

CHAPTER - V

A COMPARATIVE STUDY OF EXCESS CAPACITY IN PUBLIC AND

PRIVATE SECTORS IN WEST BENGAL --AN ANALYSIS

IN TERMS TO RETURNS TO SCALE

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5.0: The question of management of manufacturing enterprises either in the hands of Govt. or private does reside in preference under an obligation on the economic problems and needs of a country. The objective for non-capitalist development sometimes encouraged some developing countries where bad features of private and good of public form had been emotionalized through theoretical speculation. An unwillingness had developed to pay the price in profit that private ownership required to establish and operate industrial enterprises. The idea generated as: the new industrial venture will make large profit which will be used to further worthy public activities; that it will produce at such low costs that prices of the goods to the

consumer will be reduced; that it will provide a market for the products of the raw material producers at prices better than they received before and finally, that labour will find working conditions more pleasant than hitherto, and that, as a result of having their own plant they will also benefit through higher earnings. (1) By this, transition of the developing nation to the road of non-capitalist will be achieved; inter-regional integration will be tied through natural extension of its function as an instrument for implementing the national economic policy. (2)

5.1: Indian Experience With Public Sector Units:

With the aforesaid expectation the public sector enterprises in India had some head way to provide specially for further development of basic and strategic industries. As upto 1985-86 massive capital invested (Rs. 58,125 crores), number of people employed (17.60 Lakhs) in 221 public enterprises. (3) In spite of this phenomenal growth the public enterprises have been incurring heavy losses since 1977-78 continuously. In 1977-78, they incurred a loss of Rs. 91 crores, in 1980-81, it was Rs. 203 crores; in 1983-84 it was Rs. 1610 crores and in 1984-85 it was amounted to Rs. 1819 crores. In the matter of profitability they have lagged behind by far the expectation and hence not yet justified the huge investments made from the public exchequer by their

inefficient, below capacity functioning. Under-utilisation of capacity is one of the main causes of low profitability. During 1985-86 about 24% public sector enterprises were operated in the utilisation of 50% to 75% and 25% were functioning below 50% utilisation of capacity. The manufacturing/producing group (excluding textile) are now so crucial to the country's economy that a fact is underlining the need for their efficient operation. ⁽⁴⁾ For this Prime Minister rightly said " We were unable to achieve socialism, since we had laid emphasis on one aspect ignoring the others. In stead of concentrating on the condition of the poor, we concentrated on the role of the public sector to achieve socialism. And the country was unable to achieve socialism as the public sector was eating up the wealth of the nation."

5.2: West Bengal: The Spare for Public Sector Units:

The sector wise distribution of estimated employment in West Bengal shows that during the year 1970 private sector had remarkable employment potential compare to that of public sector, as for the year the private sector had 1.38 lakhs more employment than that of public sector (Table 5.1):-

Table : 5.1.Sectorwise Distribution of Estimated
Employment in West Bengal

(Number in lakhs)-

Year ended December	Public sector	Private sector	Total
1	2	3	4
1970	10.88	12.26	23.14
1975	13.52	11.58	25.10
1980	15.80	10.84	26.64
1983	16.68	9.95	26.63
1984	16.93	9.41	26.34
1985	17.21	9.38	26.59
1986	16.94	9.32	26.26
1987	16.99	9.30	26.29
1988(P)	16.90	9.03	25.93
1989(P)	16.84	8.92	25.76
1990(P)	16.92	8.87	25.79

P=Provisional. Sources: (1) National employment service, W.B.
(2) Bureau of Applied Economics and Statistics, West Bengal.

Note:- Private sector refers to organised Private sector.

From 1980 to 1990 the employment potentiality of private sector had wined under the blow of public sector, as some private sector units had turned into public and their employment counted under the Public Sector. During the period from 1970 to 1989 the share of employment of private sector had came down by 3.39 lakhs (volume of employment decreased by 27%) on the other hand the share of public sector had elongated by 5.96 lakhs more employment. From 1975 to 1989 the total employment had raised only 0.15% by the sectors. The total number of employment had been remaining more or less the same but the share of public sector was favoured by transforming few private sick units into public sector units. It implies in addition to the primary meaning that public sector had been espousing by the Govt. of West Bengal where private sector units were left in lurch or out of liberty to act at pleasure.

The concentration of vacancies notified and placement effected through employment exchange by public and private sectors have been gradually deteriorating in West Bengal since 1980.⁽⁵⁾ For the year 1980, 13.5 thousand placement were effected against some notified vacancies by public sector where as in the year 1989, only 7.8 thousand placement were effected. For the same period the private sector offered 1.2 thousand average placement each year. The dissolute conduct of placement in public sector has been going on the hope of future capacity expansion of the units

(which has never been attained), so much so that the excess capacity has been dominating to pull down the concentration of vacancies in public sector. For as much as the public sector units had failed to yield of intended results, deterioration of total concentration of vacancies cleared up. Indeed! public sector has been receiving greater importance in West Bengal; but creation of vacancies has waned and excess capacity geared up.

