III. True or false :

1. Immediate delivery on exchange of currencies on the spot is called as spot exchange.
2. Central Bank is the leader of the money market.
3. Extremely short period loan are dealt in call money market.

5. Foreign Exchange Futures

An individual, firm or bank can also purchase or sell foreign exchange futures and options. Unlike forward exchange contracts, which are bought and sold by banks and trade in the interbank market, currency futures are bought and sold on the floor of a futures exchanges. Trading in foreign exchange futures was initiated in 1972 by the International Monetary Market (IMM) of the Chicago Mercantile Exchange. *A foreign exchange futures* is a forward contract for standardised currency amounts and selected calendar dates traded on an organised exchange market. The currencies traded on the IMM are the Japanese yen, the German Mark, the Canadian dollar, the British pound, the Swiss franc and the Australian dollar.

IMM trading is done in contracts of standard size. For example, the IMM pound contract is for £ 25,000, the Canadian dollar contract is for C $ 100,000 and the Japanese yen contract is for Y 12,500,000. Only four /dates per year are available-the third Wednesday in March, June, September and December. The IMM imposes a daily limit on exchange rate fluctuation. Buyers and sellers pay a brokerage commission and are required to post a security deposit or margin. A market similar to the IMM is the London International Financial Future Exchange (LIFFE) which started operation in September 1982.

Large firms and financial institutions with a fairly continuous stream of payments and receipts in the traded foreign currencies can find future contracts useful and cheaper. In recent years, IMM has grown very rapidly. The market for currency futures is small

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compared with the forward market. A daily volume of over $ 4 billion in currency future is not very common; but in the forward market, the trading volume can exceed 20 times this amount. Despite the large: differences in the sizes of the two markets, there is a mutual interdependence between them; each one is able to affect the other. The two markets are also connected by arbitrage when prices are different.

6. Foreign Exchange Option

From 1982, individuals, firms and banks can also buy or sell foreign exchange options (in Australian dollars, British pounds, Canadian dollars, German marks, French Francs, Japanese yen and Swiss francs) on the Philadelphia Stock Exchange, from 1984, in German marks on the Chicago Mercantile Exchange. *A foreign exchange option* is a contract giving the purchaser the right but not the obligation to buy (a call option) or to sell (a put option), a standard amount of a traded currency on a stated date. (The European option) or at any time before a stated date (The American option) and at a stated price (the strike or exercise price). Foreign Exchange options are in standard sizes that are half those of futures IMM contracts. The buyer of the option has the choice to purchase or forgo the purchase if it turns out to be unprofitable The seller of the option, however must fulfill the contract if the buyer so desires. The buyer pays the seller a premium (the option price) ranging from 1 to 5 percent of the contract's value for their privilege when he enters the contract.

6.9. KEY TERMS

Capitalism : An economic system which is characterised by the private of ownership all means of production and industrial decision making.

Socialism : It is an economic system in which the means of production are owned by the state and operated by the government and community in which production is based on the welfare of a community and not for the profit of a few individuals.

Mixed economy : A compromise system between capitalism and socialism is mixed economy. It secures individual liberty as well as collective peace and happiness.

Capital Market : It is the market for the long term funds such as shares debentures etc.

Money Market : Money market is the mechanism whereby funds are obtained for a short period of time and financial assets representing short-term claims are exchanged.

Acceptance Market : Bankers acceptance are, bill accepted by bankers on behalf of their customers. A bill with bankers signature can be discounted easily in the money market.

Foreign market : It is the market in which individuals, forms and banks buy and sell foreign currencies or foreign exchange.

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Spot exchange : Spot exchange refers to the class of foreign exchange transaction which requires the immediate delivery on exchange of currencies on the spot.

Forward exchange : It involves an agreement, today to buy or sell a specified amount of foreign currency at a specified future data at a rate agreed upon today.

Arbitrage : Arbitrage is the simultaneous buying and selling of foreign currencies with the intention of making profits from the difference between the exchange rate prevailing at the same time in different market.

6.10. SUMMARY :

Economic environment plays important role in the success of any business. A basic knowledge of the economic system is essential for a better understanding of the prospects and problems of business. Capitalism refers to economic system whereby are means of productions are owned by the private people. In socialism the means of productions are owned and controlled by the govt. mixed economy consists of the benefits and features of both capitalism and socialism, leaving the evils in the both systems. Long term funds of the organised business are raised in the capital market and short term requirements are met out in the money market. Capital markets deals equity shares, debentures, preference shares and other long term securities. Money market deals with short term securities such as treasury bill, bill of exchange, commercial paper etc. In foreign exchange market the currencies of various nations are purchased and sold. Spots and forward exchanges, swap operations, arbitrage are few types of transactions take place in the foreign exchange market.

6.11. ANSWERS TO CHECK YOUR PROGRESS :

I. 1. Capitalism 2. Capitalism 3. Capital market

II. 1. Bill market 2. Arbitrage

III. 1. True 2. True 3. True

6.12. QUESTIONS / EXERCISES :

Sec – A

1. Bring out the features of capitalism.
2. Distinguish between capitalism and socialism.
3. State the merits of mixed economy.
4. Criticise the Markxian socialism.
5. Distinguish money market and capital market.

Sec – B

1. Which of the economic system is the best? Why?
2. Why Indian money market is under developed?
3. Discuss the various types of transactions of foreign exchange market.

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UNIT 7 STATE REGULATION OF BUSINESS

Structure

7.0. INTRODUCTION :

Political environment exercise a very pervasive influence on the strategic and day – to – day working of business enterprises. These enterprises have to function in accordance with the broad guidelines and regulations laid down by the government. The government is a powerful and patent force that decides the nature and structure of business. In order to survive and grow, business must continuously change and adapt to changing political environment. It is extremely important for an enterprise to evaluate, anticipate and comprehend present and future policies of the government In this unit the role of the government and the influence of constitutions environment are discussed.

7.1. UNIT OBJECTIVES :

Appreciate the need of govt. role in business.
Analyse the state regulation of business in India.
Understand the meaning constitutional environment.
Identify the powers of the parliament.

7.2. ROLE OF GOVERNMENT :

1. Regulation
2. Promotion
3. Entrepreneurship
4. Planning

1. Regulatory Role:

Government regulation of the business may cover a broad spectrum extending from entry into business to the final results of a business.

The reservation of industries to small scale, public and co-operative sectors, licensing system etc, regulate the entry, regulations of product mix, promotional activities etc., amount to regulation of the conduct of business. Results of business operations may be regulated by such measures as ceilings on profit margins, dividend etc., The State may also regulate the relationship between enterprises. Examples of this include dividend etc., The State may also regulate the relationship between enterprises. Examples of this include restrictions on intercorporate investments, interlocking of directors and appointment of sole selling agents.

Government regulation of the economy may be broadly divided into:

(i) Direct controls ; and

(ii) Indirect controls

Indirect controls are usually exercised through vm l 0us fiscal and monetary incentives and disincentives or penalties. Certain activities may be encouraged or discouraged through monetary and fiscal incentives and disincentives. For instance, a high import duty may discourage imports and fiscal and monetary incentives may encourage the development of export-oriented industries.

The direct administrative or physical controls are more drastic in their effect. The distinguishing characteristic of direct controls is their discretionary nature. They can be applied selectively from firm to firm and industry to industry, at the discretion of the State.

Direct controls have assumed increasing significance m many developing countries, including India. The justifications are reasons that are economic political and historical in nature; and in most countries, these reasons are often interlinked with one another. Most economic reasons are based on a variety of market failures, including imperfections and high-risk aversion on the part of private entrepreneurs.

2. Promotional Role:

The promotional role played by the Government is very important in developed countries as well as in the developing countries.

In developing countries, where the infrastructural facilities for development are inadequate and entrepreneurial activities are scarce the promotional role of the Government assumes special significance.

The State will have to assume direct responsibility to build up and strengthen the necessary development infrastructure, such as power, transport, finance, marketing, institutions for training and guidance and other promotional activities.

The promotion role of the State also encompasses the provision of various fiscal, monetary and other incentives, including, measures to cover certain risks, for the development of certain priority sector and activities.

3. Entrepreneurial Role :

In many economies, the State also plays the role of entrepreneur establishing and operating business enterprises and bearing the risks. A number of factors such as sociopolitical ideologies, dearth of private entrepreneurship, neglect of certain sectors like the unprofitable sectors by the private entrepreneurs, absence of or inadequate competition in certain segments and the resultant exploitation of consumers, etc., have contributed to the growth of state owned enterprises (SOEs) in many countries.

As a World Bank Report points out, whereas some governments have an ideological preference for public control, others have travelled the same route for more. pragmatic reasons. They may have wanted to rest control of key enterprises from foreign owners (Egypt in 1956 and Madagascar in 1974) or from minority ethnic groups (Uganda in the 1970s) ; in other instances, enterprises were inherited .by the State after independence (Bai l gladesh in 1972) or a revolution (Portugal 1974), or as a result of private sector bankruptcies. Governments have used nationalisation to capture the rents from the expioitation of minerals and where nationals security is involved (as in arms manufacture), to exercise direct military control. In other instances, Governments have decided to take the lead in starting a major new industry in the absence of private investors. It is the last one which represents the true entrepreneurial role. The public sector in some countries like India have expanded also by taking over sick private units.

