

**CHAPTER:-5**  
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## **CHAPTER:-5**

### **CONCEPT OF INDUSTRIAL RELATIONS**

#### **5.1 DEFINATIONS OF INDUSTRIAL RELATIONS**

The term industrial relations refer to industry and relations. "Industry" means "any productive activity in which an individual is engaged" and relations" means "the relations that exist in the industry between the employer and his workmen." To observers like Kapoor, the concept of "industrial relations is a developing and dynamic concept, and doe not limit itself merely the complex of relations between the unions and management, but also refers to the general web of relationships normally obtaining between employees a web much more complex than the simple concept of labour-capital conflict.<sup>66</sup>

Different authors have defined industrial relations in a somewhat different way. Below are given some of the quoted definitions.

**According to V. Agnihotri** "The term industrial relations explains the relationship between employees and management

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<sup>66</sup> See, Kapoor T.N. (Ed.), *Personal Mgt. & Ind. Relations in India*, 1968

which stems directly or indirectly from union- employer relationship.<sup>67</sup>

**According to C.B. Kumar** "Industrial relations are broadly concerned with bargaining between employees and trade unions on wages and other terms of employment. The day-to-day relations within a plant also constitute one of the important elements and impinge on the broader aspects of industrial relations."<sup>68</sup>

**According to V.B. Singh** "Industrial relations are an integral aspect of social relations arising out of employer-employee interaction in modern industries, which are regulated by the state in varying degrees in conjunction with organized social forces and influenced by prevailing institutions.

This involves a study of the state, the legal system, workers' and employers' organizations at the institutional level and that of patterns of industrial organization (including management) capital structure (including technology), compensation of the labour force and market forces at the economic level".<sup>69</sup>

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<sup>67</sup> See, Agnihotri R. – Industrial Relations in India, 1970

<sup>68</sup> See, Kumar C.B. *Development of Industrial Relations in India*, 1961

<sup>69</sup> See, Singh V.B. *Climate for Industrial Relations*, 1968

**According to Ordway Teed and Metcalfe** "Industrial relations are the composite result of the attitudes and approaches of employers and employees to each other with regard to planning, supervision, direction and co-ordination of the activities of an organization with a minimum of human effort and friction, with an animating spirit of a co-operation and with proper regard for the genuine well-being of all members of the organization."<sup>70</sup>

**According to J. Henry Richardson** "Industrial relations may be referred to as an art, the art of living together for purposes of production."<sup>71</sup>

**According to Allan Flanders** "The subject of industrial relations deals with certain regulated institutionalized relationship in industry."<sup>72</sup>

**According to H.A. Clegg** "The field of industrial relations includes the study of workers and their trade unions, management, employers' associations and the state institutions concerned with the regulation of employment."<sup>73</sup>

**According to R.A. Lester** "Industrial relations involve attempts at workable solutions between conflicting objectives and values between incentive and economic

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<sup>70</sup> See, Ordway Teed and Metcalfe, - *Personal Administration Its Principles and Practice*, 1970

<sup>71</sup> See, Richardson J.H. - *An Introduction to the study of Industrial Relations*.

<sup>72</sup> See, Allan Flanders- *Management & Unions*, 1970

<sup>73</sup> See, H.A Clegg - *Industrial Democracy and Nationalization*, 1951

security between discipline and industrial democracy, between authority and freedom between bargaining and co-operation.<sup>74</sup>

**According to bethel and others** "Industrial relations refer to that part of management which is concerned with the manpower of the enterprise whether machine operator, skilled worker or manager.<sup>75</sup>

**According to the ILO,** "Industrial relations deal with either the relationships between the state and employers; and workers' organizations or the relations between the occupational organizations themselves.' The ILO uses the expression to denote such matters as "freedom of association and the protection of the right to organize and the right of collective bargaining; collective agreements, conciliation and arbitration; and machinery for co-operation between the authorities and the occupational organizations at various levels of the economy.<sup>76</sup>

**Encyclopedia Britannica** defines Industrial Relations as "The concept of industrial relations has been extended to denote the relations of the state with employers, workers and their organizations.

The subject, therefore, includes individual relations and joint consultation between employers and work people at

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<sup>74</sup> See, *Recharad A. Lester – Labour and Industrial Relations*

<sup>75</sup> See, L.B. Bethal, F.J. Atwater, G.H.E. Smith, H.A. Stackman and J.I. Riggo 1971

<sup>76</sup> Quoted by C.B. Kumar, *Op. Cit.* P. IX

their work place; collective relations between employers and their organizations and trade unions and the part played by the state in regulating these relations.<sup>77</sup>

The following points emerge from an analysis of the above definitions

- i. Industrial relations are the relations which are the outcome of the "employment relationship" in an industrial enterprise. Without the existence of the two parties, the employer and the workmen, this relationship cannot exist. It is the industry which provides the setting for industrial relations.
- ii. This relationship lays emphasis on the need for accommodation by which the parties involved develop skills and methods of adjusting to, and co-operating with, each other.
- iii. Every industrial relations system creates a complex of rules and regulations to govern the work place and the work community with the main purpose of achieving and maintaining harmonious relations between labour and management by solving their problems through collective bargaining.
- iv. The government/state evolves influences and shapes industrial relations with the help of laws, rules, agreements, awards of courts, and emphasis on

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<sup>77</sup> See, *Encyclopedia Britannica*, 1961, Vol. 12 P.297

usages, customs, traditions, as well as the implementation of its policies, and interference through executive and judicial machinery.

The term industrial relations may be conceptualized as the relations and interactions in industry, particularly between labour and management, as a result of their composite attitudes and approaches to the management of the affairs of the industry for the betterment of not only the management and workers but also of the industry and the national economy as a whole.

## **5.2 THE MEANING OF INDUSTRIAL RELATIONS**

The various definitions of Industrial Relations and approaches to the study of industrial relations traverse through a vast territory from empowerment of the weak, to human relation, collective bargaining, struggle for power and domination, securing of commitment, adjustment, control over men material and money, conflict resolution, rules, structures and institutions, pluralism and bilateralism and what not.

Scholars and managers have attempted, at different times to view Industrial relations differently, as though viewing a sphere with illumination on one side. As the sphere rotates, or the viewer moves, or the direction and intensity of the illumination changes, the view also changes.<sup>78</sup>

The study of Industrial Relations has also drawn from the fields of psychology, sociology, communication, technology etc. and is now in the process of establishing its own field of study.

The whole world started changing rapidly- politically, economically and socially, with the changing power equation of the industrial revolution wherein were witnessed evolution of new trades and profession and new relationship of a big employer and large number of employees. Such equation led to new kinds of pressures and pulls, groupings and associations, relationships and equation. Many a times such relationship titled unequally towards a powerful group resulting in exploitation.

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<sup>78</sup> Sharma G. D., *New India Political & Relation*, published by Press & Publication, Delhi, 2000



To avoid such exploitation, need was felt to create rules, structures and systems by government and by organizations to take care of the sensibilities of the group and individual players representing various stakeholders in the Industrial Relations drama.<sup>79</sup>

Historically and traditionally, the interest of management and labour, - two parties (in an organization) to negotiations and conflicts, has been seen to be opposed to each other.

In the changing economic and employment scenario we will have to start thinking, conceptualizing and viewing Industrial Relations differently.

We cannot merely look at it as a system of balancing the acts and interests of various players and stakeholders but also try to look at it as an opportunity for harnessing the efforts of both management and labour towards common organizational goods.<sup>80</sup>

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<sup>79</sup> *Ibid* 78

<sup>80</sup> *Ibid* 78

The management of Industrial relations therefore pertains not only to resolution of Industrial disputes and conflicts but also towards canalizing of human endeavor and involvement of employees in realizing organizational goals and objectives.

This can be done through taking care of individual and collective needs of employees, and by making strategic intervention in respects of HRM policies and practices.

The ultimate philosophy behind such interventions would be to create partnership. Since no partnership can function effectively and fruitfully unless the efforts of all partners are directed towards common ends, the creation of partnership requires regulation of interaction, space, and domain of the partners.

In essence, therefore, the creation of partnership will be effective and fruitful only if the relationship between various partners is regulated.

To create harmony and equilibrium it is necessary that all the parties i.e. workers, managers, employees should know and work for the common goals of the organization so as to achieve a synergetic effect. They should have the foresight to accommodate and collaborate rather than only confront. No confrontation does not mean absence of dissent or difference of opinion. **It means presence of constructive dissent. In short, the approaches of the partners should be proactive and not reactive.** <sup>81</sup>

In organizations, blame for poor relationship may be exchanged continuously. It must be kept in mind that all partners will be held responsible. Industrial relations can be crafted only through the dynamic interaction of several interest groups who have to work together but carry differences of values, interests and goals.

**Learning to manage the difference and to balance the expectations is perhaps one of the most critical aspects of the management of Industrial relations –** The domination of one group or strength of one party should not lead to the bulldozing of the weak, but, as in a true democracy, should serve as an ocean of concern and respect for them. <sup>82</sup>

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<sup>81</sup> *Ibid* 78

<sup>82</sup> *Ibid* 78

In the realm of Industrial relations, a tit for tat approach leads to zero sum games or as Gandhiji had said, an eye for an eye leads the whole world to blindness. Workers are accused of unauthorized absenteeism, go-slow tactics, and disregard for norms, strikes etc. and management is blamed for lockouts, lay offs, exploitation, discharge, dismissal etc.

The blame game leaves all the parties losers in all respects. It is therefore, necessary, specially in the changing circumstances, when, worldwide, due to globalization and fierce competition, large scale changes are continuously taking place at the workplace in terms of technology, skills, employment etc., to have a fresh look towards the necessity of good Industrial relations, and the manner in which it is to be done, and the machinery and process towards its management.

As Fox puts it, organizations should be seen as a plural society containing many but related interests and objectives which must be maintained in some kind of equilibrium, and as Kerr (1983) argued that in the changing context, industrial relations will involve, (balancing of) reciprocal expectations and behavior, of employers and employee. FN

To understand Industrial relations in the present day context and in context of the emerging future we have to move our focus from the establishment of merely structures and processes towards collectivism and Human Resource management, constituting, perhaps, a new format for employee relations.