However, excess capacity is a dominating feature in all Indian industries like manufacturing, basic, capital goods, intermediate goods and consumer goods industries in both public and private sectors. The capacity utilization in manufacturing industries declined steadily since, 1966, i.e. the beginning of the Third Plan. From a level of about 88 percent during the Third Plan, it declined to 81 percent during the period of Annual plans and further declined to 79 percent during the fourth plan. It fell further to an average of about 75 percent during 1976-78. Among the various groups of industries, capacity utilisation was the least in the capital goods industries.⁽⁶⁾ A study carried out by USAID in India noted substantial degree of excess capacity in Industry.⁽⁷⁾ Here we study the variation of excess capacity in fine classified manufacturing industry groups under public and private sectors of West Bengal.

5.3: The Variation of Excess Capacity in 3-digit Industry Groups under Public and Private Sectors of West Bengal.:

In an industrial unit the excess capacity is meant output falling short of the capacity or non-utilisation of installed capacity. It tends to higher capital output ratio, lower value added labour ratio and higher returns to scale of production. The same line of enquiry follows to identify the trend of excess capacity in an industry. For West Bengal we put this work down in public and private sectors for following manufacturing industry groups:

Industry Group	Description
231	Cotton Spinning, Weaving, Shrinking Sanforzing, mercerising and finishing of Cotton textiles in Mills.
280	Manufacture of packing paper, paper boards, strow, boards and pulps.
313.	Manufacture of Medicines.
330	Manufacture of Iron and Steal.
331	Manufacture of castings, forging structure and pipes.
340	Manufacture of safes, vaults, steal trunks, Drums, tanks, Plumbing fixtures, stoves, Haricane lantern & Oil pressure lamps
343	Manufacture of hand tools and general hardware agricultural hand tools and implements.

Industry Groups	Description
356	Manufacture of Crushers, buckets, elevators, cranes, derricks, reactors, centrifugal machines driers, power driner pumps compressor , ball, roller and bearings.
360	Manufacture of Generators, Transformers switch gears and electric motors.
370	Making of ships and other vessels drawn by power, parts and accessories for vessels.
372	Manufacture of Wagones, Coaches and parts.

We may mention that under these 3-digit industry groups few sub-groups have been added on, however to the finer classification of industries these 4-digit industries (sub-groups) are always counted in 3-digit industry groups.

For the above 11 (eleven) industry groups we calculate the capital output ratio (K/O), value added labour ratio (V/L) and capital labour ratio (K/L) in public and private sectors and arrange them in table 5.2 for comparison. We use the

' A.S.I. Census Frame -- 1977-78⁽⁸⁾ for this purpose:

Table : 5.2

Comparison in terms of Capital Output Ratio, Value Added Labour Ratio and Capital Labour Ratio between Public and Private sector for same Industry Groups under Registered Manufacturing sectors of West Bengal.

Industry Group	Public sector			Private sector		
	$\frac{K}{O}$	$\frac{V}{L}$	$\frac{K}{L}$	$\frac{K}{O}$	$\frac{V}{L}$	$\frac{K}{L}$
231	3.0455294	4255.2748	12959.564	1.8651549	6858.291	12791.775
280	2.4845245	33612.324	83510.642	20.163941	1803.9643	36375.029
313	1.2759689	26529.841	33851.252	1.7696051	15626.219	27652.236
330	133.84615	22175.19	2968063.8	2.094229	15365.562	32179.005
331	1.7511922	30843.205	54012.38	2.0921783	11720.326	24521.011
340	1.618736	14187.374	22965.613	1.0871106	11521.788	12525.457
343	3.3262826	14749.584	49061.284	1.7222954	14413.884	24824.966
356	1.3094483	39734.631	52030.445	8.2852176	13239.274	10969.026
360	1.7788346	18542.299	32983.683	1.5121935	17698.886	26764.14
370	4.0952968	21960.692	89935.551	0.5564049	12290.656	6838.5812
372	1.0828224	12462.666	13494.853	0.9665249	16702.882	16143.751

Source:- Data calculated from ASI Frame census, 1977-78.

Adherence to the work we are also interested in returns to scale for the industries. For estimation of returns to scale we carry back to the Kmenta approximation of C.E.S. production function which has made in the preceding chapter.

The function is :

$$V = Ae^u \left[(1 - \delta) K^{-\rho} + \delta L^{-\rho} \right]^{-\frac{R}{\rho}}$$

And the linear form is:

$$\log(V/L) = \log A + (R - 1) \log L + R(1 - \delta) \log(K/L) - \frac{R\rho\delta(1 - \delta)}{2} \left[\log(K/L) \right]^2$$

where R is the returns to scale.

Now, we carry out the estimation at least for 4 industry groups under public and private sectors as follows:

NIG : 331

Public Sector.