> **Check your progress :**
>
> **True or False**
>
> 1. Govt. exercise indirect control over business through various fiscal and monetary incentives.
> 2. Entrepreneurial role of govt in regulating business means regulating entrepreneurs.
>
> **Fill up the blanks :**
>
> 3. Government regulates the management of the companies through ....Act.

There has been a tendency in many developing countries to assign a dominant place to the public sector. Public sector dominance is usually established in capital-intensive projects like steel, capital goods, petro-chemicals and fertilizers for which investment requirements are very large and the expected returns, at least in the short-run, are too low to provide an incentive for private profitability. In many cases 'even when the private sector is prepared to undertake the risk and invest, state ownership or such industries exists for one reason on other.

However, recently many governments have resorted to privalisation in varying degrees.

4. Planning Role:

Especially in the developing countries, the state plays a very important role as a planner. The need for economic planning is very well implied in the famous scarcity definition of Economics. As Robbins points out in his 'scarcity definition' the main business of the science of Economics is the optimum allocation of the scarce resources between the competing ends.

The modern state is a custodian of the welfare of the society. The welfare government has the responsibility to fulfil the aspirations of the people by bringing about alround prosperity. The ends, i.e., the objectives to be achieved and the purpose to be served, are many. In the pursuit of this task, the most important problem especially in the case of the less developed countries, is the scarcity of resources. The resources that are readily available are quite insufficient to meet all the ends. The resource constraints demand that some of the purposes should go unserved. This calls for the determination of the more urgent needs or national priorities and the optimal allocation of the available resources as best to subserve the common good. And this is the principal objective of national planning.

The importance of planning in a less developed economy was often emphasised by Jawaharlal Nehru the chief architect of Development Planning in India. He rightly observed: "Whatever it may be in other countries, in under developed countries like ours, which have to develop fairly rapidly, the time element is important and the question is how to use our resources to the best advantage. If our resources are abundant it will not matter how they are used. They will go into a common pool of development. But where one's resources are limited, one has to see that they are directed to the right purpose so as to help to build whatever one is aiming at".

7.3. STATE REGULATION OF BUSINESS IN INDIA:

There are some methods used for regulating business activities in India. They are as follows:

1). Regulation of investment activity 'in private enterprise by means of some economic legislations.

a) Regulation of the working of the capital market through Securities and Exchange Board of India (SEBI)

b) Monetary policy of R.B.I.

2). Regulation of location, size and expansion of undertakings through industrial policy and economic planning.

a) Industrial Policy:

The industrial policy of the government is an instrument for regulating industry. In 1948, the first step in this direction was the announcement of the Industrial Policy Resolution. In the year 1956 also, an Industrial Policy Resolution was declared by government. The objective of Industrial Policy is to promote the growth of industries in India.

b) Economic planning:

State owns all the productive resources and there is a complete control over all economic activities in the communist country. So, everything is planned and implemented by the

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planning authority. But in a mixed economy like India, economic planning gets as a major step forward for economic development and social justice. Through plans, the business environment is directed towards a balanced growth of industries.

3). Regulation of Monopolies and Restrictive trade practices through legislation i.e. M.R.T.P. Act:

The M.R.T.P. Act was passed by the parliament in December 1969 with the objectives viz. (a) to ensure that the functioning of the economic system does not result in concentration of economic power to the common detriment; b) to control such monopolistic and restrictive trade practices as are injurious to the public.

The industrial Licensing Policy of the government is also an important instrument that regulates the business in the country. This policy gives many conditions which are to be satisfied by the prospective industrialist or the present industrilist who wants to expand his business. Industry licensing has now been done away with to speed up economic development.

4). Regulation of prices of commodities through legislation:

The government regulates and exercises control over prices by fixing prices of raw materials, semi-finished and finished goods. The general power is given by the Industries (Development & Regulation) Act 1951. The Essential Commodities Act. 1955 gives special power to the Government to declare any commodity as essential in the public interest and enforce the voluntary price control through executive orders.

5. Regulation of wages etc:

The wages *of* industrial workers are regulated by the Government. The working hours and working conditions are regulated by Factories Act and other Acts. The payment *of* bonus is also regulated by the direction given by the Government every year.

6. Regulation of company Management:.

The Companies Act 1956 is one *of* the most important regulations *of* Government in controlling business. The management *of* the companies is regulated through many provisions *of* the Act. The organisation structure for each type *of* company is also given. It stipulates the number *of* directors, managing directors, managers and the procedure *of* appointment *of* directors, managing directors and managers in a company. The procedure in the conduct *of* company meetings is also given elaborately in this Act.

7. Regulation *of* specific kinds *of* business activity such as gambling in shares and commodities.

7.4. KEY TERMS :

Entrepreneurial Role : Govt. acts as an entrepreneur in establishing industrials and business to develop infrastructure and his priority industries.

Planning Role : Govt. has to plan its économic activities in order to utilise the scarce resources effectively.

7.5. SUMMARY

Political environment exercises a very pervasive influence on the strategic and day to day working of the business enterprises. Govt plays four important roles in an economy viz regulation promotion entrepreneurship and planning.

7.6. ANSWERS TO CHECK YOUR PROGRESS :

1. True 2. False 3. Companies.

7.7. QUESTIONS / EXERCISES :

Sec - A

1. Explain the promotional role of the government.

Sec – B

1. Discuss the various state regulation of business in India.

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UNIT 8 PATENTS AND TRADE MARKS

Structure

8.0. INTRODUCTION :

Products are dear as their own children to manufacturer or producers. They want to identify and differentiate their products from their competitor's products. Hence they name their product which is called as brand name. They also want to protect the use of their brand name by others. In such a situation they register their brand name. The brand name registered is called trade mark. In this unit the registration of trade mark and the procedure thereof is studied.

8.1. UNIT OBJECTIVES :

Understand the concept of trade mark and patent

Learn the procedure for registration of trade mark

Differentiate brand, brand name and brand mark.

8.2. MEANING OF TRADE MARK :

A patent is a monopolistic legal right to make commercial use of an invention. Legal protection is offered in many countries for patents and copyrights.

The objectives of such protection are :-

1. to encourage research and development

2. to encourage the researcher to reveal his discoveries so that the society will be benefited.

3. To compensate the expenses of research by an award.

4. To facilitate the commercial exploitation of the invention.

Brands and trade marks help to maintain product identity and greatly facilitate product promotion. For purpose of clarity, it would be better to know the meaning of the term Brand, Brand name, Brand mark and Trade mark.

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The American Marketing Association has defined the terms:

Brand: A Brand is a name, term, sign, symbol or design or a combination of them intended to identify the goods and services of one seller or a group of sellers and to differentiate them from those of other sellers.

Brand Name : Brand name is that part of the brand which is utterable.

Brand Mark: Brand mark is in the form of a symbol, design or distinct colour or lettering. It is that part *of* the brand which can be recognised but not utterable.

Trade Mark: A trade mark is a brand or a part *of* a brand which is given legal protection. By registering the trade mark, a person gets the exclusive legal right to use the brand name/ brand mark.

> **Check your progress :**
> **I. Fill up the blanks :**
> 1. All trade marks are ....
> 2. The trade and merchandise A . ... governs trade marks.

8.3. THE TRADE AND MERCHANDISE MARKS ACT, 1958

The Trade and Merchandise Marks Act, 1958 governs Trade Marks in India. The Act enables the registration *of* trade mark and grants legal right to the owner of the trade mark to the exclusive use of the trade mark. The Act lays down the procedure for registration of trade marks, rights conferred to the proprietor of the trade mark and the punishment for infringement *of* trade marks.

8.3.1. Definition of Trade Mark :

As defined in the Trade and Merchandise Marks Act, 1958 a trade mark means "a registered trade mark or a mark used in relation to goods for the purpose of indicating a connection in the course of trade between the goods and some person having the right as proprietor to use the mark; and "a mark used or proposed to be used in relation to goods for the purpose of indicating a connection in the course of trade between the goods and some person having the right either as proprietor or registered user to use the mark with or without any indication of the identity of the person and includes a certification trade mark" -registered as such under the provisions of the Act.

8.3.2. Registration of Trade Marks :

A trade mark may be registered in respect of one or more of the goods in a prescribed class of goods.

Eligibility for registration :

The trade mark which is proposed to be registered must be distinctive or it should be capable of distinguishing the applicant's goods from those of others. The Registrar of

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Trade Marks is the Controller General of Patents, Designs and Trade Marks. The Act empowers the Central Government: to establish a Registry by name TRADE MARKS REGISTRY and also establish branch offices with specific territorial limits to discharge its functions. The Trade Marks Registry should maintain a record called Register (if Trade Marks. All registered Trade Marks with the names, address and description of the proprietor, names, address and description of the registered users and all other prescribed matters relating to the Trade Mark shall be entered in this Register. The branch offices of the Trade Marks Registry should maintain a copy of Register of Trade Marks and other prescribed documents. The Register of Trade Marks has two parts. PART A incorporates trade marks which existed prior to the commencement of the Trade and Merchandise Marks Act, 1958 and PART B incorporate-s the trade marks registered after the commencement of the Act.

8.3.3. Prohibitions & Restrictions :

The following marks are prohibited for registration.