Organizations have to take care of the indeterminate nature of the exchange relationships and the asymmetry of power in devising I R strategies, and not merely the institution of trade unions, and legal institutions for conflict resolution.

Industrial Relations can also, therefore, be described as the management of organizational culture and climate which makes conducive, for the minds and efforts of all the people- employees and managers, be at place, at ease, satisfied and directed/channeled in the most effective and efficient manner, towards organizational objectives.

### **5.3 IMPORTANCE OF INDUSTRIAL RELATIONS**

Industrial relations are one of the most delicate and complex elements of a modern industrial society. With growing prosperity and rising wages, workers have earned higher wages and have better education; and there is sophistication and generally greater mobility. Career patterns have changed.

A large number of persons have been compelled to leave their farms and become wage- and salary-earners under trying factory conditions. A substantial population, including women and children, is therefore concentrated in a few urban areas; and this population is characterized by ignorance, poverty and diverse conflicting ideologies. The organizations in which they are employed have become larger and shifted from individual to corporate ownership.

There is also a status-dominated secondary group-oriented, universalistic and aspiring sophisticated class in urban areas. Employees have their unions and employers their bargaining associations, both of which give a tough fight to each other and try to demonstrate their own strength. The government has played an increasing role in industrial relations, partly by becoming an employer for millions of workers and partly by regulating working conditions in privately-owned industries and establishments. Rapid changes in the techniques and methods of production have eliminated long-established jobs and have created opportunities that require different patterns of experience and education.

The non-fulfillment of many demands of the workers breeds industrial unrest. All these changes have made employer-worker relations more complex. Hence, a clear understanding of these is imperative if industrial strife is to

be avoided. Thus healthy industrial relations are key to overall progress.<sup>83</sup>

The healthy industrial relations are key to the progress. Their significance may be discussed as under –

**1. Uninterrupted production** – The most important benefit of industrial relations is that this ensures continuity of production. This means, continuous employment for all from manager to workers. The resources are fully utilized, resulting in the maximum possible production. There is uninterrupted flow of income for all. Smooth running of an industry is of vital importance for several other industries; to other industries if the products are intermediaries or inputs; to exporters if these are export goods; to consumers and workers, if these are goods of mass consumption.

**2. Reduction in Industrial Disputes** – Good industrial relation reduce the industrial disputes. Disputes are reflections of the failure of basic human urges or motivations to secure adequate satisfaction or expression which are fully cured by good industrial relations. Strikes, lockouts, go-slow tactics, "gherao" and grievances are some of the reflections of industrial unrest which do not

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<sup>83</sup> See, *Industrial Relation in India-A Broader Elaboration*, available at [www.chrmglobal.com/.../Industrial-Relations-In-India-Broader-Elaboration.html](http://www.chrmglobal.com/.../Industrial-Relations-In-India-Broader-Elaboration.html), last visited on 9/11/09

spring up in an atmosphere of industrial peace. It helps promoting co-operation and increasing production.

**3. High morale** – Good industrial relations improve the morale of the employees. Employees work with great zeal with the feeling in mind that the interest of employer and employees is one and the same, i.e. to increase production. Every worker feels that he is a co-owner of the gains of industry. The employer in his turn must realize that the gains of industry are not for him alone but they should be shared equally and generously with his workers. In other words, complete unity of thought and action is the main achievement of industrial peace. It increases the place of workers in the society and their ego is satisfied. It naturally affects production because mighty co-operative efforts alone can produce great results.

**4. Mental Revolution** – The main object of industrial relation is a complete mental revolution of workers and employees. The industrial peace lies ultimately in a transformed outlook on the part of both. It is the business of leadership in the ranks of workers, employees and Government to work out a new relationship in consonance with a spirit of true democracy. Both should think themselves as partners of the industry and the role of workers in such a partnership should be recognized. On the other hand, workers must recognize employer's authority.



It will naturally have impact on production because they recognize the interest of each other.

**5. New Programmes** – New programmes for workers development are introduced in an atmosphere of peace such as training facilities, labor welfare facilities etc. It increases the efficiency of workers resulting in higher and better production at lower costs.

**6. Reduced Wastage** – Good industrial relations are maintained on the basis of cooperation and recognition of each other. It will help increase production.

Wastages of man, material and machines are reduced to the minimum and thus national interest is protected.<sup>84</sup>

Thus, from the above discussion, it is evident that good industrial relation is the basis of higher production with minimum cost and higher profits. It also results in increased efficiency of workers. New and new projects may be introduced for the welfare of the workers and to promote the morale of the people at work.

An economy organized for planned production and distribution, aiming at the realization of social justice and welfare of the mass can function effectively only in an

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<sup>84</sup> *Ibid* 83

atmosphere of industrial peace. If the twin objectives of rapid national development and increased social justice are to be achieved, there must be harmonious relationship between management and labor.

#### **5.4 SOME BASIC FACTS ABOUT INDUSTRIAL RELATIONS**

Industrial relations are concerned with the organization and practice of multi-pronged relationships between workers and their union in an industrial enterprise. These relationships exist in both the organized and unorganized sectors of industry. These relationships exist in both the organized and unorganized sectors of industry.

These relations, however, do not constitute simple relationship but are a set of functional inter-dependence involving historical, economic, social, psychological, demographic, technological, occupational, political, legal and other variables needing an inter-disciplinary approach for their study. "If we make industrial disputes (the absence of positive industrial relations) the centre of a circle, it will have to be divided into various segments. A study of the conditions of work, mainly the level of wages and security of employment, comes under the purview of economics; their origin and development under History; the resultant social conflicts under sociology; the attitudes of the combatants, government and the press under Social

Psychology; their cultural interactions under Cultural Anthropology; state policies bearing on the issues involved in the conflict under Political Science; legal aspects of disputes under Law; issues involving international aids (to combatants) under International Relations; the degree of effectiveness with which labour policy is administered under Public Administration; the technological aspects (e.g., control of temperature, and introduction of rationalization) of the disputes under Technology; and quantitative assessment of losses incurred by the parties. The paradigm shift from industrial relations to employee relations & the impact on unionized activity is discussed with its historical perspective.<sup>85</sup>

### **Industrial Relations**

It has been realized in the Vedas that one of the important factors necessary for happiness in a group or community is good mutual relations. The industrial relations machinery during the Vedic times consisted of a madhymasi (mediator), a man of position and influence in the society. People in the rural community were able to solve and settle all disputes by themselves. The village officials attended to and solved the local problems. They were invested with judicial as well as executive authority. This system

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<sup>85</sup> See, *Industrial relations, available at*  
*<http://www.ibshyderabad.org/dc/sem4/hrm/SLHR605.pdf>, last visited on 4/12/09*

prevailed under the Hindu government. The unions were not only the assemblies of the employees but they were also the institutions for maintaining cordial relations between employers and employees.

Every effort was made to improve the mutual relations between capital and labour. The lawgivers (like Manu) have warned the employers that employees become their enemies, in case they use harsh words, inflict heavy punishment, cut their wages, and treat them dishonorably. The employees who were treated with respect or kept content with their wages, and addressed with sweet words never leave the employer. In the Epics also, the employees were treated with respect, given some gifts and sweetly addressed. But the Mahabharata mentions that a powerful person exploits the weak one, just as big fishes make a meal of the small one.

To maintain good relations between employees and employers emphasis has been laid on good treatment of employees and to condone their minor faults. The law givers are unanimous in holding that disputes cannot end by continuing them; but they should be settled by peaceful means. They have advised that no employee should remain discontented because a disgruntled employee encourages other employees to create industrial unrest. Therefore, in their opinion, no such work or action should be undertaken if the employees show opposition.

Kautilya's Arthashastra and the edicts of Emperor Asoka reveal that workers enjoyed privileges, were paid high wages and were given sick leave and old-age pensions. The State recognised the organization of workers and the rulers decided the cases relating to wage disputes. It was held that a dispute, which could not be settled by the local Panchayat, was disposed of by a Board appointed by the king, on the authority of the depositions of witnesses and secret agents. Further, the disputes had to be disposed of according to written documents. Injunctions were passed to restrain employers as well as workers.

If an employer engaged a man to do some work and wanted to discontinue him before the end of the work, he had to pay the labourer full wages for the whole day. In case if the employers did not pay wages, he was to be fined 6 panas or tenth part of wages and if wages remained unpaid for long the employer was to be fined 12 panas or fifth part of the wages. It was further laid down that laborers should be given suitable wages because low wages create discontent among them and discontentment is the root of all disputes. Further, the employers could not withhold payment of wages for more than 7 days. If the allotted work was not properly done within 7 days, it could be got done by another.

According to Kautilya, the employers and employees should make a contract with regard to the work to be done; the employer should undertake not to employ another man for the work and the worker to complete the work and not to take up any other work. If this contract is broken, the offender should be fined 12 panas.

In the medieval times, during Muslim rule, there was only a nominal difference between an artisan, a servant, an employee and a slave<sup>34</sup> A month consisted of 40 days and very low wages were paid to them. If the work was found to be inadequately done, the wages were proportionately reduced. During this period, the disputes were solved and decided by the Emperor himself.

Akbar had entrusted this work to Khadis, but sufficient information is not available with regard to the extent of their authority.<sup>35</sup> When the Emperor and his officials dealt harshly with the workers, cordial relations between labour and capital could not be expected to exist.

The commercial character of the East India Company did not change the conditions of workers. The under-development of economy continued even under the British rule for more than a century. But collective relations in industry were modeled on the British pattern. In fact, the growth of industries in different parts of the country characterised the industrial relations.

Industrial relations do not function in a vacuum but are multi-dimensional in nature, and are conditioned with three sets of determinates, namely

- I. **Institutional Factors:-** Under institutional factors are included such items as state policy, labour laws, voluntary codes, collective agreements, labour unions and employers organizations, social institutions the community, caste, joint family, creed, system of beliefs, etc. attitudes to work, systems of power status, relative nearness to the centers of power, motivation and influence and industrial relations.
- II. **Economic Factors: -** Under economic factors are included economic organizations (socialist, capitalist, communist, individual ownership, company ownership, government ownership) and the powers of labour and employers; the nature and composition of the labour force and the sources of supply and demand in the labour market.
- III. **Technological factors: -** Under technological factors come the techniques of production, modernization and rationalization, capital structure, etc.