No. of obs. Equation

15 $-2.4496 + 0.6581 \log L + 1.1699 \log(K/L) - .016248 \left[\log(K/L) \right]^2$

S.E (3.6925) (0.2506) (1.5146) (0.1647)

t^* 11 (-0.6634) (2.62566) (0.7724) (-.098638)

$t^T = 1.796.$ $R^2 = 0.65$ $F^*(3, 11) = 6.80$ $F^T(3, 11) = 3.59$

$D^W = 2.4112.$

$$\text{Here } \log A = - 2.4496$$

$$\text{So, } A = .002816$$

$$\text{and } R - 1 = 1.6581$$

$$\text{So, } R = 1.6581$$

$$R(1 - \delta) = 1.1699$$

$$\text{So, } (1 - \delta) = 0.7055666$$

$$\text{and } \delta = 0.2944334$$

$$\text{Since } - \frac{R \rho \delta (1 - \delta)}{2} = - .016248$$

$$\text{Hence } \rho = - 0.9433967.$$

By this the function is:

$$V = .002816 \left[(1 - 0.2944334)K^{-0.9433967} + 0.2944334 L^{-0.9433967} \right]^{-\frac{1.6581}{0.9433967}}$$

We follow the above procedure and find the Co-efficients for the function in other cases:

NIG : 331.

Private Sector:

<u>No. of obs.</u>	<u>Equation</u>			
32	$2.4844 + 0.1938 \log L + .2358 \log(K/L) - .019506 \left[\log(K/L) \right]^2$			
S.E	(0.4909)	(0.1049)	(.097677)	(.025282)
t_{28}^*	(5.0609)	(1.8474)	(2.4138)	(-0.7715)
$t^T = 1.701$.	$R^2 = 0.51$.	$F_{(2,28)}^* = 3.3961$.	$F^T = 2.99$.	$D^W = 2.40$

And,

$$V = 305.1 \bar{L}^{-1} (1 - 0.8024795) K^{0.2061679} \\ + 0.8024795 L^{0.2061679} J^{-1} - \frac{1.1938}{0.2061679}$$

NIC : 340

Public Sector.

<u>No. of obs.</u>	<u>Equation</u>
7.	$-29.745 + 24.386 \log L - 5.9314 \log(K/L) + 0.4807 \bar{L}^{-1} \log(K/L) J^2$

S.E. (24.849) (17.748) (4.1543) (0.3192)

t_3^* (-1.1970) (1.3740) (-1.4278) (1.5062)

$t_3^T = 2.353$. $R^2 = 0.89$. $F_{(3,3)}^* = 8.28$ $F^T = 9.28$

$D^W = 1.79$

And,

$$V = .5559E-029 \bar{L}^{-1} (1 - 1.2336327) K^{-0.1313984} \\ + 1.2336327 L^{-0.1313984} J^{-1} - \frac{25.386}{0.1313984}$$

NIC : 340Private Sector

<u>No. of obs.</u>	<u>Equation</u>			
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18.	$4.9525 + 0.74354 \log L - 3.4286 \log(K/L) + 0.4459 \log(K/L)^2$			
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S.E.	(3.4164)	(0.2957)	(1.5136)	(0.1781)
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t_{14}^*	(2.9131)	(0.2515)	(-2.2652)	(2.5039)
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$$t^T = 1.761. \quad R^2 = 0.46. \quad F_{(3,14)}^* = 3.95. \quad F^T = 3.34. \quad D^W = 2.02$$

And,

$$V = 81870 \left[(1 - 4.1913131) K^{-0.0620584} + 4.1913131 L^{-0.0620584} \right] \frac{1.074354}{0.0620584}$$

NIC : 343Public Sector

<u>No. of obs.</u>	<u>Equation</u>			
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8	$-1.4834 + 0.6227 \log L - 134.85 \log(K/L) + 68.235 \log(K/L)^2$			
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S. E.	(0.5723)	(0.1318)	(392.11)	(196.12)
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t_4^*	(-2.5920)	(3.9662)	(-0.3439)	(0.3479)
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$$t^T = 2.132. \quad R^2 = 0.88. \quad F_{(3,4)}^* = 9.8825 \quad F^T = 6.39. \quad D^W = 2.357$$

And,

$$V = .03044 \left[(1 - 82.102237) K^{-0.0123262} - 82.102237 L^{-0.0123262} \right] \frac{1.6227}{0.0123262}$$

NIC : 343

Private Sector.

No. of obs.	Equation			
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17	$1.1303 - 4.2401 \log L - 2.2459 \log(K/L) + 2.9563 \sqrt{\log(K/L)}$	$\sqrt{J^2}$		
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S.E.	(0.1636)	(3.0053)	(2.3663)	(1.1288)
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t_{13}^*	(6.9075)	(-1.4109)	(-0.9491)	(2.6190)
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$$t^T = 1.771, \quad R^2 = 0.44, \quad F_{(3,13)}^* = 3.45, \quad F^T = 3.41, \quad D^W = 2.18$$

And,

$$V = 13.50 \sqrt{(1 - 0.3068424) K - 8.5797138}$$

$$+ 0.3068424 L - 8.5797138 \sqrt{\frac{3.2401}{8.5797138}}$$

$$\text{Here } R = -3.2401.$$

NIC : 360

Public Sector.

