Inspector Raj for Garment Export Business

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The export of textiles from India accounts for about one-third of India’s total exports. What is more significant is that textiles as a group, is also the largest net foreign exchange earner in as much as the import content in textile goods is quite low compared with other major export items.

In this paper, I seek to expose the red tape involved in setting up a business, in particular the business of exporting garments. The massive amount of paperwork, bribes and the constant interference by inspectors from different departments of the government are so inherent in the system that anybody starting or operating a business considers it a part of the regular running of the business. It has become so commonplace that to imagine a world without it is difficult, if not impossible. So much so that bribes to the different inspectors are included while calculating costs. The procedure of setting up and operating a business has been greatly simplified over the years but as my report seeks to demonstrate, inspite of that, it is a formidable task to operate within the boundaries of the law and still make a profit. So there is a strong incentive for entrepreneurs to find a way around the law.

Where Does it all Start?
To start an export house, a person has to first decide whether to manufacture the garments himself or to source them from somewhere else. In case he decides to manufacture himself (which is usually the case), he then has to set up a factory and this puts him under the purview of a number of Acts such as the Factories Act, 1948, the Employee’s State Insurance Act, 1948 etc., which are applicable to any other factory or business within the country. Some of the provisions of these Acts are stated below:

The Factories Act, 1948
- To set up a factory, the prior approval of the state government has to be obtained for the site on which the factory is to be situated and for the construction or extension of any factory. For this an application in the prescribed form has to be submitted to the Chief Inspector of Factories along with a flowchart of the manufacturing process describing the various stages of the process, plans and specifications for the construction in duplicate and other particulars that may be required. Usually, it takes a very long time for the approval to come through. So, in practice the construction or extension is done first and then the plans sent for approval.
- If no order is communicated to the applicant within three months of applying, the approval is deemed to have been granted.
- The occupier of a factory is also required to get the factory registered for obtaining a license for operating it and send a notice of occupation to the Chief Inspector of Factories, at least 15 days before he begins to occupy the factory.
- The application for registration and the notice of occupation have to be submitted in triplicate in the prescribed form along with proof of payment of the prescribed fee and any other information that the licensing authority may require. The license fee has to be paid with a treasury challan under the appropriate head of account.
- If the Chief Inspector is “satisfied about the particulars” submitted in the application, the license for operating the factory is granted which shall be valid upto next December 31. The problem with this clause is that it is completely the discretion of the Chief Inspector whether to grant the license or not as all it says is that the Chief Inspector has to be satisfied.

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Centre for Civil Society
• Renewal of license has to be applied for at least 30 days before expiry along with the prescribed fee (which is the same as for grant of license).
• If the state government or the Chief Inspector refuses to grant the approval, the applicant may, within 30 days of the date of such refusal, appeal to the central government or the state government respectively.

By registering the factory, the occupier is required by law to undertake the following measures “for ensuring the good health and physical condition” of the workers:

1. Cleaning and Disposing of Wastes and Effluents\(^2\): The occupier is required to keep the factory premises clean and free from waste and effluvia and ensure that sweeping, removal of dirt and refuse and cleaning with disinfectant is done daily. All inside walls, partitions, staircases and roofs need to be whitewashed once in 14 months, or revarnished and painted once in three years with washable paint or once in five years with non-washable paint. Besides, all doors, window frames, other wooden or metallic framework and shutters should be painted or varnished at least once in five years. The dates of whitewashing, painting or varnishing, etc. should be noted in the prescribed register.

2. Ventilation, Temperature and Humidity\(^3\): The factory premises should be adequately ventilated by circulation of fresh air and comfortable temperature should be maintained in every workroom. Besides, artificially increased humidity should be controlled by using purified water.

3. Latrines, Urinals and Spittoons\(^4\): Every factory should provide and maintain adequately lighted and ventilated latrines and urinals, in sufficient numbers, for male and female workers separately, and spittoons at suitable locations. Further, the latrines, urinals and spittoons should be washed and cleaned with detergents and disinfectants.

4. Avoid Overcrowding\(^5\): The workplace should not be overcrowded by workers and minimum space of 14.2 cubic meters per worker in a new factory and 9.9 cubic meters per worker in an existing factory should be provided.

The occupier of the factory is also required to undertake a number of safety measures that are prescribed. Inspectors are empowered to inspect any factory building, plant or machinery and ensure that these are maintained in safe conditions and are not detrimental to the health of the workers.\(^6\) Besides these, the Factory Act also requires a number of welfare amenities to be provided to the workers in a factory. Every factory is required to provide adequate and suitable facilities for:

1. Washing and drying of wet clothes and storing of clothes not worn during working hours.
2. Sitting arrangements for employees who are required to work in standing position in order that they may take short rests in the course of their work.
3. Readily available first-aid boxes or cupboards with the prescribed contents (at least one box for every 150 workers) to be provided and maintained under the charge of a person certified for the same.
4. Ambulance rooms (when 500 or more persons are working in the factory) of the prescribed size, having equipment and medical and nursing staff as prescribed. (A widely practised way to get around this rule is to get a license for 499 people and show only that number of people on the muster rolls).

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\(^2\) Sections 11 and 12, the Factories’ Act, 1948.
\(^3\) Sections 13 and 15.
\(^4\) Sections 19 and 20.
\(^5\) Section 16.
\(^6\) Sections 39, 40 and 40-A.
5. A canteen (when 250 or more workers are employed in the factory) that is suitably located and sufficiently lighted and ventilated. It must be of the prescribed size, equipped with necessary furniture, utensils, etc. and operated on non-profit basis.

6. Crèches (when 30 or more women workers are employed in the factory), which should be sufficiently lighted and ventilated and maintained in a clean and sanitary condition under the charge of women, trained in child and infant care. Provision for a washroom and supply of milk and refreshment for children, facilities for feeding of children at necessary intervals by their mother has to be made as per the rules framed by the state government.