Sometimes, external factors, such as international relations, global conflicts, dominant socio-political ideologies, and the operations of international bodies (such as the ILO) influence industrial relations in a country.

Industrial relations are therefore a web of rules formed by the interaction of the government, the business community and labour, and are influenced by the existing and emerging economic, institutional and technological factors. In this regard, the observations of Singh are noteworthy. He declares: "A country's system of industrial relations is not the result of caprice or prejudice. It rests on the society which produces it. It is a product not only of industrial changes, but of the preceding total social changes out of which the industrial society is built (and industrial organization emerges).

It develops and moulds to the institutions that prevail in a given society (both the Pre-industrial and the modern). It grows and flourishes, or stagnates and decays, along with these institutions. The process of industrial relations is intimately related to the institutional forces which give shape and content to the socio-economic policies at a given time."

The objectives of maintenance of industrial peace is not only find out ways and means to solve conflicts or to settle differences but also to secure the unreserved cooperation of and goodwill among different groups in industry with a view to drive their energies and interest towards economically viable commercially feasible, financially profitable and socially desirable channels. It also aims at the development



of a sense of mutual confidence ,dependence and respect and at the same time encouraging them to come to closer to each other for removing misunderstanding ,redressing grievances ,if any ,in a peaceful atmosphere and with open mind and fostering industrial pursuits for mutual benefits and social progress ,But the maintenance of congenial industrial relations ,particularly in a democratic society like ours is not only a significant task but also a complicated one.<sup>86</sup>

It is submitted that from the earliest phases of industrialization when workers, formerly working with their own tools, entered into power-driven factories owned by others to the minimization of breakdown due to industrial conflicts of later days and further to industrial peace, and hence to the human-relations approach to raise productivity in an era of full employment when the threat of a sack would no longer be real; and, finally, to industrial democracy based on labour partnership not only for the sharing of profits, but of managerial decisions themselves, it has been a long journey indeed.

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<sup>86</sup> See, *Importance of Harmonious Industrial Relations*, available at, <http://www.citehr.com/3819-importance-harmonious-industrial-relations.html#axzz15977ZjTh>, last visited on 3.1.10

## **5.5 OBJECTIVES OF INDUSTRIAL RELATIONS**

The primary objective of industrial relations is to bring about good and healthy relations between the two partners in industry labour and management. It is around this objective that other objectives revolve. According to Kirkland, "the state of industrial relations in a country is intimately connected with the form of its political government, and the objectives of an industrial organization may change from economic to political ends." He divides these objectives into four:

- a. Improving the economic condition of workers in the existing state of industrial management and political government;
- b. Control by the state over industries to regulate production and industrial relation;
- c. Socialization or nationalization of industries by making the state itself an employer; and
- d. Vesting the proprietorship of industries in the workers.<sup>87</sup>

If it is found that political objectives are likely to bring about disunity in the trade union movement, then other

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<sup>87</sup> *Ibid* 24

safeguards and greater restraint are required to avoid conflict.

The Labour-management Committee of the Asian Regional Conference of the ILO has recognized certain fundamental principles as the objectives of social policy in governing industrial relations with a view to establishing harmonious labour-management relations. They are:

- i. Good labour-management relations develop when employers and trade unions are able to deal with their mutual problems freely, independently and responsibly.
- ii. Trade unions and employers and their organizations are desirous of resolving their problems through collective bargaining; and in resolving these problems, the assistance of appropriate government agencies might be necessary in the public interest. Collective bargaining, therefore, is the cornerstone of good relations; and the legislative framework of industrial relations should assist in the maximum use of the process of mutual accommodation.
- iii. The workers and employers organizations should be desirous of associating with government agencies in considering the general public, social and economic measures affecting employers and workers relations.

In brief, the committee laid stress on the need on the part of the management for acquiring a fuller understanding of the human factor in production.

The objectives of industrial relations are:

- a) To safeguard the interest of labour as well as of management by securing the highest level of mutual understanding and goodwill between all sections in industry which take part in the process of production;
- b) To avoid industrial conflicts and develop harmonious relations, which are essential for the productive efficiency of workers and the industrial progress of the country;
- c) To raise productivity to a higher level in an era of full employment by reducing the tendency to higher and frequent absenteeism;
- d) To establish and maintain industrial democracy based on labour partnership, not only for the purpose of sharing the gains of organization but also participating in managerial decisions so that the individual's personality may be fully developed and he may grow into a civilized citizen of the country;
- e) To bring down strikes, lockouts and gheraos by providing better and reasonable wages and fringe benefits to the workers, and improved living conditions;

- f) To bring about government control over such units and plants as are running at losses or where production has to be regulated in the public interest; and
- g) To ensure that the state endeavors to bridge the gap between the unbalanced, disordered and maladjusted social order (which has been the result of industrial development) and the need for re shaping the complex social relationships emerging out of technological advances by controlling and disciplining its members, and adjusting their conflicting interests protecting some and restraining others and evolving a healthy social order.<sup>88</sup>

The most important fact to be noted is that the one thread which runs through the whole fabric of industrial relations and which is necessary for success is that "labour is not a commodity of commerce but a living being who needs to be treated as a human being, and that employees differ in mental and emotional abilities, sentiments and traditions."

Therefore, the maintenance of a good human relationship is the main theme of industrial relations, because in its absence the whole edifice of or organizational structure may crumble. Employees continue the most valuable asset of any organization. Any neglect of this important factor is

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<sup>88</sup> *Ibid* 24

likely to result in increased costs of production in terms of wages and salaries, benefits and services; working conditions, increase labour turnover, absenteeism, indiscipline and cleavages; strikes and walkouts; transfers on the ground of discontent and the like, besides deterioration in the quality of the goods produced and strained relations between employees and management.

On the other hand, a contented labour force would bring out sanding success, besides earning large profits and goodwill for the enterprise. Therefore, if the intrinsic abilities of employees are properly utilized, they would prove to be a dynamic motive force in running the enterprise at its optimum and ensure maximum individual and group satisfaction in relation to the work performed. The importance of industrial relations cannot, therefore, be over emphasized.

## **5.6 SCOPE AND ASPECTS OF INDUSTRIAL RELATIONS**

The concept of industrial relations has a very wide meaning and connotation. In the narrow sense, it means that the employer-employee relationship is confined to the relationship that emerges out of the day-to-day association of management and labour.

In its wider sense, industrial relations include the relationship between an employee and an employer in the

course of the running of an industry and may project it self into spheres which may transgress into the areas of quality control. However, the term industrial relations are generally understood in the narrow sense.

An industry is a social world in miniature. The association of various persons, workmen supervisory staff management and employer creates industrial relationships. This association affects the economic, social and political life of the whole community. In other words, industrial life creates series of social relationships which regulate the relations and working together of not only workmen and management but also of the community and the industry. Industrials relations are, therefore, inherent in an industrial life. These include:

- i. Labour relations, i.e., relations between union and management  
(also known as labour-management relations);
- ii. Employer-employee relations, i.e., relations between management and employees
- iii. Group relations, i.e., relations between various groups of workmen; and
- iv. Community or public relations, i.e., relations between industry and society. <sup>89</sup>

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<sup>89</sup> *Ibid* 24

The last two are generally not considered for study under industrial relations, but form part of the larger discipline sociology. The two terms, labour-management relations and employer-employee relations are synonymously used.

The main aspects of Industrial relations are:

Promotion and development of healthy labour-management relations;

- i. Maintenance of industrial peace and avoidance of industrial strife; and
- ii. Development of industrial democracy.

## **5.7 FACTORS AFFECTING INDUSTRIAL RELATIONS**

It can be affected, broadly, by the following factors-

### **ORGANISATIONAL STRUCTURE**

The organizational structure formalizes relationship within the organization. It has geographical, hierarchical and operational dimensions. Those dimensions, depending upon the size and nature, complicate the relationship in terms of communication, conduct, control and coordination.

The set of rules and procedures prescribed in the organization for harmonious working and warmth in climate helps canalize efforts and reduce discords/ conflicts. It provides roles for all the players in the organization and their norms of behaviors.



Power distance and delegation of decision making also contributes to a great extent towards maintenance of Industrial relations.

### **LEADERSHIP STYLE**

Behaviors and functional styles of the leaders in the organization bear a great influence on the climate. Every leader, in his/her own unique way influences the functioning of the formal structures by informal and formal interventions.

A leader having reverence for his followers will develop team spirit if he leads by example. Industrial climate is a very delicate factor that can be destroyed easily but built with difficulty. It is as fragile as a glass bangle. In the present times carrot is not so enticing and the stick not so threatening in public organizations in India. <sup>90</sup>

### **INDIVIDUAL BEHAVIOR**

Industrial relations ultimately depend upon the individuals constituting the organization because every individual is the creator of the climate around him.

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<sup>90</sup> *Ibid* 24

Individuals perceive situations differently at times as individuals and as groups. Experience, exposure, skills, orientation, background, achievement of individuals makes them behave differently in responding to situations or in creating situations.<sup>91</sup>

## **LEGAL AND POLITICAL ENVIRONMENT**

Industrial relations in an organization is effected by the legal and constitutional framework which determine the rights and privileges, powers and immunities, roles and domains, territories and boundaries of the different players to Industrial relations.

In fact, rarely individuals or groups will give up their rights, and dominance or authority to someone else. All over the world and also in India, the system and structures for Industrial relations arose out of the political necessity of governments to develop a good social order and increase development and productivity.

Legislations were enacted and machinery created for the same. All organizations have to adhere to the law and establish structures accordingly.

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<sup>91</sup>*Ibid* 24

How far they work it successfully depends upon the partners and their interests. Organizations tend to influence this framework, as also employees, to their own advantage. It includes, court, tribunals and conciliators / arbitrators, agencies of the government.<sup>92</sup>

### **TECHNICAL AND ECONOMIC ENVIRONMENT**

The changes taking place in the technical and economic field puts pressures on the organization and affects its operational and financial strategies and employment and IR policies.<sup>93</sup>

As a result of such pressures and changes, organization redefine their work domains and costs, which in turn leads to changes in working conditions, hours, compensation etc. and also in the employers mindset of the degree of his willingness to accommodate the individual and collective interest of the workers/ employees. Vis-à-vis the interest of manager, employer and the organization as a whole.