1. A mark, the use of which is likely to deceive or cause confusion.
2. A mark which is contrary to any Law.
3. A mark which contains scandalous or obscene matter
4. A mark which i8 likely to hurt the religious feelings of a class or section of citizens of India.
5. A mark which is not entitled to protection in a court.
6. A mark which is identical or similar to an existing trade mark.

8.3.4. Procedure for Registration of Trade Mark

An application for the registration of trade mark has to be made to the Registrar of Trade Marks in the prescribed manner. Subject to the provisions of the Act, the Registrar may accept it absolutely or subject to such amendments, conditions or restrictions as he may consider fit or reject the application. In case an application is refused for registration, the Registrar shall record in writing the reasons for the refusal. If the application for the registration of trade mark is accepted for registration, the Registrar will advertise the same so that any person having objection to the registration may give it to the Registrar of Trade Marks in the prescribed manner. On the receipt of any such objection, the Registrar shall send a copy of it to the applicant. The applicant can send a. counter statement, stating the valid grounds for his application. If no counter statement is filed, it shall be deemed that the applicant had abandoned his application. If the applicant submits a counter statement, the Registrar shall send a copy of it to the person who had raised objection. Then, the Registrar shall also grant an opportunity to be heard to both the parties. After hearing the parties, the Registrar will decide whether registration is to be permitted or not. The Registrar may impose such conditions and limitations as he may think fit while he permits the registration. If registered, the Registrar shall issue a certificate in the prescribed form to the applicant.

I. Period of Registration

The registered trade mark is valid for a period of seven years and it may be renewed in accordance with the provisions of the Act.

II. Rights on Registration

On registration of the trade mark, the applicant gets the exclusive right to use in relation to the goods for which the trade mark was obtained. Registration also enables the applicant to seek relief or claim damages, in case, there is any infringement of the trade mark.

III. Infringement of Trade Mark

If anyone uses a trade mark which is similar to or identical with the registered trade mark, it amounts to infringement and it is prohibited under the Act.

IV. Assignment & Transmission

The owner of the trade mark has the right to assign the trade mark subject to the provisions of the Act. Unregistered trade marks are not assignable.

V. Registered Users

Subject to the provisions of the Act, a person other than the registered owner of the trade mark may be registered as a registered user of any or all the goods represented by the Trade Mark. In such a case both the original applicant and the proposed user shall jointly apply to the Registrar of trade marks in the prescribed manner.

NOTES

Check your progress :
II. True / False :
1. Legal right to make commercial use of an invention is called trade mark.
2. A mark which is identical to an existing trade mark cannot be registered.

8.4. KEY TERMS :

Trade mark : Registered brand is a trade mark.

Brand : A name, term, sign, symbol or design or combination of them which is intended to identity the goods or services of one seller from other.

Brand mark : It is in the form of symbol, design or distict colour or lettering.

Patent : It is a monopolestic legal right to make commercial use of an invention.

8.5. SUMMARY :

A manufacture or a producer brand their product to differentiate them from the competitions product. When a brand is registered it is called as trade marks. All trade marks are brands but all brands are not trade mark. A patent is a monopolestic legal right to make commercial use of an invention. There are various procedures to register a trade mark.

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8.6. ANSWERS TO CHECK YOUR PROGRESS :

I. 1. brands 2. 1958.

II. 1. False 2. True

8.7. QUESTIONS / EXERCISES :

Sec – A

1. Distinguish the term brand and trade mark.

Sec – B

1. Explain the procedure for the registration of trade mark. What are the benefits of registration.

UNIT 9 LABOUR

NOTES

Structure

9.0. INTRODUCTION :

Labour plays a vial role in industrial progress. Human resources are the key to improve productivity and quality. Industrial labour means all the people employed in industries. But in a restricted sense, the term is used to refer to those employed in an organised industries covered under the factories Act. In this unit, the productivity of labour, labour policies, social security and industrial democracy are discussed. Moreover the fiscal policies of the govt. and their impact on business is discussed.

9.1. UNIT OBJECTIVE :

Learn the meaning of labour :

Understand the concept of labour productivity

Identity the factors influencing labour productivity

Analyse the dimensions of labour policies

List the various social measures in India.

Identity the objectives of industrial democracy.

List the forms of worker's participation.

Analyse the impact of fiscal policies.

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9.2. PROUCTIVITY OF LABOUR

The productivity of labour is defined as the ratio of output to the corresponding input of labour. This definition results in labour saving because, such saving can affect costs, prices, jobs, wages etc.,

Labour productivity reflects the influence of the operation of a large number of inter-related factors such as technological improvements, the rate of operation, the degree of efficiency achieved in different processes, the availability of supplies and the flow of materials and components as well as the employee-employer relations, the skill and efforts of the workers and the efficiency of management.

9.2.1. Measurements of Productivity of Labour:

The measurement of productivity is a difficult task. The case of the single independent worker seems simple in most instances, as this output and the labour contributed by him can be easily measured.

When measuring productivity, the tools or machines used, the technique' followed, quality of raw materials used etc., have to be considered, which have more influence than his own effort. Hence the productivity of a single worker is that of man plus machine.

The measurement of productivity becomes very difficult in fields like agriculture, transport, trade and services, wherein there are a large amount of factors, making the measurement a complex one.

9.2.2. Factors affecting Labour Productivity:

The factors affecting labour productivity are numerous, complex and inter-related. It is difficult to say whether increased productivity is the result of more efficient utillisation of plant and machinery, or of more incentive efforts of the workers and management or of the application of new technical development and improvement to the process of production.

1. General Factors:

The climate, geographical distribution of raw materials, fiscal and credit policies, general organisation of the labour market, degree of unemployment, degree of labour shortage and of labour turnover, commercial organisation and size of the market, general scientific and technical research and variations in the composition of output are the factors which have bearing on the productivity of labour.

2. Organisation and Technical Factors:

Labour productivity depends upon the factors like percentage of capacity used; degree of integration, size and stability of production; quality of raw material, sub-divisions of

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operations, control devices, quality of output, rationalisation and location of the plant; maintenance and engineering devices; length and distribution of working hours; and selection of personnel etc.,

M.D. Kissoris has pointed out in his article entitled "Hour of work and Output "that if the work is light and if the worker is in complete control over the operating pace the eight hour day or 40 hour week appear to be more efficient in terms of maximum output scheduled hour of work, than longer schedules of daily or weekly hours".

3. Human Factors:

Labour productivity depends a great deal on the skill of the worker, and it can be modified by better training etc., The increased productivity has been in many cases due to the introduction and increasing use of labour saving machinery and the improved skill of workers in the operation of this new machinery.

It is generally recognised that under piece wage system the worker's willingness to produce more would be influenced by his adaptability to accept new innovations and new and improved methods of work without any resistance.

Reasonable hours of work, provision of better conditions of work i.e. better ventilation, better lighting, better air-conditioning or heating, improved safety devices, reduction in noise intensity all tend to increase the productivity of labour.

Check your progress :

Fill in the blanks :

1. Labour .... refers ratio of output to the corresponding input of labour.
2. Low wages is a factor for the emergence of .... policy.

9.2.3. Labour Productivity Movement in India:

It was realised only in the early fifties, that technology alone could not provide raise in production and that productivity had an important role to play in increasing the production per unit of capital invested, to augment the national wealth.

In 1958, the Government of India took steps to establish National Productivity Council of India with the object of creating a widespread awareness about the importance of productivity, providing training as well as specialist services to demonstrate the efficiency of productivity techniques in improving the efficiency of the enterprises and bringing better working conditions and wages for the workers.

Activities of NPC include:

1. Productivity training programmes for managerial personnel, workers, and trade- union leaders.

2. To provide consultancy services for small scale industries.

3. Bringing out periodicals on training, supervisors, guides, workmen's guides, productivity news etc.,

4. Overseas training programme for Indian Experts.

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5. Organising industry-wise, in country and overseas productivity study teams.

6. Doing research on productivity motivation, and developing productivity indices and

7. Promoting productivity compaigns, and organising seminars, symposia and conferences.

NPC has conducted more than 3700 training programmes with the participation of 1,00,000 persons at all levels of management in industrial enterprises and service organisations in India.

Conclusion:

Despite useful work done by NPC, greater involvement of the top management and trade unions in this task is essential to make increased labour productivity, an easily achievable one.

9.3. LABOUR POLICIES

Emergence of Labour Policies:

For many decades. workers were considered as a commodity which could be easily produced and readily replaced. Low wages, long hours of work insecurity of employment, in sanitary working and living conditions, and grave social and economic injustice brought so many hardships to the working class. These led the Government to emerge from laissez-faire policy to active intervention in labour matters.

9.3.1. Dimensions of Labour Policies :

Labour policy has the following five dimensions.

1. Labour Management or Employee-Employer Relations:

This includes the creation of judicial and informal structures of settlement of disputes and the determination of mutual rights and responsibilities of management and trade unions.

2. Safeguarding the safety, health and welfare of workers:

The government is expected to secure and safeguard# the rights of citizens in the work place.

3. Social Security measures against the hazards of sickness, injury, permanent disability, old age and untimely death:

For individual care in the larger interest of work, productivity, social justice and economic development, responsibility for the social security measures must be assumed.

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4. To provide employment and labour market information and services:

These relate to collection of data, regarding employment exchanges, administration of trade test and modernisation of recruitment practices and manpower policies at -the enterprise level.

