PINK SLIP AND V.R.S. (VOLUNTARY RETIREMENT SCHEME) SYSTEMS----BAD MANAGEMENT AND FLAWED ECONOMICS

Seema Shrivastava
Department of Economics
GOVERNMENT POST-GRADUATE COLLEGE,
BHEL BHOPAL

ABSTRACT
India has been recording better rates of growth in the post-liberalization era after 1970. India joined the one trillion dollar GDP club in 2009 at the same time when the USA with $ 13 trillion (world $ 54 trillion) GDP was in the grip of financial melt-down. Multinational companies were coming to India and were having joint collaborations with the Indian companies. Soon India was the favoured destination of the IT, automobiles producing and many other types of companies. There were higher foreign and Indian investments in many lines of production. India’s new “Make in India” policy message to the world will bring a lot of investment in India and it is hoped that India will jettison the pink slip and VRS policies. These are the policies of quick firing and retiring the workers.

INTRODUCTION
Most industries even when earning profits show panic response and at the first opportunity they either retrench a number of workers or introduce such schemes as voluntary retirement schemes, also known as the “golden handshake scheme” or they can apply both the schemes at the same time. The golden handshake scheme is actually “leaden handshake scheme”. The “pink slips” had really been pink in colour. Many employees are retrenched without any notice and in lieu of the mandatory notice period, the employers pay the salary for the period. Not a day is given to the employees to find alternative employment. Some public sector units went for VRS in India. The argument given by the employers was that the company will save the future increments and future dearness allowances, forgetting that the employers will lose (i) interest on the amount paid and (ii) the opportunity of using the principal for alternative projects.

This is inhuman micro economics and flawed macro economics. It is abominable management. The workers in India have no tri-partite unemployment insurance in which the premium for the same is contributed by the employee, employers and the State. This is violation of the human rights. ILO (International Labour Organization) provisions have been jettisoned in India. If wage bill is to be reduced, it should better be done by equal percentage cuts for all rather than dismissing/issuing pink slips to some workers/employees.

Pink slips to some employees are justified for two reasons: one is that there is immediate need to cut down the wages/salaries bill and this cannot be done by reducing the wages because employees resist the cuts. The second reason is that productivity of labour cannot be raised in the short period to obviate the need for retrenching some workers/employees. Marginal productivity of the employees which depends on the technical knowledge,
efficiency of management and technological progress, cannot be increased at will.

The company economists / spokespersons hold out threats that if the costs reductions are not allowed, the exports cannot be made in the same ways. If selling prices cannot be raised, reduction in costs in this way is the only escape route.

The company economists argue that if this ‘facility’ of hiring and firing at will is not allowed, the regulatory authority will find that in future the employers will have working force of fewer persons and there will be loss of potential employment. It is argued that the companies will borrow more from the banks and the interest rates will then not be reduced. In fact the companies will be borrowing more to pay salaries. Capital formation and investment will be discouraged.

Instead of giving pink slips to some employees, it will be better if all are employees are retained with (i) lower wages / salaries or (ii) pay and perks pause is introduced till the companies overcome the difficulties and (iii) across the table cuts of nearly the same percentages are made in most of the items of expenditure.

The companies will save the training costs of the new entrants that will be necessary after some time when new employees will be recruited. The expenditure on the training of the staff that is retrenched will not go waste. Severance should be the last option in all cases.

It is seen that the top brass is seldom retrenched or is seldom given the pink slips. Those who know about the technical and / or accounting aspects of the company will take with them some secrets of the company and hence they are retained!

The companies care more for the profits, dividends and their place in the share market. They worry about sensex of India. The media overplays its importance. *Sensex of India is based upon the positional changes of just 31 (thirtyone) companies of India. These companies are not India.* A slight fall in the sensex is presented on the TV and in the newspapers as the “massacre” in the share markets “tsunami” in the share market. The media has made the Government of India a slave of the economics of media. The media proposes and the government disposes.

It is a bad labour policy that

(i) during the upswing the labour lags (wages and salaries do not rise by the same percentage as the “returns” to the higher ups) and

(ii) during the downswing, the labour “leads”---the first charge is made on them.

Foreign companies benefit from the fall in the exchange of rupee. The MNCs economize in dollars when the exchange rate of rupee falls. Still even the foreign companies issue pink slips to the Indians in India.

References:

1. Wikipedia.

Dr. O.S. Shrivastava’s personal library.