Changes in technical and economic environment continuously affect the attitudes, mindsets, strategies, mannerisms, elasticity and accommodating spirit of the parties involved in Industrial relations.

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<sup>92</sup> See, *Government of India*, available at [www. siadipp.nic.in/publicat/nip0791.htm](http://www.siadipp.nic.in/publicat/nip0791.htm), last visited on 12/10/2009

<sup>93</sup> *Ibid* 92

The expectations of both the employer and employees from each other also depend upon the employment situation in the industry and outside. The expectations and their fulfillment or non-fulfillment has a bearing on the relationship.<sup>94</sup>

### **ATTITUDES AND MINDSETS**

The outcome of the Industrial relations process depends upon the accommodating spirit and the synergetic effect of the actions and behavior of the parties concerned towards Industrial relations. How the negotiations and exchanges take place depends upon the objectives, interests and attitude of the parties to Industrial Relations.

- ❖ The attitude of management to employees and union.
- ❖ Attitude of employees to management.
- ❖ Attitude of employees to the union.

The attitudes towards negotiations and exchanges of the various parties to Industrial Relations depend upon the atmosphere of trust/ distrust prevailing between the partners concerned. The atmosphere of trust -worthiness depends on the following-

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<sup>94</sup> *Ibid* 92

- ❖ Past history of employee /employer relations.
- ❖ Present and perceived strength of the unions/ workers.
- ❖ Strengths and weakness of management/ leadership.
- ❖ Threats to the organization and pressure on management to deliver
- ❖ Sincerity and integrity of employee leadership.
- ❖ Effectiveness of managers and supervisors in dealing with problems and disputes.

Existence of the single union or multiple unions and the discord/ tension between all of them.

## **5.8 ALTERNATE AND SYSTEMATIC APPROACHES TO THE STUDY OF INDUSTRIAL RELATIONS**

1. Alternate Approach to the Study of Industrial Relations
2. Systems Approach to the Industrial Relation (Dunlop's approach)
3. The Pluralist Approach
4. The Marxist Approach
5. Sociological Approaches
6. Gandhian Approaches
7. Psychological Approaches
8. HRM-HRD Approaches

## **1. ALTERNATE APPROACHES TO THE STUDY OF INDUSTRIAL RELATIONS**

The need for Industrial Relations arose with the changes in social, psychological and economic spaces of individuals, with the advent of the Industrial Revolution. The establishment of large organizations, led, amongst other things, geographical mobility of people, creation of the working class, as different from the owner, new types of jobs, workplaces and methods, creation of the manager, divested from ownership etc.

These changes resulted in new economic, social and cultural relationships between the employees/workers and managers/ or owners. The economic, social and cultural exchanges between the various actors were generally based on certain premises of promises and expectations either in the realm of economy, sociology, culture, or psychology.

The fulfillment or non-fulfillment of promises and expectations lead to satisfaction/ dissatisfaction on one or more accounts in one or more players towards one or more of the other players/ actors. A general lack of agreement on the meaning of the term "industrial relations" has been acknowledged for some time. Although ideology is seen as a powerful influence on the behavior of industrial relations

practitioners, that is, those working or studying in the field, a general imprecision surrounds the current terminology.<sup>95</sup>

The relationships therefore fluctuated on a cooperation-confrontation dimension; the satisfaction/ dissatisfaction and cooperation/ conflict affected the temperature (measuring tranquility/tension) in the organization and by a multiplier effect, determining the temperature in society.

In order to keep the temperature at a optimal level or to keep the cooperation/ conflict climate of the industry in equilibrium, the state, in different parts of the world, including India, intervened and introduced laws for strengthening the week i.e. workers and to regulate the interaction and boundaries of partners, to resolve conflicts and secure participation.

Leaders of industry also took steps to take care of Industrial relations even outside the compulsive realm of constitutional and legal structures.

However, only after World War II, which saw large-scale dislocations, misery, shortages and curtailments, scholars started studying & researching Industrial Relations as a subject of study.

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<sup>95</sup> See, *Industrial Relations and Ideology- An Alternative Approach*, available at <http://www.emeraldinsight.com/journals.htm?articleid=1704506&show=pdf>, last visited on 7/12/09

Initially they viewed the Industrial Relations from the angle of their own subject domain, and drew heavily from them.

Therefore, various scholars viewed Industrial relations and drew heavily from different fields of study like psychology, sociology, economic, legal, political and managerial. Later on scholars started viewing Industrial Relations as a system and as a process.

But none of these gives a perfect view of Industrial Relations they nevertheless enrich the appreciation and development of the subject. Scholars have recently started viewing Industrial Relations from a holistic and multi dimensional viewpoint. For instance, the economist would view the relationship as that of wages and outputs in terms of supply and demand. To the politician it might be appear as class war or vote bank.

Industrial relations therefore can be called an eclectic system (Mamoria & Sanker 1998 Himalaya Publishing House –Dynamics of Industrial Relation) composed of a group of people and organizations working with varying viewpoints.



Contributions of various scholars, on Industrial relations and its associated and sub fields, their concepts and thoughts, can be arranged in groups or approaches for a better understanding.

## **2   SYSTEMS   APPROACH   TO   INDUSTRIAL RELATIONS** **(Dunlop's approach)**

The systems approach views the Industrial relations as a system in itself with the following elements –

**Participants** -The actors taking part in the Industrial Relations process. There 3 actors.

- ❖ Workers and their organizations/representative
- ❖ Managers and their organization/representatives
- ❖ The government and its specialized agencies for enactment and implementation of laws, rules and policies.
- ❖ All the participants have their own, goals, interest's values and beliefs.

**The Environment** constituting the technological, economic and social (power distribution) sub systems in which the organization operates. The environment influences the relations between employer and employee.

**Ideology** - All the participants have their own sets of beliefs and values, which shape the interaction between them, and consequently the output of such a relationship. In the words of Dunlop an ideology is a "set of ideas and beliefs commonly held by the actors that helps to build or integrate the system together as an entity".

**The Structure** - The structure consists of rules and procedures established for the interaction of the actors in Industrial relations, collective bargaining procedures, conflict resolutions and grievance settlement practices.

In his book Industrial Relations system (1958) John T. Dunlop defines the purpose of his book to "provide tools of analysis to interpret and to gain understanding of the widest possible range of industrial relations facts and practices. The theory attempts to provide tools of analysis for interpretation and understanding of the widest possible range of industrial relations facts and activities. The theory tries to explain why particular rules are established in a particular industrial relation system. The systems theory is divided into four inter-related components namely: Actors; certain context; an ideology and a body of rules created to govern the actors at the place of work. His work attempted,

for the first time at evolving a theoretical core of industrial relations with a set of analytical tools.<sup>96</sup>

According to Dunlop, his framework of industrial relations would be applicable at three levels i.e.

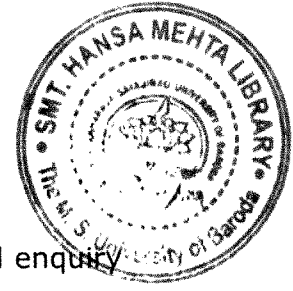
- ❖ at the enterprise or plant level
- ❖ at the national level and
- ❖ in totality of economic development

He applied his framework to coal and construction industries and as a national system equated it with the systems in Yugoslavia.

Dunlop defines an Industrial relations system as " at any one time in its development is regarded as comprised of certain actors, certain contexts and an ideology that finds the industrial relations system together, and a body of rules created to govern the actors at the workplace and the work community.

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<sup>96</sup> See, *What is Dunlop theory of industrial relations?*, available at [http://wiki.answers.com/Q/What\\_is\\_dunlop\\_theory\\_of\\_industrial\\_relations](http://wiki.answers.com/Q/What_is_dunlop_theory_of_industrial_relations), last visited on 4/12/09



Dunlop's Industrial Relations system is an analytical enquiry into the structure and processes of the dynamics of relations between management, workers and government. It can be viewed as an analytical subsystem of the more general, total social system of an industrial society.<sup>97</sup>

Dunlop also argues that while there is a conflict of interests, among the actors, there is also a body of common ideas that each actor holds towards the place and function of the actors in the system.

Some authors have criticized Dunlop's model on the following frailties –

- ❖ It concentrates on the structures and ignores the processes
- ❖ It does not take care of nature and development of conflict but tries to take care of conflict resolution
- ❖ It focuses on the web of rules for formal interaction and ignores the informal rules, processes and behavior
- ❖ It does not explain the process of conversion of inputs into outputs.

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<sup>97</sup> *Ibid* 96

- ❖ It provides no articulation between the plant level and other systems
- ❖ It makes no provision for the role of individual or their personalities in industrial relations

While some criticism may be justified, not all sound convincing; especially regarding the roles and values/beliefs of individuals, which Dunlop has taken into consideration, though not vehemently. <sup>98</sup>

The system approach, according to many authors has the following important features-

- ❖ Universality of character i.e. its applicability to all forms of human relationships.
- ❖ Its adaptability and suitability to all types of organizations.
- ❖ Dynamism- study of continuously changing interactions.

Contributions of some other authors in the systems approach are as follows:

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<sup>98</sup> *Ibid* 96

### **HERBERT HANEMAN (1960)**

Haneman advocated the application of the systems approach to Industrial Relations. He studied the component and variables of the Industrial Relations system and focused on the workers and managers and their interactions at the workplace as the fulcrum of Industrial relations.

### **ROBERT COX (1971)**

In his work approaches to a futurology of Industrial relations (1971). Cox identified different sets of systems of Industrial relations in organization and related them to the type of environment for which they were suitable or effective –

- The paternalistic system (Lord peasant relationship)
- The master servant system (primitive market situation)
- Small industry system. (beginning of organized regulation)
- Life time commitment system
- Bipartite system with collective bargaining
- Tripartite system with collective bargaining and third party intervention.

- Corporatist – bureaucratic system where employees and workers' organization have some autonomy to decide issues at their level.
- Mobilizing system where the dominant or elite players regulate workers behavior.
- The socialist system with a contractual relationship between the parties.