5. Structuring of a growing labour force:

The labour policy aims at realizing the labour commitment with adequacy, stability, changeability and discipline.

9.3.2. Indian Constitution and Labour:

Article 16 of Indian constitution ensures equality of opportunity for all citizens in matters relating to employment or appointment to any office under the States.

Article 19 gives the citizen of India, among others, the right to move freely throughout the territory of India to reside and settle in any part of the country, to practise any profession or to carry on any occupation trade or business.

The directive principles of State policy, although not enforceable by courts, lay down that (I) there is equal pay for equal work for both men and women, and (ii) the health and strength of workers, men and women and the tender age of children are not abused and that citizen8 are not forces by economic necessity to enter vocations unsuited to their age or strength with relevance to labour.

Article 41 of the constitution has laid down that the State has to make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement.

Article 42 provides for securing just and human conditions of work and maternity relief.

Article 43 provides for the State's endeavour for a living wage for workers, a decent standard of life and full enjoyment of leisure and social & cultural opportunities.

Following are the areas covered by labour policy:

I. Recruitment:

A good system of recruitment has to encourage and promote labour mobility by providing sufficient labour market information as to available job opportunities, terms and conditions of work and an assurance regarding freedom of movement. Employment exchanges in India offer a modem and scientific method of recruiting labour by ensuring the employers, right man for right job. They match the jobs with job seekers to ensure maximum efficiency. They also collect a lot of information about the labour market and collect notification of vacancies by the employers. The employment exchanges can provide suitable vocational guidance to the future entrants in the labour market. The five year plans have also emphasised

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the role of National Employment services. At present, there are over 400 employment exchanges in India, and each university has opened a university employment Bureau to assist in getting placements.

II. Workers Education:

In India, the Central Board of Workers Education (CBWE) has developed a massive and highly organised programme of workers education on a country wide scale. The board has representatives of the central and state governments, organisations of employers and workers and educational institutions. CBWE has also established in March 1970, an Indian Institute of Worker's Education in Bombay, as a demonstration and information centre.

III. Workers Training:

It was during second five year plan, that training of workers in trade unions were to become self-reliant. The five year programme for labour adopted by Government in 1946, suggested organisation of an industrial training and apprentices scheme on a large scale with a view to improving the production and earning capacity of workers and enabling them to qualify for promotions to higher grades.

IV. Working Conditions:

The role of labour in economic growth is very important. For optimum results, labour needs the status of a respectable partner in the enterprise with conducive surroundings and congenial working and living conditions.

The Royal Commission on labour had initiated the study of working conditions effectively which was followed by National Commission on labour. The latter in the year 1969 reviewed the requirements of working conditions which covered the following:

1. The adequacy of safety equipments in the industries as per statutory provisions.

2. Occurrences of accidents due to inadequate inspection, carelessness, ignorance, and inadequate skill of labour, improper supervision etc.,

3. Enactment of the Factories Act, 1948, to make statutory the conditions like ventilation, lighting and temperature.

4. Fixing the hours of work per week as 48 with each shift of 8 hours duration including the half-hour rest intervals.

5. Allowing each employee 3 national and 5 Festival holidays and also ensuring uniformity in the number of paid national and festival holidays.

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9.3.3. Labour Welfare:

National Commission on labour suggested to improve the standard of creches in factories and plantations. Once there is increase in demand for canteens, NCL has suggested the reduction of employment limit for making the employer to set up a canteen.

There are also statutory provisions regarding sanitation, first-aid boxes, washing and bathing facilities, facilities for storing and drying clothes, rest-shelters and drinking water.

NCL has also emphasised the need for examining the factory workers so that timely diagnosis and treatment of occupational diseases will be possible.

a). Industrial Hygiene:

In India, a series of industrial hygiene surveys were launched by the central labour institute concerning industries like storage battery, mica processing, metal grinding, pottery and ceramic industries. From all these surveys, it was identified that the workers somehow or other had been exposed to industrial air pollutants. Hence it becomes highly necessary to make enactments to check such hazardous nature of work.

b). Housing:

Many of the state governments have set up housing boards to carry through the central governments housing schemes and build their own houses for industrial workers. In cotton textile, iron and steel, railways, engineering, cement, coal mines, gold mines and paper industries, the employers come forward in constructing houses for their employees. However, pace of constructing new houses is not matching with increase in number industrial employees. Subsidised industrial housing scheme, and slum clearance scheme are the noteworthy schemes in this regard.

c). Social Security:

The workers are exposed to various hazards in their nature of work in industries. The labour policy must have enough consideration towards the security measures which help the labour to get over their sufferings to some extent. Workmen's compensation Act, ESI Act, Payment of Gratuity Act, Employees Provident Act are the note worthy enactments in this area. NCL in this regard, sought the elimination of wage limit for eligibility to get compensation under workmen's compensation Act. It also recommended the Provident Fund Act, applicable to industries employing 10-20 persons.

d). Wages:

Wage fixation in industries is a complex one and varies between one industry and another. Wage difference can also be found in the same industry in two different states.

In 1946, the government formulated a wage policy which recommended.

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1. Statutory prescription of minimum wages in industries and occupations and agriculture.

2. Promotion of fair wages agreements and ..

3. Steps to secure a living wage for workers in plantations.

Minimum Wages Act, 1948 ensures not only physical sustenance but also the maintenance of health and decency and is conducive to the general health of the public.

NCL has observed that increases in money wages of industrial workers since independence have not been accompliced with a rise in real wages.

Hence, the labour policy must make sure that the workers are getting the real wages in conformity with rise in prices.

e). Industrial Relations:

For the smooth functioning of industries, peace and harmony are essential. There must be informal ways of handling the grievances by the employment and labour. Economic growth can be achieved only when the industrial democracy is possible.

In India, industrial relations are not showing a rosy picture and hence they must be improved. Collective bargaining is the process by which trade unions can settle the grievances with the employers.

Further it has been observed that job security is an attracting factor in favour of public sector while private sector has the talented managerial and technical experts with attractive pay scales.

9.4. SOCIAL SECURITY:

According to the International Labour Office, "Social Security is the security that society furnishes through appropriate organisation against certain risks to which its members are exposed"

The Social Security Schemes must provide the citizen with benefits designed to prevent or cure disease, to support him when unable to earn and to restore him to gainful employment. To enjoy security, we must have confidence that the benefits will be available when required and in order to afford security the protection must be adequate in quality and quantity.

9.4.1. Social Security in India:

Before Independence, the progress in social security programme was very slow. Sickness, unemployment, temporary disabilities, untimely death of the earning member of the family were the occasions when workers suffered a lot.

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1. The Workmen's Compensation Act 1923:

The object of the Act is to impose an obligation upon employers to pay compensation to workers for accidents arising out of and in the course of employment resulting in death or total or partial disablement for a period exceeding three days. Compensation is also payable for some occupational diseases.

The Act is applicable to workers employed in railways, factories, mines, plantations, construction work, mechanically propelled vehicle6 and certain other hazardous occupations.

2. Maternity Benefits Act:

Maternity Benefit Act applies to every establishment being a factory, mine or plantation including any such establishment belonging to government except those factories or establishments to which provisions of Employees State Insurance Act, 1948 apply. The object is to grant rest and maternity benefits to expectant mothers.

3.The Employees State Insurance Act 1948:

This Act, applies in the first instance to all factories other than seasonal factories, run with power and employing 20 or more persons. Contributions towards the ESI fund in respect of an employee are payable both by the employee and his employer.

Benefits:

a) Sickness Benefit:

This benefit consists of periodical cash payments to an insured person in respect of such days of his sickness as are certified by the duly appointed medical practitioner. This benefit is limited to a period of 18 weeks.

b) Disablement benefit:

The disablement benefit is payable for temporary or permanent, partial or total disablement as a result of employment injury which includes certain occupational diseases sustained by an insured person.

c) Dependent benefit:

The medical benefit is available to an insured person for any week during which contribution is payable in respect of him in which he is qualified to claim sickness benefit, maternity benefit or disablement benefit..

4. Maternity benefit:

The daily rate of maternity benefit shall be equal to twice the standard benefit rate corresponding to the average daily wages in respect of the insured woman during the corresponding contribution period.

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5. The Coal Mines Provident Fund And Bonus Scheme Act:

The object of this Act is to make adequate provisions for the future of labour employed in coal mines, to inculcate in them a habit of thrift and to stablise the labour force. The success of this scheme led to enactment of Employees Provident Fund Act, 1952 and by the end of 1967, there were as many as 112 industries covered by the Act. All employees drawing less than Rs.1000 are eligible to get the benefits under the Act after putting a year of continuous service.

6. Unemployment Insurance:

Under the Industrial Disputes (Amendment) Act 1953 workers employed in any factory, mine, or plantation, having an average daily employment of 20 or more workers are eligible for lay-off as well as retrenchment compensation.

7. The Payment of Gratuity Act, 1972:

Under this Act, a person is eligible to receive gratuity from the employer at the rate of 15 days wages for every completed year of service.

8. Old Age Pension Schemes:

The pension insurance for old age is available to those who have already exhausted cash benefits under a health insurance scheme and still continue to be sick.

9. Family Pension Scheme 1964:

Under this scheme, an employee who retires in the noffi l al course gets a pension which is a recurring payment till death and also a lump sum in the foffi l gratuity.