No. of obs.	Equation			
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10	$4.6710 + 0.6861 \log L - 2.3573 \log(K/L) + 0.4132 \sqrt{\log(K/L)}$	$\sqrt{J^2}$		
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S.E.	(7.1828)	(0.3481)	(3.0603)	(0.3296)
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t_6^*	(0.6503)	(1.9710)	(-0.7703)	(1.2534)
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$$t_6^T = 1.943, \quad R^2 = 0.74, \quad F_{(13,6)}^* = 5.70, \quad F^T = 4.76, \quad D^W = 1.74$$

And,

$$V = 46880 \sqrt{(1 - 2.3980784) K - 0.1461881}$$

$$+ 2.3980784 L - 0.1461881 \sqrt{\frac{1.6861}{0.1461881}}$$

NIC : 360

Private Sector.

<u>No. of obs.</u>	<u>Equation</u>
13	$0.4558 + .0072025 \log L - 489.37 \log(K/L) + 245.01 \left[\log(K/L) \right]^2$

S.E. (0.3447) (0.1394) (228.10) (114.10)

t_9^* (1.3224) (.051673) (-2.1454) (2.1473)

$t_9^T = 1.833$. $R^2 = 0.50$. $F_{(3,9)}^* = 2.9704$. $F^T = 3.86$. $D^W = 1.65$

And,

$V = 2.856 \left[(1 - 484.87051) K^{-0.0020651} \right.$

$\left. + 484.87051 L^{-0.002065} \right]^{-\frac{1.0072025}{0.0020651}}$

The analysis brings into the open that out of 11 (eleven) industries, public sector bears up greater excess capacity than that of private sector in 7 (seven) industries and for remaining 4 (four) industries private sector falls behind the public. By K'menta approximation to the C.E.S. every one in the sample of four industry groups under public sector brings out higher returns to scale than that of private sector. Higher returns to scale does make evidence that all the four industries under public sector fall into underutilisation of capacity. It also follows that higher

productivity of labour in public sector is maintained through higher amount of capital per labour which pushes back the productivity of capital and keeps up excess capacity in the industry under the sector. If this situation arises, it reflects in the falling tendency in the rate of profit. In other words labour productivity does not rise at such a high rate as to overcome falling capital productivity. By this way higher capital output ratio does instil in production operation and excess capacity results in the industry.

Prof. P.R. Brahmananda (1982)⁽⁹⁾ rightly observed that Registered Manufacturing Industries under Public Sector of India, during the period from 1970-71 to 1980-81, had accounted falling rate of profit in terms of (i) a rise in relative share of wages, (ii) a rise in capital intensity of labour, (iii) the rise of input output ratio and (iv) the possible effect of a rising degree of under utilization of capacity. Our results lighted on the same terms, however to the interest we went round few units to know the difficulties in the production operation.

Under industry group 231 the capital labour ratio of the both sectors are more or less same; still productivity of labour in private sector is higher than that of public sector. It shows the under utilisation of capital in public sector wherein one unit of output needs 3 units of capital and on the other hand private sector needs less than two units of

capital to produce one unit of output. In view of this situation we find that many units, like Vinod Textile Inds. Ltd. at Muragachia at Jugberia, Oriental Cotton Cultivation & Mills Ltd. on South Station Road at Agarpara, Jatia Cotton Mills Ltd. on Kendua Road at Mourigram and Mayurakshi Cotton Mills Ltd. at Panchra hat in Birbhum, have been working towards higher input output ratio, now have reached at 0.96 level, which will set off big negative figure for value added in these units in no time. Already the negative figure in value added got struck with the units like Textile processing unit R.I.C Ltd. at Bonhooghly, Sri Durga Spinning and Weaving Mills Ltd. at Konnagar in Hooghly, Kesoram Inds. & Cotton Mills Ltd. at Garden Reach, Kalyani Spinning Mills Ltd. at Kalyani and recently the Mayurakshi Cotton Mills Ltd. We have seen a low input output ratio in the industry Group under private sector units like Joyoti Weaving Fey(P) Ltd. in Calcutta as 0.42, Sri Maha Laxmi Cotton Mills on Ghoshpara Road at Palta as 0.55, Bowreah Cotton Mills at Howrah as 0.61 and Banga Laxmi Cotton Mills at Serampur as 0.62. Most of the units in private sector have brought out input output ratio less than 0.70, but most of the public sector units have brought out the ratio above the point. So, higher input output ratio in public sector under the industry group does make an affirmation that the units have failed in desired capacity utilisation.

For industry group 280 the older factories were localised mostly in West Bengal where proximity to the coal fields and raw materials make advent of new units in the state. From early years of Fifty to early Sixties output, Capital stock and employment showed substantial growth trend over the period.⁽¹⁰⁾ But now the industrial units under private sector are yielding diminishing returns which has been cleared up by high capital output ratio and low value added labour ratio in the industry. We find very big negative amount of value added in three giant units like Titagarh Paper Mills Co. Ltd. (No, 1) and No. 2 at Titagarh and Indian Paper Pulp Co. Ltd. at Halisahar. Under the sector two units as M/s. Corroating & Paper Processing Co. on B.T Road in Calcutta and Satish Paper & Board Mills, at Barasat, operate on high input output ratio. Only 6 (six) Board Mills of the sector operate on input output ratio near about 0.70. However, except Tribeni Tissue the units under public sector do not show any moderate input output ratio. The overall picture of this industry is that the utilisation of capital have remained behind when higher capital labour ratio attended upon labour productivity.