### **THE PLURALIST APPROACH**

Flanders, Clegg and Fox are some of the important exponents of the pluralist approach to the study of Industrial Relations.

This approach views the organization as consisting of different conflicting interest groups or stakeholders like employees, shareholders, consumer's community, managers, government etc. It emphasizes on the need for management to regulate and balance the interests and interaction of all the partners to Industrial relations.

They view industrial relations as some sort of job regulation also, as viewed in the systems approach.

Flanders (1970) evolved his pluralist approach to union management relations drawing from the works of other preceding authors and emphasized on the following aspects of Industrial relations-

- Job regulation through rule making
- Involvement of trade union in job regulation
- Acceptance of trade union to have economic, social and political purposes.
- Containment of conflict through institutionalization and regulation of the structure and process of union management relations.
- Job regulation through collective bargaining

The institution of job regulation is characterized by Flanders as internal and external. He considers the internal institutions as part of the Industrial relation system and collective agreements as something external, since he viewed unions as an external organization.

Clegg (1979) also advocated the pluralist approach but points out the difference of power between the participants and the effect of such difference on the result of bargaining.

The formulation of rules and the implementation of rules appear to be central to Industrial relations.

He also attempted to compare Marxism and pluralism. Clegg deviated from the approach of Flanders to trade unions and analyzed the role of trade unions in the collective bargaining process.



Like Clegg, Fox (1971) also recognized an unequal power distribution between the partners to Industrial relations. He differentiated between the organization with unicentred authority and organizations with multiple interest groups with legitimate authority (pluralist).<sup>99</sup>

He said "unlike the pluralist, the radical does not see collective organization of employees into trade union as restoring a balance of power (or anything approaching it) between the propertied and the property less". (Fox 1974).

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The pluralist approach has been criticized for being too narrow to provide a comprehensive framework for the analysis of Industrial relations. It overemphasizes the significance of the process of collective bargaining and gives insufficient weight to deeper psychological and social influences on individual behavior. It gives importance to institutions and power structures ignoring other facets of the environment.

The systems approach takes a wider look at rule making, whereas the pluralist views it through the pigeonhole of collective bargaining only.

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<sup>99</sup> Unit 12, Pluralist Approach, See Reference Material from IGNOU

<sup>100</sup> Ibid 99

## **THE MARXIST APPROACH**

All Marxist literature is based on the class conflict between haves and has nots, between the controller and the controlled and between the exploiter and the exploited. The Marxian approach to industrial relations, also, therefore derives its strength from the class conflict analysis of industrial relations. According to some Marxists, Industrial Relations are basically market relations.

It views industrial relations as a struggle between worker and owners, employer and employees, between capital and labour, with a view to exert greater influence on each other. Lenin (1978) was of the view that social democratic consciousness amongst workers will have to be brought from outside i.e. the conviction to combine in unions, fight the employers and strive to compel the government to pass necessary legislation.

But the Marxists viewed a broader role for the working class as a struggle against all forms of exploitative structures and processes, to establish a new social order.

We must take up actively, the political education of the working class and the development of its political consciousness.

TROTSKY (1977) viewed that trade unions came into existence when capitalism began to dominate the economic system. The trade unions had the objective of "raising the material and cultural level of the proletariat and the extension of its political rights. Capitalism can continue to maintain itself by lowering the standard of living of the working class". Under these conditions, trade union can either transform themselves into revolutionary organizations or become lieutenants of capital in the intensified exploitation of workers. Trotsky's analysis concludes that trade union has become a tool at the hands of capitalist.

As was said, the trade unions now play, not a progressive but a reactionary role. **The workers say to themselves that trade unions are bad but without them, it might be still worse.**

This is the psychology of being in a blind Alley. He further viewed that the trade union bureaucracy persecutes the revolutionary workers even more badly.

Michel's, R (1959) came to the conclusion that few people exercise control and decision-making in trade unions to the apathy (and detriment) of individual rank and file membership.

Marx and Engel's (1970) have viewed the role of unions for protection of interests of worker against injustice and high handedness of the employer capitalist. In this view, the trade union is a power center to interact with the center of legitimate authority for protecting and furthering the interests of the workers.

According to Engel's, in all branches of industry, trade unions were formed to protect the workingman against the tyranny and neglect of the bourgeoisie. Their objects were to fix wages, to regulate the rate of wages and to keep it uniform in each trade throughout the country.

Workers, through trade unions, should the least, protest against erosion of their rights and privilege. Marx felt that although workers unite for common goals, the goals do not remain common and conflict of interests creeps in, but still some common interests still remain which keep them together.

In this context Industrial relations is viewed as a class struggle but with certain limitations as Marx says "Trade unions work well as centers of resistance. They fail partially from an injudicious use of their power."

HYMAN, R (1977) (Industrial relations – A Marxist introduction) postulates that " An unceasing power struggle is therefore a central feature of Industrial relations due to the inherent conflict of interests between the employer / owner / manager and the employee/ worker, between the controller and the controlled and the imbalance of power between the groups."

Hyman defines power "as the ability of an individual or group to control their physical environment and their ability to influence the decision taken by others in their regard." FN Hyman redefined industrial Relations as the 'study of the process of control over work relations and among these processes, those involving collective worker organization'.

Trade unions, according to Hyman 'represent workers' response to the deprivations inherent in their role as employees within a capitalist economy'. 'Trade unions are thus first and foremost a source and medium of power' and processes of power are central to their integral and external relations'.

Marxists hold that if Industrial relations is mere job regulation then why do conflicts never cease. They hold that conflicts will never cease till capital accepts labour as an equal partner and is prepared to share power. He holds that the processes, which operate in reaching agreements, are more important than the institutions established for the same.

## **5 SOCIOLOGICAL APPROACH**

A human being has been acknowledged to be a social animal and a corporate organization in the eyes of law is a legal citizen. Organizations are composed of human beings and deal with other organization and institutions consisting of a different set of human beings.

Hence the interaction between institutions and organization, towards furtherance of each other's goals and objectives, involves interaction between human beings at different levels, as individuals and as groups, big and small. Such interacting individuals and groups have different personalities, emotions, skills, likes and dislikes, attitudes and behavior, wants and needs, interests and desires which may, at some stage and situations, be in conflict. The type of interaction and relationship between them, the strength and fruitfulness of the interaction will depend upon the value system, customs, norms, attitudes, mindsets etc.

Study of Industrial relations can therefore be seen as an analysis of individual and group behavior in the context of social dynamics, within organizations. **The sociological aspects of human relationships like group dynamics, migration, family norms and status, stress and strain, delinquency therefore affect industrial relations.**

Constantly changing social equations, new relationships, institutions, behavior patterns and similar influences shape the industrial relations. All such complex changes are now being analyzed to study and fashion the relationship to make it meaningful in the realization of the aspirations of all the groups.

From the point of view of sociology, industrial relations is becoming more complex and hence it calls for scanning of such factors both at macro and micro level to deal with the dynamics of the system.

Weber, Max (1968) a well-known social scientist defined "sociology as a service concerning itself with the interpretative understanding of social action and thereby with a casual explanation of its course and consequence." Recognition of diversity and its systematic management is the key to future organizational survival and success (Herriot, 1992). Diversity has major implications for how people work together and what work means to them.

To study the organizational social dynamics we have to study the influence of technical, economic, and political changes on the trade union structure and process - the group and individual interests and behavior of workers – we also need to study the relationship between the government, employers, employees and their institutions, and how they together shape the totality of the relationships. In this view, the sociological approach is very near, philosophically, to the systems approach of Dunlop.

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Conflict is inherent in human relations and cannot be ignored. In this sense, this approach requires examinations of primarily, the causes of the generation of conflict and disputes and their elimination, especially at the plant or organizational level in relation to conflicts of distribution and human relations.

## **6. GANDHIAN APPROACH**

The father of our nation, Mohandas Karamchand Gandhi, himself a great labour leader, carried his own, different approach towards employer- employee relations.

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<sup>101</sup> See, *Dynamics of Industrial Relations*, by C B Mamoria, Himalaya Publishing House, 2007



He had great faith in the goodness of man and insisted on recognizing each individual worker as a human being and in recognizing the rights of the worker as well as the employer/ owner. He believed in the concept of cooperation, non -violence and trusteeship –Gandhiji laid great emphasis on mutual respect and concern by the participants to Industrial relations. His philosophy entailed peaceful coexistence of capital and labour and called for the resolution of conflict in non-violent ways.

Gandhiji accepted the workers right to strike, but only in extreme situation when employers fail to respond to all kinds of moral appeals. Even strike, if it takes place should be peaceful and non violent.

He enunciated the principle of trusteeship, implying that the owner of wealth is actually the custodian and keeps the wealth as a trustee of society, to which it actually belongs, and the individual workers are expected to be co-trustees too.

Gandhiji advocated the following rules to be observed for resolution of disputes-

- Workers should seek redressal of reasonable demands only, through collective action.
- If strike necessary it should be peaceful.
- Strikes to be resorted to when all measures have failed.

- If direct settlement fails, workers should resort to voluntary arbitration.
- Means and ends are equally important. FN

V.V.Giri a former labour leader and President of India advocated mutual settlement of disputes, collective bargaining and voluntary arbitration instead of compulsory arbitration.

The Ghandhian approach is based on the premise of fair play and basic goodness, of reasonable moral and ethical standards. Few scholars have attempted to relate ethics and morality to the functioning of the Industrial Relations system.<sup>102</sup>

Good industrial relations can be maintained only when both labour and management realize their moral responsibility in contributing to the said task through mutual cooperation and greatest understanding of each other.

A tripartite study group, constituted at the behest of National commission on labour observed that the labour management relations exist within the social, economic and political structures of society.

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<sup>102</sup> See, *Ghandhian Approach to Industrial Revolution, in Dynamics of Industrial Revolution* by C B Mamoria, Himalaya Publishing 2009

"The goal of labour management relations may be stated as maximum productivity, adequate understanding of employers, workers and governments of each others roles, commitment to industry on the part of labour and union both, sound unionism, efficient institutionalized mechanisms for handling industrial disputes and willingness among the parties to cooperate as partners in the industrial relations system.<sup>103</sup>

## **7 PSYCHOLOGICAL APPROACH**

The psychologist study Industrial relations as an outcome of the relationship between human beings in the form of worker, manager or owner.