10. Deposit Linked Insurance Scheme: 1976

This is a major social security scheme applicable to the workers covered by Employees Provident Fund Scheme. The monetary benefit goes upto a maximum of Rs.I0,000. The contribution of employer towards this scheme is 60 paise per Rs.I00 of the monthly rate; 30 paise per Rs. 100 by the government and 25 paise by the employee.

A widow pension scheme was introduced by the Kerala Government in 1963. The Central Government has also a scheme for dependent children and women.

9.5. INDUSTRIAL DEMOCRACY (OR) WORKERS PARTICIPATION IN MANAGEMENT (WPM)

9.5.1. Meaning of Industrial Democracy:

The modem age is the age of democracy. It is not only in political field but in the industrial sphere as well the concept of democracy is getting popular. No longer the labour is treated as silent lifeless machine subject to all kinds of inhuman treatment. Now it has been admitted that democracy is necessary to keep peace in the country. Industrial democracy is essential in the industrial sphere. The goals of production cannot be achieved without industrial peace in any country. As in the past the imperial forces exploited the colonies under them, the labourers had also been the worst victims of exploitation at the hands of capitalistic forces. Though the concept of workers participation in management has become very popular, it is very difficult to define it clearly. There are various forms and levels of participation ranging from the role of workers limited to making suggestions on certain matters which are not very important, to active involvement in decision making and administration.

(i) Informative participation

(ii) Consultative participation

(iii) Associative participation

(iv) Decisive participation

According to V.G Malhotra there are five forms of worker's participation in management.

9.5.2. Methods of Workers participation:

1. Co-partnership

2. Work Committees

3. Representation on the Board of Directors,

4. Suggestion Plan and

5. Joint Management Councils.

Objectives:

The objective of worker's participation in management may vary from country to country and from enterprise to enterprise. However the various objectives may be listed as follows:

(i) To promote industrial democracy
(ii) To promote industrial peace
(iii) To give due recognition to the personality of the workers
(iv) To safeguard the interest of workers.
(v) To regulate the self centred actions of the capitalists.
(vi) To give a social orientation to the business
(vii) To ensure the best utilisation of the human resources
(viii) To improve employee morale
(ix) To satisfy worker's urge for self expression
(x) To improve industrial productivity and efficiency

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9.5.3. Limitations:

(i) Workers may not be competent enough to understand and appreciate the managerial aspects of the enterprise. This is particularly so in developing countries.
(ii) It has been argued that workers are more bothered about labour welfare and the like than about the growth, dynamics and challenging problems of the enterprise.
(iii) It is possible that the worker's representative in the management may be an outsider -a politician or a trade union leader. To that extent, real participation or involvement of the workers is limited.
(iv) The possibility of the workers representative on the Board falling in line with the capitalists, against the interests of the workers cannot be ruled out.
(v) The worker management collaboration may sometimes turn against the interests of the society. The capitalist may get the support of labour to exploit the consumers. Labour may lend Its support to the capitalist In this respect, if it can also share the enlarged cake.

9.5.4. Forms and Levels of Workers Participation:

The forms and levels of labour participation in management may vary widely. The nature of participation depends on socio political attitudes and situation, the attitudes of management and labour and labour management relation. The methods of worker's participation in management are the following:

(1) Collective Bargaining:

It is common to decide certain matters of collective bargaining. The growth of trade unionism, the workers awareness of .their rights and strength and the recognition of the importance of negotiations by labour and management have greatly contributed to the growth of collective bargaining.

Some of the common subject matters of collective bargaining are -wages, bonus, working conditions and welfare matters.

(2) Joint consultation:

The functions of joint bodies comprising representatives of the management and employees may range from decision making on some issues to merely advising the management as consultative bodies. Joint consultation as a form of WPM is quite common in countries like India and Britain. The essential features of the joint management councils in India are

(a) The council is entitled to be consulted on certaii l specified matters;

(b) In some others, the management is expected to share information with. the council and m a set of functions administrative responsibilities have to be given to it.

Though the joint management councils/committees have been tried in some countries, they have generally not been found very effective. There is a certain amount of lack of clarity of objectives. Moreover, being advisory consultative bodies, neither the management nor the workers take them very seriously. Often they merely function as forums where workers and management freely vent their complaints and grievances without attempting to solve them. Some consider that unless these joint committees are vested with powers to take binding actions and decisions, they are bound to remain ineffective. There are others who feel such joint committees should not be given authority to take decisions on such issues as are normally the concern of the management. It will make them managerial instead of advisory.

(3) Joint Decision Making and Administration:

For the purposes of joint decision making and administration the workers are represented on the Board of Directors. Sometimes the worker's representative role is limited to participating in decision making but the actual execution of the programmes is the responsibility of the management. In the area of joint administration, however workers and management share the responsibility and power of execution. In India, the scheme of worker directors has been introduced both as statutory arrangement in nationalised banks as well as voluntary one is selected central public enterprises.

(4) Complete Control of Management:

In some cases like the system of self management in former Yugoslavia, workers have complete control over the management of the enterprise. Under the system in Yugoslavia, the workers had the option to influence all the decisions taken at the top level but in actual practice, the Board and top management team assumed a fairly independent role in taking policy decisions for the enterprise specially on economic matters. The system of complete control of management cannot obviously fit into a capitalistic system. A potential danger of complete control of management by the workers is that, like capitalists, the workers might try to maximise their benefits even at the expense of the consumers of society.

(5) Worker's participation in share capital:

As the Sachar Committee observes worker's participation in equity and in management are in some sense interrelated from the point of view of attaining the ultimate goal of co-partnership in industry. In favour of the worker's participation in share capital, it has been said that besides giving them a sense of dignity and status as co-partners, equity participation secures for them a share in the company's future prosperity while holding out promises for improved industrial relations and steady growth of internal finances for the company's operations. It has also been said that the improved performance of industry and harmonious industrial relations pave the way for the ultimate gain of the community as well as the State. The question of equity participation by workers, however, is a vexed one and not easy of solution..

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9.5.5. Worker's Participation Schemes in India:

Various measures have been tried in India to promote worker's participation. It started with the limited scheme of statutory works committees. Voluntary arrangements were made in the form of joint management councils, the scheme of worker's Directors both as statutory arrangements in nationalised banks as well as voluntary ones in selected central public enterprises and voluntary schemes of worker's participation in the manufacturing/mining industries was introduced in 1975 in commercial and service organisations in the public sector.

The Industrial Disputes Act 1947, provides for the setting up of a works committee, consisting of representatives of management and employees in every undertaking employing 100 or more workmen, "to promote measures for securing and preserving unity and good relations between the employer and the workmen and to that end, to comment upon matters of their concern and endeavour to compose any material differences of opinion in respect of such matters". The representatives of the workmen, whose number shall not be less than the unit number of representatives of the employer are to be chosen from among the workmen engaged in the establishment and in consultation with their recognised trade union, if any. The usefulness of the works committee as a channel for joint consultation and the need for strengthening and promoting this institution was stressed in the labour policy statements in the successive plans. The legal requirement and encouragement given by the government led to the setting up of works committees in a number of undertakings. The works committees, however did not prove very effective.

The vagueness in the legal definition of the scope and functions of the committees was a major reason for this ineffectiveness. To remedy this defect, the Indian Labour Conference in 1959 drew up an illustrative list of items which works committees would normally deal with and a list of items which would be beyond their scope.

a). Items under the scope of works' Committees:

1. Conditions of work such as ventilation, lighting, temperature and sanitation including latrines and urinals.
2. Amenities such as drinking water, canteens, dining rooms, rest rooms, medical and health services etc.,
3. Safety and accident prevention, occupational diseases, and protective equipment.
4. Adjustment of festival and national holidays.
5. Administration of welfare funds.
6. Educational and recreational activities.
7. Promotion of thrift and savings and
8. Implementation and review of decisions arrived at the meetings of works committees.

b). Items excluded for the Works Committees:

1. Wages and allowances.
2. Bonus and profit sharing bonus.
3. Rationalisation and matters connected with the fixation of work load.
4. Matters connected with the fixation of a standard labour force.
5. Programmes of planning and development.
6. Matters connected with retrenchment and layoff.
7. Victimisation for trade union activities.
8. Provident fund, gratuity schemes and other retirement benefits.
9. Quantum of leave and national and festival holidays.
10. Incentive schemes and
11. Housing and transport services.

c). Reasons for failure of Works Committee:

The works committees have not generally proved very successful. In the evidence before the National Commission on Labour (NCL) State governments expressed the view that the advisory nature of the recommendations, vagueness regarding their exact scope and functions, inter-union rivalries, union opposition and reluctance of employers to utilise such media have rendered works committees ineffective. The employer's associations have attributed the failure of works committees to factors like inter-union rivalries union antipathy and attitude of members (worker's wing) in trying to raise extraneous issues in the committee discussion. According to the unions, conflict between the works committees and the unhelpful attitudes of the employers had .generally led to their failure.

The NCL indicated that the effectiveness of these committees will depend on the following methods:

i) A more responsive attitude on the part of the management.
ii) Adequate support from the union;
iii) A proper appreciation of the scope and functions of the works committees.
iv) Whole hearted implementation of the recommendations of the work committees; and
v) Proper co-ordination of the functions of the multiple bipartite institutions at the plant level now in vogue.

d). Joint Management Councils:

The scheme of Joint Management Councils (JMCs) is based on a draft prepared by the tripartite committee appointed by the 15th Session of the Indian Labour Conference as subsequently modified by two tripartite national seminars on the subject held in 1958 and 1960.