The manufacture of medicine under industry group 313 included Allopathic, Ayurvedic and Homeopathic medicines. For manufacture of allopathic medicines the units both under public and private sectors worked at relatively backward machinaries and equipments. Demand for their products have slackened off and stocks started in on accumulating. We have

seen low input-output ratio in the units like Govt. Quinion Fey at Mangpoo as 0.56, Bengal Immunity Co. Ltd. at Baranagar as 0.47, Indian Health Institute & Laboratories Ltd. at Dum Dum as 0.48, G.D. Pharmaceutical Ltd. in Calcutta as 0.49 and Glucunate Ltd (No.1) also in Calcutta as 0.47. The high input-output ratio have observed in the units like Smith Stanistreet, Dey's Medical store and British Medicine & Pharmaceutical Co. In Calcutta. A very low capital intensity in many units under private sector has caused low productivity of labour which has reflected upon excess capacity in the industry under the sector.

It is noticeable that capital deepening play an important role in the growth of steel manufacturing (330) of a country. But for public sector units of the industry in West Bengal whatever deepening the capital, none of them came upto the installed capacity. Here one unit of output is produced by 133 units of capital in public sector where high capital labour ratio is imputed to high productivity of labour. High input output ratio is observed in Durgapur Steel Project as 0.70, Alloy Steel Project as 0.63 , Burnpur Sec. of IISCO as 0.83, Bengal Rolling Mills Ltd. at Sodepur as 0.90, Hind Wire Industries Ltd. at Sukchar as 0.82. Many units also in private sector are incurring losses due to a high input output ratio; the units are Bhagwati Steel (P) Ltd. as 0.82, Asian Industries as 0.90, Swastika (P) Ltd. as 0.82 and Agarwal Hardware Industries as 0.87, at Liluah in Howrah. The steel

manufacturing under public sector units in the state have barely got through the production operation as except Alloy Steel Plant of Durgapur, no unit in the state has come in on utilisation of remarkable percentage of installed capacity. For percentage of capacity utilisation Durgapur Steel Plant (58.1%) has fallen behind Rourkella Steel Plant (66.8%), Bokaro Steel Ltd. (71.7%) and Bhilai Steel Plant (84.6%).⁽¹¹⁾ We look back on to the poor performance of the plant. After completion of the unit the retrenched construction workers could not be provided with employment in new plants and installations and hence the trouble started. " Even from the inception the plant gave operational troubles. A coke oven had to be dismantled. Relining was done in one of the blast furnaces. Overhauling of the pig casting machine was also necessary. The blooming and billet mills had to be overhauled partially because also of operational difficulties. The Durgapur Steel Plant thus could never utilise its full capacity and produced only about 50% of its capacity."⁽¹²⁾ Recently in connection with modernisation programme labour trouble has made inroad the work culture in the plant.

However, in regard to Bhilai, Rourkela, Bokaro and Durgapur plants in the public sector, no one will be satisfied with their performance compare to that of TISCO; a private sector plant producing mild steel." TISCO performance has been

* TISCO: Tata Iron and Steel Company, a mild steel producing unit at outside the state, West Bengal.

much better than that of the other integrated steel plants; it has operated at more than 90% of capacity of saleable steel output in many of the years since 1969-70. Its financial results also compare very favourably. Even in the bad year 1971-72 when the three Hindustan Steel Plants did only 59% of capacity in saleable steel, incurring a heavy loss of Rs. 44.8 crores, TISCO did 92% utilisation making a profit of Rs. 12 crores (before tax). Selling prices are equally applicable to both the sectors. It becomes obvious that TISCO profit is due to high efficiency in capacity utilisation and to its lower depreciation cost per tonne of capacity!"⁽¹³⁾

Closing upon steel, the industry group 331 shows a different picture. For this industry we infer from production function more or less same returns to scale in both the sectors. In regard to labour productivity private sector has remained behind the public in which higher amount of capital per labour has brought out higher productivity of labour. Lower labour productivity in this industry under private sector was not the result of underutilization of labour power; it was the result of relatively backward technology which did not turn up the productivity. However, with privilege of relatively better technology public sector units did not give the best use of their capital in many cases as we have an evidence for this :

Name of the Unit	No of workers	Invested capital (Rs.)	Input (Rs.)	output (Rs)	Value Added (Rs)
1. Asiatic Wires Ltd. Madhyamgram	67	2893646	5823975	6470426	524862
2. Jeetmal Jaichandlal (P) Ltd. Liluah	83	1083008	5575988	6681083	1008946

Source:- A.S.I. Frame '78.

Here the Asiatic Wires, a public sector unit, invested 2.67 times capital of the Jeetmal, a private sector unit, and by less amount of input Jeetmal not only made more output but also made more value added (approximately double) than those of Asiatic Wires. Like this we have few other information and we make a whole that underutilization of capital in this industry specially under public sector is too much.