They hold the relationship to be arising out of fulfillment or non-fulfillment of certain promises or expectation between the parties concerned (which they connote as psychological contract) as a result of exchanges and transactions taking place between them. They also view the problem of industrial relations as deeply routed in the perception, attitudes, and interest of the participants.

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<sup>103</sup> *Ibid* 102

Mason Hareli (1964) studied the perception and attitudes of "union leader" and "Executives" by administering TAT (Thematic Apperception Test) to both the groups and concluded.<sup>104</sup>

Both view the individual person, (whether manager or worker) in a different light when seen in the role of labour representative or manager.

- (1) The management and labour see each other as less appreciatively of others position.
- (2) Labour & management see each other as less dependable.
- (3) Management and labour see each other as deficient in appreciating the others need.

Difference of opinion, interest and lack of trust affect the resolution of conflicts greatly. In many conflicts the personalities of the actors also play dominant parts as also inter personal relations between the participants.

### **ROUSSEAU, DM (1989)**

Rousseau worked on the written and unwritten psychological contracts in organizations and how the contractual exchanges affect the attitudes and behavior of the employer towards the organization. She studied the organizational, social and psychological meaning of contracts in organization.

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<sup>104</sup> *Ibid* 102

She held that the employment contract constitutes the mainstay of employment relations, establishing an exchange of promises and contributions between two parties: employer and employee, this concerns the way the contract of employment is lived and breathed, the way it is interpreted, understood and enacted on a daily basis as employee inter- face with their workplace.

Rousseau (1995) (Psychological contract in organizations) writes about 'the individuals' belief in paid for promises, or a reciprocal obligation between the individual and the employer. Thus she includes not only the explicit expectations but also the implicit and perceived expectations, which may also have a subjective connotation.

This can be through interpretations of past exchanges, learning through others experiences as well as factors taken for granted (implicit or perceived) like good faith and fairness.

Rousseau (1989), drawing on the work of Mac Neil (1985) also argued that employment contracts involve, apart from the economic, relation based agreements also, denoting mutual commitment of the parties.

This relationship is shaped by continual interaction. Industrial relations also have a fair amount of subjectivity "when an individual perceives that contribution he or she makes obligates the organization to reciprocate in a certain manner and vice-versa, a psychological contract emerges."

To this extent, employment relations are a construct created by the interpretation of what expectations, promises and actual exchanges mean to individuals, groups and the organization.

Since employee relations are based on **expectations, obligations and exchanges** between the individuals, between groups, and between the employer and employee, it also involves **socio-emotional consideration of trust and identification**, which are easily breakable but extremely difficult to restore. In the words of Rousseau (1989) it interjects a deeper emotional component to the experience of inequity within a relationship.

Failed expectations can result in disappointment, whereas failed promise can induce feelings of betrayal, anger, and injustice.

Rousseau (1995) further states that the obligations and expectations of individuals with the organizations /employer (which forms the psychological construct of Industrial relations) have a powerful effect on their behavior.

FM Workers may perceive the environment and the exchanges within the organization, differently as persons or collectively as members of a team, trade or territory. Therefore, the organization's focus in providing the context for a positive state of mind has to be not only towards individuals but also towards groups of workers according to team, trade and territory.

Here, the employees are not seen to be contracting with a employer but rather their exchanges and relationships are to be studied in terms of 'organizational representatives' in place of employer, because in present day context, there will be few 'homogenous' entities, entitled to be called employer.

According to Rousseau, psychological contracts can have two relationships.

- Transactional
- Relational

Transactional includes, tasks wages etc. & Relational include involvement, interdependence, social and inter personal relations the transactional component denotes task and compensation while Relational denotes 'partnership.'

It was found in a study on newly recruited MBA, that the relational orientation was related to the type of relationship the employee sought with the employer (depending upon their interests). In the context of post liberalization changes this can be a guide in the retention policy of organizations and also in maintenance of Industrial relations.

Hall (1993) found that a mix of the two might be needed by organizations as per their size, operations and other requirements.

Mill word and Hopkins (1998) constructed a 32-item scale to measure relational and transactional aspects of the relationship.

Mill word and Hopkins (1978) found that relational subscale was significantly more linked with permanent, long-term employment, contrary to transactional subscale. Relational subscale was also found to be correlated with job and organizational commitment and also with job and organizational commitment and also with the willingness to go that extra mile for the organization.

These findings attempt to establish a linkage between relational issues and affective commitment, identification and integration, as also the transactional and integration, as also the transactional issues and work identification / integration, low affective commitment and easy exit.



Robinson (1995) measured 7 features of employment (as pay, promotion etc.) as

- Obligations and
- Expectations

He found that beliefs (in regard to extent of each obligation) contributed independently and substantially to the prediction of trust, commitment and satisfaction, than non- promissory expectations.

Individual and collective responses of employees towards organizational demands are also affected by the perception of employee, towards expectations and promises, which they perceive to be unfulfilled or violated. This may result from lack of proper communications, misperception, inadvertent breaches and stark betrayals. The intensity of such perceptions and the veracity of reactions to them may be compounded or moderated by the human relations scenario in the organization including faith, confidence and trust.

Robinson and Rousseau (1994) found in a study that 55% respondents reported such violations in one year of employment and that occurrence of violation correlated positively with employee turnover, and negatively with trust, satisfaction and intention to stay with the organization.

Griffin, Kelly and Collins (1995) reported decline in loyalty due to breaches of expectations and promises. Tyler & Bies (1979) reported increase in litigation.

Robinson, Kraatz & Rousseau (1994) state that when employees perceive that their long term expectations for personal growth increase in pay, better working conditions etc. have not been honored they may react with anger, exit or withdrawal. For many employees, compulsory relocation or job change, threats of redundancy and intensified workloads, will have been construed as fundamental violations of long-term reciprocity.

Other contributors to this approach are Levinson (1962), Schein (1980), Herriot and Reilly (1998), Sparrow (1998), & Farnsworth (1982)

There has also been some criticism of this approach. Arnold (1996) pointed out the confusions concerning the role of promises and expectations in a relationship and their validity. Guest (1999) pointed out that transactional and relational dimensions are more theoretical than empirical and it gives little consideration to dimensions of time and space.

Herriott and Pembereton (1997) argue that a process view of employee / employer relationship may be more fruitfully adopted in studying the operationalization of employer /employee relationship than the contents focused approach of psychological contracts.

They argue that a process perspective on relationship enable us to describe a current relationships between employer and employee because of the 2 way relationship between them.

The entire gamut of transactions, relations and exchanges and expectations between employer and employee has a dynamic influence on organizational behavior, performance, managerial and operational decisions, relationship between employer and employee and the management of Industrial relations.

We have examined some literature on the content focus of the employer /employee relationship. Lesser-published work could be found on the process focus of such relationships.

## 8. HRM –HRD APPROACH

The human relations approach to the study of industrial relations lays stress on the policies and techniques to improve employee morale, efficiency and job satisfaction.

It encourages small work-groups to exercise considerable control over its immediate environment. The human relations school was founded by Elton Mayo and later, propagated by Roethlisberger and others.

When human resources are not properly managed the problem of human relations surface. **It can be managed by appreciating the dynamics of human behavior, both at individual and group level.** This approach tends to satisfy individual and collective needs of workers – economic, physiological, safety, security, social and psychological, as a step to harmonies the interactions and exchanges at the workplace.

However, the level of satisfaction, motivation and commitment will depend upon the health of the organization, the systems, the style of leadership and cooperation – coordination between employer and employees.

In this approach every organization will need a specific diagnosis of industrial relations that may be constituted of one or more elements discussed above in a ratio, specially suited to the organization. In this spectrum, the unions are envisaged to function as partners in the pursuit of progress of the organization, and come closer to the managerial function of HRD-HRM.

Guest & Hoque (1993) postulate that shift in collectivism and human resource management might constitute a new format for employee relations in certain specific contexts.

In this approach we see the gradual transition of industrial relations. With the gradual erosion of the institutions of institutional framework of industrial relations (Purcell 1993) the concept of employee relations is fast emerging.

Here, the predominant concern is no longer about the role of collective bargaining and the union as its agent as about **securing employee assent and exploring managerial commitment to achieving that assent**, though the role of unions is not altogether abrogated, but it is relegated as a instrument of HRD, as a partner towards organizational effectiveness playing a part within the overall HR scenario and not juxtaposed to management and government.

It covers the development related to the coverage of non-unionized worker, along with unionized, and the white collar along with blue-collar worker. (Blaydon and Turnbull-1993).

According to them the creation of an economic surplus, the indeterminate nature of exchange relationship and the asymmetry of power, not the institution of trade union or Government agencies make the subject matter of employee relations distinctive.

In the HRM –HRD approach managements reach out to the employees with or without union, through development oriented initiatives while strategically keeping the organizational interests paramount.

There is evidence to suggest that in the Indian context also, initiatives of this nature, under the banner of HRD movement is attempting to give a development thrust through reforms in performance, care, training and development systems, communication and grievance redressal (Joseph 1995). Kochan, McKersie and Capelli (1984) not only suggested the importance and usefulness of influencing the process of collective bargaining and the workplace by strategic interventions but also how the social and psychological, technological changes at the work place may determine strategic decision in the realm of HRM.

One of the earliest proponents of this approach, who unfortunately does not find mention in studies of Industrial relations, is Barnard.

Barnard C, (1938) (the functions of the executive) argues that individual is the fundamental strategic factor in organizations. Natural cooperation as inherent in human nature was largely responsible for the success or failure of business ventures. Therefore, organizations must make positive efforts to create a conducive environment to induce workers to cooperate. The test of efficiency of any organization in his view is the ability to "elicit sufficient individual wills to cooperate."

This, he argues can be done by changing the state of mind. Further he states, such changes involve tangible and intangible, material and psychological compensations, participation, personal fulfillment and working environment.

This should be coupled with some degree of persuasion e.g. propaganda, rhetoric argument or even some amount of coercion.

Barnard also argues that the nature of such exchange will need to undergo continual adjustment and change, due to changing individual requirement and states of mind.

Industrial relations, in his view must be conceptualized, studied and systematically managed like –

- A process of exchange
- Character and dynamics of exchange relationship  
Consideration of need of both employer and employee.