The main objectives of the Joint Management Councils were

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i) To promote cordial relations between management and workers.

ii) To build up understanding and trust between management and workers.

iii) To effect a substantial increase in productivity.

iv) To secure better welfare and other facilities for workers and

v) To train the workers to understand and share the responsibilities of management.

e) Functions of Joint Management Councils:

The essential features of the scheme of J.M.C. are the following:

i) The council is entitled to be consulted on certain specific matters.

ii) In some others, the managements are expected to share information with the Council and

iii) In a set of functions, administrative responsibilities have to be given to it.

The management consults the councils on such matters as:

i) The administration of standing orders and their amendment.

ii) Retrenchment;

iii) Rationalisation and

iv) Closure, reduction or cessation of operations.

The council would also have the right to receive information, to discuss and to give suggestions on the general economic situation of the concern;, the state of the market, production and sales programmes. The other spheres in which the Council has right to receive information and give suggestions are;

i) The general running of the undertaking

ii) Circumstances affecting the economic position of the undertaking

iii) The methods of work and manufacture.

iv) Long term plan for expansion, redeployment and such other matters as may be agreed to.

v) The balance sheet and profit and loss account and connected documents and explanation.

f) Administrative Responsibility of JMC:

The councils should be entrusted with administrative responsibility in respect of:

a) Administration of labour welfare measures,

b) Supervision of safety measures.

c) Operation of vocation training and apprenticeship schemes,

d) Preparation of schedules of working hours and breaks and of holidays.

e) Payments of rewards for valuable suggestions received from the employees and

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f) Any other matter.

g) Other matters and Responsibility:

All matters e.g., wages, bonus etc., which are subjects for collective bargaining are excluded from the scope of the JMC.

The core of the industrial democracy involves the various aspects of inter-actions between employer and employees -how people get on with their work, what difficulties arise, and how they are solved with mutual co-operation. Good relations and goodwill between the employers and employees are an integral aspect of social relations.

9.5.6. Suggestions to make industrial Democracy successful in India:

No doubt the steps taken to introduce industrial democracy ill India are creditable but they have not met with the success they were expected to' achieve. Some of the difficulties are listed:-

1. Lack of mutual Co-operation and goodwill:

The workers blame the management while the managements blame the workers and their representatives. So long as each place their own interest upper most at the cost of others there will not be real democracy. In the larger interests of growth and productivity both will have to be less mindful of their mutual interests.

2. Lack of understanding the spirit of Industrial Democracy:

The employers think that the workers participation in management weakens their position and rights. On the other hand, the workers begin to think participation in management gives an opportunity in furthering own interests. This attitude is detrimental to both.

3. Lack of Strong Unions:

There is also Jack of strong labour unions with dedicated leaders.

In order to overcome such difficulties and to make industrial democracy a success, the following steps should be taken:

i) There is a need to arrest the trend of rising prices and this can best be done by increasing productivity. For this the spirit of industrial democracy should be strengthened in the minds of all concerned with production.

ii) The labourers should be well educated:

The workers need proper education especially the education of industrial democracy. It will create proper environment for the introduction and success of industrial democracy.

iii) The participation of workers in management of different levels:

This should be made more realistic and not merely routine type paper work to satisfy the statutory demands.

iv) Formation of Strong Labour Unions:

Instead of multi-unions in industry there should be one strong labour union which can safeguard the interest of the labourers. The unions should not be .dominated by outsiders. Their leaders should be from among the workers themselves.

V) A change in attitudes:

There is a need for complete change in attitude of both the workers and the employers. They should not regard themselves as opponents of each other with different interests. They should have co-operation and goodwill for the larger interest of the economy.

vi) Avoidance of Political Interference:

The political parties should keep away and shun imposing their ideas on the unions and their activities.

vii) Leadership of the Unions:

The leaders of the union should be from among the workers themselves. They alone understand the problems of the workers and the industry.

viii) Change in the attitudes of the Employers:

In the opinion of Humayun Kabir, the Employers need a change of attitude more than even the workers. They should be well trained in the basic Il eed of industrial

democracy.

ix) Proper Environment:

The government should see that proper environment is created in the country for industrial democracy. To achieve the goal the government, the employers and the workers all the three should come closer and make joint efforts.

x) The Concept of Industrial Democracy:

It should be given practical bias; so far the concept of industrial democracy IS more or less a theoretical concept. It needs to be put in practice at every level. It should be well understood that there is great importance of worker's participation in management.

9.6. FISCAL POLICY AND ITS IMPACT ON BUSINESS

9.6.1. Meaning of Fiscal Policy:

Fiscal policy is a policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on national income, production and employment. In other words, fiscal policy is a technique to attain and maintain full employment by manipulating public expenditure and revenue in such a way so as to keep an equilibrium between effective demand and supply of goods and services at that time.

9.6.2. Objectives of Fiscal policy:

Fiscal policy as a means of promoting economic development has the following objectives i) Mobilisation ofResources; ii) To accelerate the rate of economic growth; iii) To encourage investment into socially desirable channel; iv) Inducement of investments; v) The pattern of investment; vi) Price stability; and vii) equal distribution of income and wealth.

9.6.3. Types of Fiscal policy:

i) Tax policy; ii) public Expenditure policy; iii) Public Debt management policy;

iv) Budgetary policy, etc.,

Fiscal Measures:

These are basic tools used in fiscal policies. They are:

1. Direct taxes -Income Tax, Wealth tax, Gift tax, Corporate tax etc.,

2. Indirect taxes -Sale tax, Customs duties, Excise duties, etc.,

3. Public Expenditure - Compensatory expenditure.

4. Public Debt, -internal debt, foreign debt, foreign aids, foreign collaboration, foreign investment etc.,

5. Budget -Surplus budget, Balanced Budget and Deficit budget.

6. Financing -Deficit financing.

9.6.4. Impact of Fiscal policy on business:

Actually, the fiscal policies are formulated to control economic activities of a nation. All business decisions and their related activities are formulated and controlled on the basis of present fiscal policy.

Let us see the impact of fiscal policy on business under the following heading.

1. Impact of tax policy on business:

The impact of tax policy can be seen through two ways-impact of direct tax policy and indirect tax policy.

2. Impact of Direct tax policy:

The direct taxes like personal income tax and Corporate taxes are influencing the business directly. In the case of personal income tax, the rate of taxation is heavy as well as

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progressive; this is a disincentive to business people. Progressive personal income tax is leading to black marketing, because there is no possibility of shifting of taxes in this case.

In the case of Corporate taxes, the Corporation has to run separate department called as Tax Management department in order to reap investment allowance, incentives, etc, By way of corporate taxes, the Government of India is giving so many allowances and incentives to the business especially which are to be started in Backward regions. It may also change the capital structure of the business.

b) Impact of indirect taxes:

The indirect taxes have some impact on business through the following ways:

i) Pricing policy of a firm is decided by the tax policy.
ii) The objectives of the business are highly altered according to the tax policy.
iii) The scope of starting new industries are highly altered according to the tax policy.
iv) Import and Export policy will decide the business plan in future.
v) Tax holidays and tax concessions may induce the business people to improve their business.

2. Impact of Public Expenditure on business:

The public Expenditure is expenditure spent by the Government for the welfare of the people. This expenditures are classified into productive and non-productive expenditures. The Government allocates some funds for productive as well as non productive purposes in order to achieve\economic development through business. The basic examples are compensatory finance and pump-priming. These two also have same impact on business,

a) Impact of compensatory finance:

This is the finance by the Government wherever the private finance is lacking. Because of the compensatory finance, the business people will have psychological support and infra-structural facilities also. This will increase the business opportunities.

b) Impact of pump priming:

The pump priming is generally done through subsidies, incentives tax holidays, financial assistance etc. This will strengthen the financial support to weaker units as well as a remedy for industrial sickness.

3. Impact of public debt Management:

Public debt represents the indebtedness of the government to the people. The Government gets loan from the people through the floatation of treasury bills and some other special bonds like Bearer Bonds scheme, etc. It may change the decision making in business. For example, advance tax is also a public debt which may affect the business decisions. It may reduce the capital flow in business.

4. Impact of deficit financing on financing:

The term deficit financing refers to the ways in which the budgetary gap is financed. The government resorts to this method of financing when it is unable to cover its total expenditure from normal sources of revenue such as taxation, fees, income from government properties and undertaking, proceeds of loans, etc. Thus deficit financing, in that case can be undertaken by government by drawing upon its accumulated cash balances or borrowing from the Central Bank of the country.

Deficit financing is a double-edged weapon. Deficit financing creates new money in the economy. It will increase the aggregate demand. So the business people are positively motivated and they can earn a very good profit because of an increase in price of the product also.

The deficit financing also creates some negative consequences on business. There will be an increase in the price of factors of production. If the demand for the product does not increase, the producers will incur losses.

5. Impact of Budget policy on business:

In a planned economy, budget represents a potent instrument of achieving national economic goals such as growth, justice and stability. The budget is a useful instrument of financial and fiscal policies of the Government.