A very high returns to scale with higher capital labour ratio in industry group 340 under public sector has kept up same appearances of underutilisation of capital and high excess capacity. We see compatitavely high input output ratio in public sector units like Containers & Closures Ltd. at Naihati as 0.80 and Industrial Container Ltd. at Paharpur in Calcutta as 0.89 which would have been less than 0.70 at

ideal operation. Although, by capacity these units may come up with export quality. Their contribution is important like other private sector units in the industry.

For manufacture of agricultural tools and implements under industry group 343, the private sector units show up decreasing returns to scale and public the increasing. Very low labour productivity has reflected upon decreasing returns to scale in the industry under private sector. For capacity utilization the public sector equally suffers from low productivity of capital. Higher prices of inputs, higher wage bill and shifting of market have made the manufacturing work unprofitable in both the sectors.

The same result does accord with the industry groups 360, 370 and 372 in which public sector stay behind the private. Industry group 356 remains exception to this statement. However, under this industry group the giant public sector unit Jessop & Co Ltd. is incurring heavy losses in recent years. From the Twenty Ninth Report on Jessop and Co. (1981-82) we know the costs structure which brings out cumulative losses in the company. The cost of production of the company was afflicted with high overheads (about 51% of cost of production). There was over-staffing to the extent of 2000 in certain categories, out of a total work force of 8000. The working capital was mostly financed through cash credit from banks. Besides salaries and wages the interest

element of cost was the highest in this company. Audit had observed something wrong as follows:

"There is a system for ascertaining idle time in labour and machinery specifying the reasons thereof, but due to apprehension of disruption in industrial relation such systems are not being used."

"Fear of being declared surplus makes them take longer time to do a job. By this productivity gets sacrificed. In spite of this assurance of the management that they will not be retrenched, workers's response to forward thinking and improvement of productivity is poor. Idle labour cannot be booked and workers cannot be transferred from one area to another. Progressive measures like modern product documentation systems cannot be implemented. In general the workers resist all measures to progress" (14)

By this the productivity in-credibly had gone down. It was about 0.3 tonnes per month whereas in other private and public sector plants it was around 3 tonnes. The workers in the company were not putting in more than $2\frac{1}{2}$ to 3 hours of work a day. The value added per man month was $\frac{1}{3}$ that of BHEL over 1980-81. Yet the overtime allowance (OTA) ranging from Rs. 59 lakhs to Rs. 129 lakhs had been paid annually over the same year. The OTA expenditure could not be brought down because under the agreement between the management and one of the unions certain unproductive categories like sweepers, drivers and crane operators were guaranteed payment of OTA

for 2 hours daily. The concession could not be withdrawn because there was a lot of resistance. ⁽¹⁵⁾ Hence, the cost of production had been higher than realisable value of production. Like Jessop & Co. Ltd. many other public sector units in Calcutta are suffering from similar problems and generating crisis process to excess capacity.

5.4: The Government Intervention for Industrialisation.

Notwithstanding the greater excess capacity in public manufacturing units, the Govt. of West Bengal does not give up all hope of success; the Govt. moves rather too much in on industrial activity. The joint sector activity started with state partnership. Through partnership state shared decisions and activity involved in equity control and output with the presumption that risk will be lowered that it would be if they started the manufacturing unit all alone various development corporations come to grips with industrial programme of the state.

5.4.1: The West Bengal Industrial Development Corporation: (W.B.I.D.C).

The West Bengal Industrial Development Corporation has set up number of industrial projects in joint-sector. ⁽¹⁶⁾ The Haldia Petrochemicals Project briefs that a big green field industry had been finalised under joint sector partnership in Haldia where among partners the WBIDC would hold

26% of the share, the Tata Tea Limited 24.99% and the remaining 49.01% of the share would be held in public⁽¹⁷⁾. The latest addition is Granulated Slag Cement Project commencing commercial production of Portland Slag Cement in the plant near Madhukunda in Purulia district. Apart from this the Corporation has been implementing a number of joint sector projects e.g. Biaxially Oriented Polypropylene Film Project and Polyester Filament Yarn Project at Barjora in Bankura. At Haldia in Midnapore they are Acrylic Fibre Project and Nitro-Chloro-Benzene Project. A project for manufacture of toilet soap, Glycerine and Synthetic detergent, at Kalyani in joint sector collaboration with Tata oil Mills Co. Ltd. is under consideration of the corporation. West Bengal Filaments and Lamps Ltd., a joint sector project of WBIDC ltd. with M/s. Andrew Yule Co. Ltd., has taken up a project for manufacture of Digital Microwave Communication Equipment.