## **5.9 EVOLUTION OF INDUSTRIAL RELATIONS**

1. Evolution and Current Development of Industrial Relations
2. Developments of Industrial Relations during the Planning Periods



## **EVOLUTION ON INDUSTRIAL RELATIONS**

### **1 Evolution and Current Development of Industrial Relations**

India was greatly advanced in the field of industry and commerce in the past, as evidenced from its ancient literature. In ancient times, the highest occupation in our country was agriculture followed by trading. Manual services formed the third rung of occupation. Small manufacturers in their cottages, mostly on hereditary basis, carried on a large number of occupations.

Ancient scriptures and laws of our country laid emphasis on the promotion and maintenance of peaceful relations between capital and labour. From the very early days, craftsmen and workers felt the necessity of being united. The utility of unions has been stated in Sukla Yajurveda Samhita, "If men are united, nothing can deter them."

Kautilya's Arthashastra gives a comprehensive picture of the organization and functions of the social and political institutions of India and a good description of unions of employees, craftsmen or artisans.

There were well-organized guilds, which worked according to their own byelaws for the management of the unions. However, there were no organizations of workers during the

Mughal rule. The laborers were entirely dependent on their masters and forced work was taken from them. Historical evidence further shows the existence of rules of conduct and prescribed procedure for the settlement of disputes for promoting cordial relations between the parties. The working relations, however, in those days were more or less of a personal character and are very much distinguishable from the present-day industrial relations as have gradually developed with the growth of large-scale industries.

A study of modern industrial relations in India can be made in three distinct phases. The first phase can be considered to have commenced from the middle of the nineteenth century and ended by the end of the First World War. The second phase comprises the period thereafter till the attainment of independence in 1947, and the third phase represents the post-independence era.

**First Phase:** During the first phase, the British Government in India was largely interested in enforcing penalties for breach of contract and in regulating the conditions of work with a view to minimizing the competitive advantages of indigenous employers against the British employers. A series of legislative measures were adopted during the latter half of the nineteenth century, which can be considered as the beginning of industrial relations in India.

The close of the First World War gave a new twist to the labour policy, as it created certain social, economic and political conditions that raised new hopes among the people for a new social order. There was intense labour unrest because workers' earnings did not keep pace with the rise in prices and with their aspirations.

The constitutional developments in India led to the election of representatives to the Central and Provincial legislatures who took a leading role in initiating social legislation. The establishment of International Labour Organization (ILO) in 1919 greatly influenced the labour legislation and industrial relations policy in India. The emergence of trade unions in India, particularly the formation of All India Trade Union Congress (AITUC) in 1920 was another significant event in the history of industrial relations in our country.

**Second Phase:** The policy after the First World War related to improvement in the working conditions and provision of social security benefits. During the two decades following the war, a number of laws were enacted for the implementation of the above policy. The Trade Disputes Act, 1929 sought to provide a conciliation machinery to bring about peaceful settlement of disputes. The Royal Commission on Labour (1929-31) made a comprehensive survey of labour problems in India, particularly the working conditions in the context of health, safety, and welfare of

the workers and made certain recommendations of far-reaching consequences.

The Second World War gave a new spurt in the labour field. The exigencies of the war made it essential for the government to maintain an adequately contented labour force for maximizing production. The Government of India had, therefore, to step in and assume wide powers of controlling and regulating the conditions of work and welfare of industrial workers. It embarked upon a two-fold action in this regard, namely, (i) statutory regulation of industrial relations through the Defense of India rules and the orders made there under; and (ii) bringing all the interests together at a common forum for shaping labour policy.

Tripartite consultative system was one of the most important developments in the sphere of industrial relations in our country. Tripartite consultation epitomizes the faith of India in the ILO's philosophy and objectives. The Royal Commission on Labour recommended the need for tripartite labour machinery on the pattern of ILO as early as 1931. But the first step in this direction was taken only in the year 1942, when the first tripartite labour conference was held at New Delhi under the Chairmanship of Dr. B.R. Ambedkar. The conference consisted of two organizations, namely, the Indian Labour Conference (ILC) and the Standing Labour Committee (SLC). In the state sphere, State Labour

Advisory Boards were also set up for consultation on labour matters. Gradually, tipcarts developed into a full-fledged system, a kind of parliament for labour and management.

The objectives set before the two tripartite bodies at the time of their inception in 1942 were:

- (a) promotion of uniformity in labour legislation;
- (b) Laying down of a procedure for the settlement of industrial disputes; and
- (c) discussion of all matters of All-India importance as between employers and employees.

The ILC/SLC has immensely contributed in achieving the objectives set before them. They facilitated enactment of central legislation and enabled discussion on all labour matters of national importance. Different social, economic and administrative matters concerning labour policies and programmes were discussed in the various meetings of ILC/SLC.

**Third Phase:** After independence, an Industrial Truce Resolution was adopted in 1947 at a tripartite conference. The conference emphasized the need for respecting the mutuality of interests between labour and capital. It recommended to the parties the method of mutual discussion of all problems common to both, and settles all

disputes without recourse to interruption in or slowing down of production.

The post-independence period of industrial relations policy aimed at the establishment of peace in industry, and grant of a fair deal to workers. The government sought to achieve these aims through appropriate labour legislation, labour administration, and industrial adjudication. State intervention in industrial relations was justified on the ground that it helped to check the growth of industrial unrest.

However, it was noticed that the spirit of litigation grew and delays attendant on legal processes gave rise to widespread dissatisfaction. Hence, since 1958 a new approach was introduced to counteract the unhealthy trends of litigation and delays in adjudication. Its emphasis was based on the principles of industrial democracy, on prevention of unrest by timely action at the appropriate stages, and giving of adequate attention to root causes of industrial unrest.

While the groundwork of labour policy was prepared during the forties, a superstructure on this groundwork was built in the fifties. It is the Constitution of India and the five-year plans, which largely helped in raising the superstructure.

The Preamble to the Constitution and the chapter on Directive Principles of State Policy enunciate the elements of labour policy. The successive five-year plans since 1951 clearly enunciated the directions of industrial relations policy.

These entailed the building up of industrial democracy in keeping with the requirements of a socialist society, which sought to be established through a parliamentary form of government.

## **2 Development of Industrial Relation during the Planning Periods**

A brief account of the industrial relations policy during five-year plans is given below:

The approach to labour problems in **First Five-Year Plan (1951-56)** was based on considerations which were related, on the one hand, "to the requirements of the wellbeing of the working class", and on the other, "to its vital contribution to the economic stability and progress of the country." It considered the worker as "the principal instrument in the fulfillment of the targets of the Plan and in the achievement of economic progress.

Further, the Plan stated that harmonious relations between capital and labour are essential for the realization of the

Plan in the industrial sector. The Plan emphasized that the "workers' right of association, organization and collective bargaining should be accepted without reservation as the fundamental basis of the mutual relationship" and the trade unions "should be welcomed and helped to function as part and parcel of the industrial system". Prior to the Fourth plan, the allocation of state resources was based on schematic patterns rather than a transparent and objective mechanism, which lead to the adoption of the Gadgil formula in 1969. Revised versions of the formula have been used since then to determine the allocation of central assistance for state plans.<sup>105</sup>

Much of what had been said in regard to industrial relations in the First Plan was reiterated in **Second Five-Year Plan (1956-61)**. The Second Plan considered a strong trade union movement to be necessary both for safeguarding the interests of labour and for realizing the targets of production. Multiplicity of trade unions, political rivalries, lack of resources, and disunity in the ranks of workers were, according to the Plan document, some of the major weaknesses in a number of existing unions. The importance of preventive measures for achieving industrial peace was particularly stressed and greater emphasis was placed on

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<sup>105</sup> See, *Five year Plans of India*, available at, [http://en.wikipedia.org/wiki/Five-year\\_plans\\_of\\_India](http://en.wikipedia.org/wiki/Five-year_plans_of_India), last visited on 5/12/09



the avoidance of disputes at all levels. It also emphasized on the increased association of labour with management.

**Third Five-Year Plan (1961-66)** expressed great hopes in the voluntary approach initiated during the Second Plan period to give a more positive orientation to industrial relations, based on moral rather than legal sanctions. The Plan highlighted the need for increasing application of the principle of voluntary arbitration in resolving differences between workers and employers and recommended that the government should take the initiative in drawing up panels of arbitrators on a regional and industry-wise basis. Further, the Plan recommended that the works committees should be strengthened and made an active agency for the democratic administration of labour matters.

**Fourth Five-Year Plan (1969-74)** suggested no changes in the system of regulating labour relations by legislative and voluntary arrangements started from earlier plans. It devoted a good deal of attention to employment and training. It also laid stress on strengthening labour administration for better enforcement of labour laws, research in labour laws, and expansion of training programmes for labour officers.

**Fifth Five-Year Plan (1974-79)** laid great emphasis on employment, both in rural and urban sectors. After the promulgation of emergency in June 1975, the government

devised a new pattern of bipartite consultative process in an attempt to create a climate of healthy industrial relations, leading to increased production, by eschewing lay-offs, retrenchments, closures, strikes and lockouts. The new machinery sought to formulate policies at the national, state, and industry levels for the speedy resolution of industrial conflicts and for promoting industrial harmony. During the emergency, the Government of India through a resolution adopted a scheme of workers' participation in industry at shop and plant levels on 30th October, 1975.

The importance of cooperative attitude on the part of employers and employees for the maintenance of healthy industrial relations has been emphasized in **Sixth Five-Year Plan (1980-85)**. According to the plan, strikes and lockouts should be resorted to only in the last stage. Effective arrangements should also be made for the settlement of inter-union disputes and to discourage unfair practices and irresponsible conduct.

While suggesting the growth of trade unions on healthy lines, the Plan stressed on their social obligations and roles in many areas of nation building activities and in improving the quality of life of workers. Furthermore, it emphasized on necessary changes in the existing laws on trade unions, industrial relations and standing orders for promoting harmonious industrial relations.