9.7. KEY TERMS :

Labour : Person employed in an organised industries covered under the Factories Act.

Productivity of Labour : Ratio of output corresponding to the input of labour.

Labour policies : Policy regarding labour welfare and security.

Industrial relation : Relationship between employer and worker, and between worker and worker.

Social security : Provisions for securing public assistance in the event of unemployment, old age, sickness and disablement.

Workers participation in management : Mental and emotional involvement of workers in the process of decision making.

Industrial dispute : Dispute between employer and employees.

Trade union : A voluntary organisations of workers formed to promote and protect their interest by collective action.

Fiscal policy : Policy under which the government uses its expenditure and revenue programmes to produce desirable effects on national income, production and employment.

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Check your progress :

True / False :

1. Provisions for securing public assistance in the event of sickness, disablement is called social security.
2. Trade union is compulsory under law.
3. Relationship between worker and worker is called industrial relation.

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9.8. SUMMARY :

Productivity of labour means the ratio of output to the corresponding input of labour. The labour productivity is affected by factors such as general factors like climate, fiscal policy etc, organsation and technical factors and human factors social security refers to the security that society furnishes through appropriate organisation against certain risks to which its members are exposed. The India so many acts were enacted to provide security to the labourers. Workers participation at management means mental and emotional involvement of workers in the process of decision making. The workers participation is in the form of collective bargaining. Joint consultation, joint decision making and administration, complete control of management and participation in share capital. Fiscal policy refers to income and expenditure programme of government. It has various impacts on business.

9.9. ANSWERS TO CHECK YOUR PROGRESS :

I. 1. Productivity 2. Labour

II. 1.True 2. False 3. True

9.10. QUESTIONS / EXERCISES :

Sec – A

1.State the objectives of workers participation in management

2. Bring out the dimension of labour policies.

Sec – B

1. Discuss the impact of fiscal policies on business.
2. Critically examine the various methods of worker's participation in management.
3. Explain the various social security measure.
4. What is meant by productivity of labour? Discuss the factors affecting them.

UNIT – 10 FOREIGN CAPITAL

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Structure

10.0 INTRODUCTION :

Foreign capital plays an important role in speeding up the process of industrialization and there by economic development. The history of advanced nations of today is sufficient proof of the positive role played by foreign capital. That is why foreign capital and technology are welcomed even in countries like China and Russia. In a developing nation like India, the need for foreign capital and technology is great. With low rate of savings and investment, foreign capital may be supplemental to domestic resources so that the vicious circle of 'low income – low saving – low investment - low income" can be broken. This unit studies the foreign direct investment, meaning, merits and demerits, determinants of FDI and India's policy towards FDI. More over the concepts, merits and demerits of MNC's are discussed. Fiscal policy of the govt. and its impact are also analysed.

10.1. UNIT OBJECTIVES :

- Learn the meaning of Foreign Direct Investment
- Evaluate the merits and demerits of FDI
- Learn the meaning of MNC
- Argue for and against MNCs

10.2. FOREIGN DIRECT INVESTMENT (FDI)

Foreign direct investment means investment in a foreign country where the investor retains control over the investment. The investor is usually a multinational corporation. The control over the enterprise in which the investment is made does not merely involve the control of the invested capital. It is control in terms of actual power of management and effective decision-making in the major areas of working, e.g., finance, production, technology, marketing and so on. Foreign direct investment typically occurs in the form of setting up a subsidiary, starting a joint venture OI acquiring a stake in an existing firm in a foreign country. Direct investment is .combined with management control of the firm. There are three main categories of FDI-equity capital. reinvested earnings and lending of funds by a multinational to its affiliate.

When the investor makes only investment and does not retain control over the enterprise, it is known as portfolio investment. The investor is interested only in return on his capital and does not want control over the use of the invested capital. Portfolio investment is for a short period and is influenced by short-term gains on the other hand, foreign direct investment involves long-term commitment and cannot be easily liquidated. Therefore long-term considerations like political stability, government policy, industrial prospects, etc. influence it. Direct investors have direct responsibility for the promotion and management of the enterprise. But portfolio investors have no direct responsibility for promotion and management of the enterprise. Portfolio investment takes place through foreign institutional investors (FIIs) like mutual funds and through American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and Foreign Currency Convertible Bonds (FCCBs). ADRs, GDRs and FCCBs are securities issued by Indian companies in the foreign markets to mobilise foreign capital.

10.2.1. Advantages of Foreign Direct Investment

Foreign direct investment offers the following benefits:

(i) FDI increases the level of investment by supplementing domestic capital. The host country gets scarce capital resources from abroad. As a result, FDI contributes towards the development of infrastructure, industry and service sector in the host country. FDI helps to enhançe business activity and raise the level of economic development.

(ii) FDI facilitates transfer of technology, machinery and equipment to the host country. Advanced foreign technology helps to reduce costs and improve quality of products and services. Local firms get the opportunity for technology upgradation.

(iii) FDI can create a managerial revolution in the host country through professional management and employment of sophisticated techniques of organisation and management. Local firms get access to world class management and corporate practices.

(iv) FDI helps to boost employment and incomes in the host country through establishment of new industries and development of ancillary industries. Higher production and income in turn increase the tax revenue of the government. Material and human resources can be utilised optimally.

(v) FDI can help the host country to increase its exports and reduce imports. These add to the foreign exchange resources of the country and improve its balance of payments position. In fact, the Government of India announced economic liberalisation in July, 1991 due to foreign exchange crisis.

(vi) FDI may help to increase competition and break domestic monopolies in the host country. It can overcome trade barriers like tariffs and quotas. FDI can make Indian industries globally competitive.

(vii) FDI offers benefits to the home country also. There is inflow of foreign, currency in the form of dividend and interest. Exports of technology, I machinery and equipment help to enhance industrial activity and employment in the home country.

(viii) There is greater choice of products by consumers. Their standard of living is likely to improve due to better quality and wider choice.

10.2.2. Disadvantages of Foreign Direct Investment

Foreign direct investment has been criticised for the following reasons:

(i) FDI tends to flow in the areas of high profits rather than in the priority sectors of the host country.

(ii) Considerable funds are repatriated from the host country in the form of dividend, interest, etc. on FDI. Such outflows put pressure on the host country's balance of payments.

(iii) FDI takes place mainly through multinational corporations. These corporations are large in size and have a wide resource base. They pose a threat to the domestic firms in the host country.

(iv) The technology brought in by the foreign investors may not be appropriate to the market size, resource base, stage of economic development and consumption needs of the host country.

(v) FDI poses a threat to the economic autonomy and political sovereignty of the host country. Some of the multinational corporations have destabilised governments in African countries.

(vi) FDI can lead to adverse effects on domestic savings, and adverse terms of trade for the host country which offers special concessions to attract FDI. Some foreign investors pre-empt investment plans of domestic companies. They engage in unfair and unethical trade practices.

(vii) FDI may involve costs and risks for the home country. Employment opportunities may shrink and balance of payment position may suffer due to FDI.

10.2.3. Determinants of Foreign Direct Investment :

The volume of FDI in a country depends on the following factors:

1. Natural Resources: Availability of natural resources in the host country is a major determinant of FDI. Most foreign investors seek an adequate, reliable and economical source of minerals and other materials. FDI tends to flow in countries which are rich in resources but lack capital, technical skills and infrastructure required for the expolitation of natural resources. Though their relative importance has declined, the availability of natural resources still continues to be an important determinant of FDI.

2. National Markets: The market size of a host country in absolute terms as well as in relation to the size and income of its population and market growth is another major determinant of FDI. Large markets can accommodate more firms and can help firms to achieve economies of large scale operations. Market access has been the main motive for investment by American companies in Europe and Asia.

3. Availability of Cheap Labour: The availability of low cost unskilled labour has been a major cause of FDI in countries like China and India. Low cost labour together with availability of cheap raw materials enables foreign investors to minimise costs of production and thereby increase profits.

4. Kate of Interest: Differences in the rate of interest prevailing in different countries stimulate foreign investment. Capital tends to move from a country with a low rate of interest to a country where it is higher. Foreign investment is also inspired by foreign exchange rates. Foreign capital is attracted to countries where the return on investment is higher.

5. Socio-Economic Conditions: Size of the population, infrastructural facilities and income level of a country influence direct foreign investment.

6. Political Situation: Political stability, legal framework, judicial system, relations with other countries and other political factors influence movements of capital from one country to another.

7. **Government Policies:** Policy towards foreign investment, foreign collaborations, foreign exchange control, remittances, and incentives (monetary, fiscal and others) offered to foreign investors exercise a significant influence on FDI in a country. For example, Export Processing Zones have been developed in India to attract FDI and to boost exports.

10.2.4. India's Policy Towards FDI :

Before 1991, India followed a very restrictive policy towards foreign capital and technology. Foreign collaboration was allowed only in fields of high priority and in areas where the import of foreign technology was considered necessary. Under FERA, the Reserve Bank of India was empowered to exercise direct control over the activities of foreign companies.

Since July 1991, India has gradually liberalised its policy towards foreign investment and technology. The highlights of the new policy are as follows:

(i) The new policy has allowed majority foreign equity with automatic approval in most of the industries. In February 2000, the Government of India placed all items under the automatic approval route except the following:

(a) items which require an industrial licence under the Industries (Development and Regulation) Act, 1951;

(b) more than 24 per cent foreign investment in units manufacturing items reserved for small scale units;

(c) all items requiring industrial licence in terms of the locational policy notified under the industrial policy;

(d) proposals having previous venture tie up in India with foreign collaborator;

(e) proposals relating to acquisition of shares in existing Indian company by foreign/NRI investor.