The WBIDC provides financial assistance in various forms. Till the end of Dec., 1989, 454 units with a total project cost of Rs. 498 crores were assisted by WBIDC. From April, 1989 to Dec., 1989 the Corporation assisted 9 units with a total project cost of Rs. 31.28 crores. During that period the Corporation disbursed an amount of Rs. 19.50 crores by way of financial assistance to industrial units including assistance under State Incentive Scheme and Central Investment subsidy scheme. From 1st April, 1989 to 31st. December, 1989

the WBIDC sanctioned term loans amounting to Rs. 51400 lakhs to different industrial units which in turn is likely to catalyse an investment of Rs. 31.28 crores. During 1989-90 (Till Dec., '89), 15 industrial projects assisted by WBIDC involving investment of Rs. 56 crores were implemented, the project mostly being located in the backward districts. It has assisted so far 25 units in North Bengal with a total project cost of about 35.80 crores. (18)

5.4.2: The West Bengal Electronics Industry Development Corporation Limited (WEBEL):

The WEBEL is setting up one R and D centre jointly with Department of Electronics at Salt Lake Electronics Complex. In Electronics Complex at Salt-Lake a number of units have started their production and 7 more units have started their construction. Here one ASIC Design centre is being set up by Indian Telephone Industry in collaboration with Department of Electronics. WEBEL Telematik Limited, a joint venture with Sielens Limited has started production of latest generation of electronic teleprinters. WEBEL Telecommunication Limited is a joint venture with Pieco-Electronics and Electricals Limited for manufacture of V.H.F. transreceiver sets and accessories. Another joint venture viz. WEBEL SL Energy Systems has recently formed which implement the project for manufacture of solar PV Cells Modules and Systems.

5.4.3: The West Bengal Pharmaceutical and Phytochemical Development Corporation (WBPPDC):

The corporation has come to terms with the promotion of drugs and pharmaceutical industries in the state. A few production units like 8 -Hydroxyquin oline / Diodohydroxyquinoline and Asprin at Kalyani, etc., have been set up by the Corporation. The commercial production and sale of Aspirin started during the year. The laboratory of the Corporation at Behala has expanded. At Torolpara in the district of Jalpaiguri, Construction of a building for starting Oleoresin/ Essential Oil from spice and N-Triacontanol from sugarcane press mud, was completed. The production of the Infusions (I) Ltd. is now under the management of the Corporation.

5.4.4: The West Bengal Tea Development Corporation Ltd. :

The Corporation owns five gardens — three in Darjeeling district and two in Jalpaiguri district. The Corporation also manages two gardens in Darjeeling district. The number of owned gardens has increased by one during 1989-90 as the Hilla Tea Estate in Jalpaiguri district has been leased out to the corporation by the State Govt. in December, 1989. The Corporation will construct a factory in the Hilla Tea Estate for manufacturing made tea for Hilla and Mahua.

**5.4.5: The West Bengal Sugar Industries Development Corporation Ltd.
(WBSIDC) :**

It takes cane crushing operations in its sugar Mills at Ahmedpur. The Corporation organised cultivation on 2000 acres of land in the mill command area of Ahmedpur Sugar Mill and on 250 acres of captive form land at Beldanga, for crushing in the Ahmedpur Sugar Mill.

**5.4.6: The West Bengal Mineral Development and Trading Corporation
(WBMDTC) :**

The Corporation is engaged in the development of mines and trading of minerals. It has opened new quarry faces and set up two additional crushers in Pachami Hatgacha area of Birbhum district for commercial production of stone materials. The North Bengal Dolomite Ltd., a joint venture of the Corporation has resumed production of Dolomite at Hatipota in Buxaduar, Jainti area, Jalpaiguri.

5.4.7: The West Bengal Industrial Infrastructure Development Corporation (WBIIDC) :

The Corporation is engaged in construction of Growth centres in different districts. It had set up growth centres in Haldia (Midnapore), Kalyani (Nadia), Kharagpur (Midnapore) and Dabgram (Jalpaiguri). Works at Uluberia (Howrah),

Raninagar (Jalpaiguri), Falta (South 24-Parganas) have completed. The Corporation has started work at Bishnupur, Coochbehar, Kalyani (Ph. II) and Malda.

5.4.8: Programme for Sick Units:

The Jute Modernisation Fund Scheme and the Special Development Fund Scheme (J.M.F.S. and S.J.D.F.) have come to terms with the problems of sick units in jute industries in the state. Till 31.1.1990 a total of Rs. 60.97 crores sanctioned to fifteen cases. The amount includes Rs. 58.57 crores under the JMFS and Rs. 240 crores under SJDF. For the New Central Jute Mills, a sick unit, the State Govt. agreed to an equity contribution of Rs. 400 crores for the purpose of rehabilitation of the company.

For Mayurakshi Cotton Mills Ltd., another sick unit, the state Govt. has released a substantial amount of fund for renovation of the Mill and commencement of production. The Haldia unit of the Hindustan Fertiliser Corporation Ltd. had closed down in August 1986 and now under consideration of heavy investment (more than Rs. 500 crores) for revamping and rehabilitation.

5.4.9: Subsidy and Incentive Schemes: for Private Sector Units:

Under Central Investment Subsidy Scheme the subsidy on fixed capital had varied, depending on location, from 10%

to 25% with a ceiling ranging from Rs.10 lakhs to Rs. 25 lakhs. Under the new scheme of incentives, the rate of subsidy has been raised, varying from 15% to 30% with a ceiling ranging from Rs. 15 lakhs to 30 lakhs, depending on the location. The West Bengal Incentive Scheme, 1983 had provisions for Sales-Taxes loans to entrepreneurs. In the New Incentive Scheme there are provision for deferred payment of sales-tax for periods varying from 5 to 7 years, depending on location. The ceiling in respect of total amount of deferred tax will range from Rs. 2.50 crores to Rs. 10.50 crores in case of new units and from Rs. 1.75 crores to Rs. 7.35 crores in case of expansion of existing ones.