The thrust of **Seventh Five-Year Plan (1986-91)** is on improvement in capacity utilization, efficiency and productivity. The Plan states that a sound policy of tackling industrial sickness in future has to be evolved which while protecting the interests of labour would also take into accounts the fact that Government cannot bear the huge burden of losses. There is considerable scope for improvement in industrial relations, which would obviate the need for strikes and the justification for lockouts. In the proper management of industrial relations the responsibility of unions and employees has to be identified and inter-union rivalry and intra-union divisions should be avoided.

As we all know, the economic reforms were initiated in 1991 in India in a demonstrative way after the assassination of Rajiv Gandhi. A period of eight years has elapsed since then and today the same social forces that had opted for the liberalization and privatization policies in 1991 are speaking of a 'second wave of reforms'. India has seen five different Prime Ministers in succession in the last eight years.

If anything, this indicates that there are serious conflicts in the ranks of the big business houses of India, about the direction they want to take at this time. Only few years ago, the then Prime Minister Deve Gowda was replaced in the midst of the Lok Sabha debate on the budget. Interestingly, although the Prime Minister was replaced, his

Finance Minister, P.Chidambaram remained in the 'new' cabinet under I.K.Gujral to oversee the continuation of the economic reforms that he and his predecessors were architects of. In fact, the defeat of the Narasimha Rao government in the 1996 elections was widely seen as the rejection of the economic policies it had put in place since 1991.

The further loss of support they suffered in the 1998 elections was also a reflection of this. But while the Congress (I) and Narasimha Rao were voted out of office, their policies have continued and are being deepened. The leaders of all the political parties represented in the Lok Sabha have embraced these policies.

Whoever forms the next government will undoubtedly continue the same policies. It can be said with confidence that the present political crisis and disequilibrium will thus continue, until this time that people are able to force a change in the direction of Indian economy. What the present direction is and what the new direction must be are subjects for us to deliberate upon today. India is facing a major economic crisis at this time – this much is admitted by the Finance Minister himself and everyone else in any authority.

The current budget being debated in the Lok Sabha reflects this crisis and the direction the ruling circles want to take to emerge from it on their terms. The reason they had voted the Vajpayee government out is to be found in the difficulty the ruling circles face in selling this budget to the people without making the entire exercise illegitimate.

This kind of political crisis is really the kind of grand diversion that they want to use to push through the budget without facing opposition from the people. In the backdrop of the East Asian, Russian, and Brazilian crisis, and the impending crisis in the world economy, India is anxiously waiting for what may come its way next. With the NATO bombings in Yugoslavia India's anxiety had increased, as reflected in the coverage of the Balkan war and the various commentaries in the Indian press. After all, Yugoslavia was the darling of the west during the cold war.

India and Yugoslavia were themselves closely linked under the Non-Aligned Movement. India also has a number of potential Kosovo's and there are many opportunities for foreign intervention in India on similar "humanitarian" grounds. It is clear from the war coverage that India's ruling establishment is nervous about these developments and it wants no discussion or debate on its own agenda inside the country, let alone any opposition to its agenda to emerge as a big power and empire builder in South Asia and Asia.

The fact that the Vajpayee government had apparently collapsed in a controversy over naval weaponry indicates that there are rifts among the ruling circles over the militarization agenda as well.

This lesson emerging from Kosovo and Yugoslavia cannot be lost on the Indian people. This is the time for all Indians to take a stand and ensure that they do not remain on the sidelines as important decisions on war and peace, economic reforms, or constitutional changes are decided on their behalf by a handful who have no right to do so. For example, Narasimha Rao and Man Mohan Singh imposed the economic reforms on India through parliamentary procedure when they had not been elected to the parliament themselves from any constituency of India, when their party was not the majority party in the parliament and following an election when they made no mention of their impending economic plans.

The coalition governments cobbled together afterwards also show how the political process in India places the people in the sidelines and makes them a spectator as the most unprincipled and illegitimate alliances are forged at the top by a small number of political party leaders. Our seminar series is organized to involve people in discussing the substantive issues facing us, facing the polity of India and the people of Indian origin living abroad who are so directly

affected by the developments in India. In my estimation, these discussions are critical for the people to have initiative in the hands, and to set and implement that agenda.

The privatization and liberalization, economic restructuring, structural reforms, etc, have its origins in the Reaganite-Thatcherite economics of the eighties. What were the fundamentals of Reaganomics? In the main, they were to cut back spending on the social sectors of the economy, escalate military spending, prevent the working people from demanding higher wages even though trade union activity, scale back safety and health standards for workers, relax rules for environmental protection, and to plunder as many countries and peoples as possible with the military stick under the anti-communist banner.

The more the things have changed since then, the more they have remained the same. Reagan and Thatcher and even their immediate successors, Bush and Major, are gone, but the policies have come to stay. Clinton and Blair presided over the same policies in the US and Britain respectively and they had gone further than Reagan or Thatcher in terms of cutting social expenditures, handing out money to the wealthy, militarizing the economies, threatening other peoples with war, increasing job insecurity, etc., in their own countries.

Those policies have since been exported to the rest of the World and have been espoused by the political and economic elites of many countries. In places like Russia, the kind of corruption and looting of the state treasury that is taking place makes the US savings and loan scandal pale in comparison. The scandals involving Harshad Mehta in India, the pyramid schemes in Albania, the BCCI collapse, the collapse of security houses in Japan, Britain and so on are products of the liberalization and privatization policies and many more are coming to light world wide every single day.

Anyone willing to look can see clearly how the reforms of the last two decades have created a situation where the overwhelming majority of the people and the bulk of the resources of this planet have come to be at the mercy of a small sections of financial, military and political operatives, enabling them to control the destinies of billion. In a qualitative sense, we are starting at the social organization of the Middle Ages when a few kings, nawabs and emperors mattered and the rest of the humanity existed for their pleasure.

At the end of the 20<sup>th</sup> century, this humanity is facing a serious danger – the danger of the clock being turned back and civilization being undone by a few powerful countries and monopoly combines. The choices are stark – either this humanity affirms its existence, and comes into control



of its destiny, or they will be saddled with an anti-democratic and outdated social organization imposed upon them by force. In India, I do not have to convince anyone that liberalization and privatization have not brought prosperity for the majority of her peoples, wealth for the country or a technical scientific revolution for the productive forces. If anything, the financiers and speculators of India and the world have been firmly embedded to suck the wealth out of India for years to come.

In his last year in office, Narasimha Rao started speaking about "liberalization with a human face" to give some legitimacy to his failed policies. Judging from how he dropped by his own supporters and financiers from the leadership of his party and also by the electorate who expressed its verdict within the limited scope of electoral process, he fooled no one with this change of heart. But what happened? The policies of liberalization and privatization continued without Narsimha Rao and Man Mohan Singh after the 1996 elections, first under the stewardship of United Front involving the CPI and CPI (M) besides others and later under the National Front led by the BJP.

Various adjustments to the policy were made to preserve the core content of liberalization and privatization and create illusion among the people through the introduction of "poverty alleviation programs". The left-centre coalition

government lost its credibility very quickly as partners like Andhra's TDP, Tamil Nadu's DMK; West Bengal's CPI (M) etc. openly wooed international business in their states. These partners of the United Front initiated cut backs on the very "poverty alleviation" schemes that the UF government was championing at the center and diverted the money from their state treasuries to grant new concessions to investors. In contrast, India's farmers have risen in arms against the WTO agriculture policy, and the workers have risen against mass layoffs accompanying privatizations, mergers and take-over.

Subsequently, the BJP-led coalition of Vajpayee and Advani did go further in terms of enacting legislation for the reform of EXIM policy, bank and insurance 26 sector reforms, and "internal security", declaring all struggles of the people for socio-economic rights and national rights as criminal acts, invoking various draconian laws like the ESMA, AFSPA, and so on to attack strikes by transport workers, hospital workers, and teachers.

Against all odds, in December 1998, the first all-India strike organized by over 50 trade unions, political parties and organizations held countrywide agitation to oppose the policy of liberalization and privatization. The workers, along with the farmers and peasants are now in the fore front of the struggle against liberalization and privatization. One also can see the Confederation of Indian Industry,

Federations of Indian Chamber of Commerce and Industry, ASSOCHAM and other trade organizations of the Indian business houses, most of the political parties represented in the parliament and state assemblies and the international financiers working feverishly to take the liberalization and privatize action policies further.

For today's discussion, I want to point out that the policies enunciated in 1991 by Man Mohan Singh appear to have exhausted themselves and the Indian big business houses are divided over what direction to take. Judging from the reception the annual meeting of the CII, held in Rajasthan, received from Indian government officials, or the reception the Indian government delegation received at Davos in Switzerland a few months back, it seems that the policies enunciated years ago do not elicit much enthusiasm from their own quarters. For example, the leaders of different political parties had gone to the CII meetings in the past to swear their support for the liberalization and privatization. Similarly, international monopolies had flocked to Davos to cheer these policies. But these are all lacking in recent.

The response of the Indian government to this cooling off has been to put forward its recommendations for "a second wave of liberalization". This second wave, unlike the first wave, envisages for liberalization of the financial sector and further divestment of the public sector undertakings.

The Indian finance minister presented his budget proposals to the Lok Sabha and after warning that a serious balance of payment crisis in the capital account exists today, addressed himself to raising new capital both from inside and outside India. The budget contains all sorts of proposals to raise capital from NRI's for \$1,000 each – there are 15 million people who are eligible for such identity cards! There are incentives such as reduced capital gains tax for mutual fund investment, new taxes on the 12 million or so tax-payers of India, and the sale of public sector companies. All these details can be found in the budget which is pending for approval in the Lok Sabha today. The question I want to ask is why has this capital account shortage appeared? What are the ramifications of this shortage and if there is an opening here for the people to put forth their proposals to reorient the economy and its direction.

Why is there a shortage of capital? Firstly because the economy in India is not producing the surplus at the rate that will leave enough for extended reproduction of the economy. The investments in the last decade and before have not been geared towards ensuring such accumulation to assure extended reproduction. For example, between 1984 and 1987, India's foreign armaments purchases were worth \$17.5 billion, making India the second largest customer after Iraq for that period. We have heard about the Bofors scandals of the late 1980's and also the balance

of payment crisis of 1990-91, the former linked to making money by some middlemen and the later linked to the devaluation, job cuts, price rises and ultimately the economic restructuring affecting millions and millions of people.