Thus, the number of products of industries in which foreign investment is freely permitted has been increased significantly.

(ii) The foreign investors are now free to compete with domestic producers in the Indian market.

(iii) The foreign investor is free to own a majority share in equity.

(iv) India has opened two routes for FDI inflows-the RBI route and the FIPB route. Detailed guidelines and simplified procedures have been prescribed.

(v) NRI investments in foreign exchange have been made fully repatriable.

(vi) International financial institutions have been allowed to invest in Indian companies through automatic route subject to SEBI/RBI guidelines.

(vii) To provide access to foreign market, majority foreign equity holding upto 51 % equity would be allowed for trading companies, primarily engaged in export activities.

(viii) Automatic permission would be given to foreign technology agreements in high priority industries subject to prescribed conditions.

(ix) Foreign companies can now use their trade marks on domestic gates.

(x) India has signed Multilateral Investment Guarantee Agency Protocol for the protection of foreign investors.

The new policy towards foreign capital and technology is definitely more open and permissive than the old policy. But for foreign investors, business environment in India is

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still not as attractive as in China and many other countries. Approval procedures are still complex and time consuming. Infrastructure and mindset of people are major constraints to FDI inflows. Foreign investors want a more investment friendly environment in the form of simplified procedures, labour reforms, operational efficiency, better competitiveness, efficient local vendors, effective intellectual property regime, better infrastructure, transparent regulatory system and lower cost of doing business.

10.3. MULTI NATIONAL CORPORATION

10.3.1. Meaning of MNC:

A Multi national corporation is a company or corporation which has gone global. The MNC operates in more than one country. The MNCs are referred to in different names, though there are some differences between them. Tenns such as international corporation, transnational corporation and global corporation are used. The common features of these global companies are:

1. They are multiple units -located in different parts of the world but linked by common ownership.
2. They draw on common pool of resources like finance, information etc.,
3. They are governed by a common strategy.

As observed in an ILO report, "the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (referred to for convenience as the "home country), while the enterprise carries out operations in a number of other countries as well (host countries).

According to Leonard Gomes, "a multi national corporation is a corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment. Finns that participate in international business, however large they may be solely by exporting or by licensing technology are not multinational enterprises.

According to James C.Baker, multi National Corporation is a company:

a) which has a direct investment base in several countries; and
b) which derives 20 to 50 percent or its net profit from foreign operations; and
c) whose policy decisions are based upon alternatives available anywhere in the world.

Investment Motives

Generally the motives for international investment are:
to gain easy dominance in the under developed foreign market
to reduce the impact or home country regulations
to exploit the resources available in the host countries

to enjoy tax benefits to circumvent tariff to reduce production costs by using the cheap factors of production.

10.3.2. Arguments for and against MNCs

As pointed out in the preface to the ILO report on Multi national corporations and Social Policy "for some, the multinational companies are an invaluable dynamic force and instrument for wider distribution of capital, technology and employment; for others, they are monsters which our present institutions, national or international cannot adequately control, a law to themselves with no reasonable concept, the public interest or social policy can accept".

Arguments for MNCs :

1. MNCs help to. raise the investment levels in the host country and thereby the income and employment levels also.

2. The transnational corporations transfer technology to the less developed countries.

3. Professional management gains momentum:

4. There is transfer of capital, technology and entrepreneurship.

5. Exports of the host countries rise and imports decline.

6. MNCs equalise the cost of the factors of production in the world.

7. MNCs help to achieve the integration of national economies.

8. MNCs give a boost to domestic industries.

9. MNCs increase' competition in the market and thus help to break ideal monopolies.

Argumentagainst MNCs :

1. The operations of MNCs underlines national autonomy and sometimes they may be inimical to the host country.

2. The technology adopted by MNC's is designed for their profit maximisation. They are very rarely suitable the needs of the less developed countries.

3. MNCs drain the. foreign exchanges and create unfavourable effects on the balance of payments.

4. The powerful MNCs threaten the sovereignty of the host nation.

5. MNCs evade taxes through inter company transactions.

6. MNCs kill the employment opportunities in the home country.

7. MNCs over exploit the non-renewable resources in the host nation.

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8. MNCs kill domestic industries (With the entry of Coco Cola, many local soft drinks have vanished).

9. MNCs destroy competition in the market and become monopolies.

10.3.3. Recent trends:

Of late, a change in the attitude towards MNCs is noticeable. Even the communist countries have welcomed the MNCs. It is in this context that there arises the need for reassessment of the role of MNCs. Paul Streeten points out the trends:

1. Many nations are now setting up MNCs and it is not the USA alone.

2. Even the developing countries also are setting up MNCs.

3. The MNCs of developed nations are adopting a flexible approach towards the need$ of developing countries.

4. The host countries invite MNCs from allover the world to take competitive advantage and to have the more flexible organisation.

10.3.4. Future of MNCs:

There is a lot of scope for the growth of MNCs as vast changes in the economic environment have been taking place. The World Investment Report, 1992 points out the fast developments and the growing importance of MNCs.

1. Almost all developing nations allow market forces to play and give importance to the private sector.

2. Rapid technological changes influence the nature of organisation as well as location. 3. Globalisation trend.

4. the growth of services sector as the single largest sector 5. regional economic cooperation.

As pointed out be Peter F Drucker, multinationalism and expanding international trade are two sides of the same coin..

10.3.5. MNCs in India:

Quite for a long time, MNCs could not find a safe place in India due to:

1. Public sector had been assigned a major role in India in the industrial policy.

2. Restrictive government policy on foreign investments. 3. Unacceptable conditions imposed by the government

(Coco Cola and IBM left India in the late 1970s due to this reason)

The MNCs have preferred highly profitable areas only. The Foreign Exchange Regulation Act, 1973 (FERA) directed foreign companies to dilute their equity holding to 40 percent.

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Till 1991, the domestic market remained highly protected. The unrealistic exchange rate policy also made the domestic market more attractive than the exports. Under the circumstances, it is not correct to criticise that the MNCs do not contribute to foreign exchange earnings. The new industrial policy which is hailed as a liberal policy has thrown open the doors widely to the MNCs. FERA and MRTP restrictions have been removed and now the hurdles have been removed.. With the announcement of the liberal industrial policy in 1991, many Indian companies are also planning to go. global. Globalisation is now viewed as a quick approach to fast growth by Indian companies.

10.3.6 Problems faced by MNCs :

High interest rates on borrowings, finance problems, export obligations, restrictions on repatriation of profits, hostile domestic opinion of the MNC's problems arising due to cultural differences and frequent policy changes by the government affect MNCs to a large extent.

10.4. KEY TERMS :

FDI : Foreign companies set up subsidiaries and branches in India.

Portfolio Investment : Foreigners subscribe to shares and debentures of companies in India. But no participation in management.

Foreign Collaboration : Foreign and Indian firms jointly participate in business.

MNC: A Multi national corporation is a company or corporation which has gone global.

Check your progress :

True / False :

i) Global corporation are otherwise is called as MNC.

ii) Rate of interest determines FDI.

iii) FDI does not supplement demestic capital.

iv) Investors in portfolio investment are interested in management.

10.5. SUMMARY :

Foreign direct investment refers to investment in a foreign country in which the investor retains control. The advantages of FDI are Capital, technology, professional management, employment exports, competitiveness and higher standard of living. Its disadvantages are low priority areas, outflows, threat to domestic industry etc. MNC is an enterprise that carries on business operations in more than one country. It invests, produces, markets, and operates in several countries.

10.6. ANSWERS TO CHECK YOUR PROGRESS :

i) True, ii) True iii) Flase iv) Flase

10.7. QUESTIONS / EXERCISES

Sec - A

1. Define FDI. What are its characters?

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2. How does FDI benefit the home country.

3. Define MNC. What are its characters?

Sec - B

1. Discuss the advantages and disadvantages of FDI.

2. Explain the factors that determine the volume of FDI in a country.

MODEL QUESTION

Paper – 1 BUSINESS ENVIRONMENT AND POLICY

Time : Three Hours **Maximum : 100 Marks**

Answer any FOUR questions. Answer to each questions not to exceed 2 pages :

1. What are the elements of business environment?
2. Discuss and comment on the industrial policy Resolution 1948.
3. Write a brief note on M.R.T.P Act.
4. What are the social responsibilities of business towards the community?
5. Point out the basic objectives of Investment.
6. Briefly state the guidelines of SEBI for the 'Rights Issue".
7. Enumerate the problems faced by small scale units.
8. Write short notes on MNCs.

SECTION B -(3 x 20 =60 marks)

Answer any THREE questions. Answer to each questions not to exceed 4 pages.

9. Discuss the social environment of business.
10. Critically analyse the industrial licensing policy of India.
11. What is meant by social audit? Trace its evolution growth.
12. Discuss the role of SIDBI and NABARD in the promotion and development of SSI units.
13. Is foreign capital a necessary evil? Outline the features of Government policy towards foreign capital.
14. Bring out the importance and different aspects of "Portfolio management'.