The New Incentive Scheme (1989)⁽¹⁹⁾ comes up with packages of benefits to entrepreneurs for setting up new industrial units as well as for expansion of existing units in the state. The development subsidy through new scheme covers.

- (i) stamp duty paid for purchasing or taking lease of land or registration of documents;
- (ii) Charges paid to West Bengal State Electricity Board or any licensed electric supply company in the state or Greater Calcutta Gas Supply Corporation Ltd. for drawing Ht/Lt power line or Coal Gas pipe lines;

- (iii) charges paid to local body, notified authority etc. for drawing water and sewerage lines;
- (iv) 50% of the fees paid for procurement of know-how, subject to a ceiling of Rs. 1 lakh;
- (v) fees paid for conversion of land use in certain cases;
- (vi) an incentive of Rs. 5 lakhs to the first three Pioneer units to be set in a new growth centre developed by the State Govt.;
- (vii) for anti-pollution measures an incentive equal to 25% of the investment for conversion of furnaces etc. for switch-over from conventional fuels to piped coal gas subject to a ceiling of Rs. 50 thousand;
- (viii) incentives to Bio-Technology units, Solar Oriented leather goods manufacturing units, 100% Export oriented jewellery units and 100% Export oriented garments & hosiery goods units.

Further liberalisation of state incentive scheme observed in budget speech (1990-91) with reference to sales tax benefits as: (20)

- (i) Sales tax holiday for a period of ranging from 3 to 5 years depending on the location of the new industrial units will be available to the entrepreneurs.
- (ii) The existing scheme of deferred sales tax will be available as an alternative for an increased period of 7 years.
- (iii) The cumulative financial limit imposed on the amount of exemption/ deferred sales tax has been increased to a maximum of Rs. 35 crores and was linked with the cost of plant and machinery of the industrial unit. In case of new industrial units having investment in plant and machinery upto Rs. 10 lakhs, the existing incentive scheme relating to sales tax holiday will continue.
- (iv) In case of expansion of existing industrial units the above facilities of exemption/ deferred sales tax will be available on a reduced scale of 2, 3 and 4 years in respect of exemption and 5, 6 and 7 years in respect of deferred depending upon the location of the industries.

the measures have reasoned out that the people who run the Govt. are biased to-wards state intervention in industrial activity. But, how long will the development corporations carry on industrialisation job by giving huge amount of money

and machines to less-than-efficient minimum size units which all in future will fall through because of greater excess capacity? Then, how long will these units await for rejuvenation? As we know ' for last 10 years only 10% of the schemes for rejuvenation of industries has been implemented'. (21) Entrepreneurs heard about state incentive schemes in voluble talks that if they come at this moment the state facility will serve them as lackey. Still the response is very insignificant. In fact some members of development boards in the industrial belts of the state are unable to give any explanation for the reluctance of the entrepreneurs to invest in their areas. There had been no major investment in the Durgapur-Asansole belt in past many years. But many units in this belt have closed down like a paper mill, aluminium factory, glass works, a foundry, a unit for manufacturing screen for coal washeries, a cycle factory, ceramic units and a wheel-making unit. The latest to have closed down is the Hindustan Fertilizer Corporation in Durgapur. In Durgapur-Asansole belt 80% of major industries are public sector undertakings, 20% are in state sector and the rest in private sector. All the public sector units are running at loss and all the units in the state sector have been lossing concerns from the time of their commissioning. The pathetic situation is understood by the fact that many plots earmarked for industries in this zone are lying vacant. In Durgapur, there are still 400 acres awaiting occupation by industries. (23)

In connection with modernisation unrest is brewing here and there in West Bengal. As we see unrest over issue of appointment of workers by the contractors engaged in execution of jobs under the modernisation programme of D.S.P. The principle that had been framed earlier in consultation with the state Govt. and the different central trade unions to avoid such situation did not work well. People were to be recruited by contractors from an 'agreed list' of workers with names from both CITU and INTUC unions. The CITU did not object when their supporters whose names were on the 'agreed list' were hired. They however, protested whenever supporters of the INTUC were to be given appointment. Even a cease-work was observed by the CITU when INTUC workers were allowed to go the site and that impeded the progress of work. The meeting to solve the deadlock recently proved to be ineffective. There were even clashes also between the supporters of two unions at the work sites. ⁽²⁴⁾ This type of problem puts strain upon the owners of manufacturing units elsewhere in West Bengal and the question of capacity expansion turns over future workers' trouble in their units. Being aware of trouble at length the entrepreneurs reveal their preference to add new technology without appointing men in their units where only workers do not stand out against this addition. So, we go ahead of the study for response of capital labour ratio to the growth rate of labour productivity.

CITU: Union leaded by Communist Party.

INTUC: Union leaded by Congress Party.

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