7. If in a factory ordinarily 500 or more workers are employed, the employer has to appoint Welfare Officers as may be prescribed. The state government may prescribe the duties, qualifications, etc., of the persons employed as Welfare Officers.

Display Notices, Maintain Registers and Submit Returns:

1. Notices: Besides the notices required to be displayed under any other provision, the occupier has to display a notice containing abstract of the provisions of the Act and the rules made thereunder, in the prescribed form, in English and in a language understood by the majority of the workers in the factory.

2. Registers: The occupier/manager should maintain such registers or records in such forms, as may be prescribed by the state government in the rules. The registers generally prescribed are:
   - Muster rolls (separate for adult workers and children)
   - Register of Accidents and Dangerous Occurrences
   - Inspection Book
   - Overtime muster roll
   - Salary register
   - Fine deduction register
   - Wage slips

3. Returns: The occupier/manager is generally required to furnish certain returns (as prescribed in the rules) such as “Annual Return,” “Half-yearly Returns,” which contain particulars relating to wages, leaves, holidays, etc. The half-yearly return is to be submitted in Form Number 35, by July 15 of the current year. The annual return is to be submitted in Form Number 34 by January 15 of the succeeding year.

The Employee’s State Insurance Act, 1948

- The employer is required to get the factory or establishment registered with the Employee State Insurance (ESI) Corporation within 15 days of the applicability of the ESI Act. The declaration of registration is to be filed on Form 01, along with a separate sheet containing the name and address of the establishment, number of employees, nature of duty and name, designation and address of the manager controlling the employees.
- “After having been satisfied about the application” the Regional Office will allot a code number to the employer that must be quoted on all documents and correspondence.
- The employer is also required to obtain a declaration from each of the employees covered under the scheme in Form 1 (which includes the Temporary Identification Certificate).
- The declaration form of female employees should be rubber stamped “FEMALE.”
- The employer should countersign all the declaration forms.
- The employer then has to send a return of declaration forms in Form 3, in duplicate, (prepared separately for male and female employees) within ten days from the date on which the declaration forms are submitted, along with the declaration form, to the Regional Office.

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7 Section 112.
8 Section 110.
• Each employee is allotted an Insurance Number. The Temporary Identification Certificate (TIC) with the insurance number is detached and returned to the employer with a copy of Form 3. The employer is required to deliver the TIC to the respective employee and enter the Insurance Number in the register of employees.

The attached forms will further illustrate the amount of paperwork involved in adhering to the provisions of the Employee’s State Insurance Act.

During working of an establishment
• The employer should furnish a Return of Contributions along with the challans of monthly payment, within 30 days of the end of each contribution period.
• He should also ensure that the prescribed records/registers viz., the register of employees\(^9\), the inspection book\(^10\) and the accident book\(^11\) are maintained.
• In case of an accident in the establishment, the employer should prepare an “Accident Report” in Form 16 (in triplicate) and submit to the local office and the Medical Officer. The third copy is the office copy. The reports are to be submitted within 48 hours in ordinary cases and immediately in death cases.\(^12\)
• The employer should furnish and verify the particulars in Form 28, in respect of the absence of an employee from work, for which sickness/maternity/temporary disablement benefit has been claimed.
• The employer must not put to work any sick employee unless he submits a certificate of fitness from the ESI dispensary or hospital in Form 8 or 9.

The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
• An employer of an establishment has to notify the Central Employment Exchange, of any vacancies in posts of scientific or technical nature carrying a basic pay of Rs 1,400 or more at least 60 days before the date of interview or test. Other vacancies are to be notified to the local Employment Exchange at least 15 days before the interview or test. The result of selection is to be furnished to the concerned Employment Exchange within 15 days from the date of selection.\(^13\)
• The employer also has to submit quarterly returns of vacancies in Form ER-1 and biennial returns of vacancies in Form ER-II, within 30 days from the end of each quarter/half year, to the local Employment Exchange.\(^14\)
• The officer-in-charge of the Directorate administering the Employment Exchanges, shall have access to any record or document covered by the Act and may enter at any reasonable time any premises where such records are kept.\(^15\)

The Equal Remuneration Act, 1976
According to this Act, inspectors appointed by the state or central government can come at any reasonable time to examine any register, muster roll or other documents relating to the employment of workers and make copies or take extracts from them.

The Minimum Wages Act, 1948
• The employer is bound to pay every employee engaged in a scheduled employment under him wages at a rate not less than the minimum rates of wages fixed for that class of employees in that

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\(^9\) Regulation 32, the Employee’s State Insurance Act, 1948.
\(^10\) Regulation 102-A.
\(^11\) Regulation 66.
\(^12\) Regulation 68.
\(^14\) Section 5 and Rule 6.
\(^15\) Section 6.
employment. Since the employee himself is usually willing to work at less than the minimum wage, he is paid less and the records suitably altered.

- If an employee works in excess of the normal working hours on any day, the employer has to pay him wages for the time worked in excess at the rate prescribed under this Act or under any other law, whichever is higher. As per the Factories Act, overtime wages are to be paid at twice the normal rate of wages.

Return, Registers and Records

- The employer is required to furnish an annual return in Form 3 by February 1 of the succeeding year.
- The employer should maintain prescribed registers and records giving particulars of employees employed by him, the work performed by them, the wages paid to them, the receipts given by them, etc.
- The employer should also issue wage-books or wage-slips to the employees, if required by the government.

The Industrial Disputes Act, 1947

This Act states the conditions for retrenchment of workers. This Act is considered antiquated by most garment exporters and it is widely felt that in order to gain a competitive advantage in the world market, it is necessary for factory owners to “hire and fire” so as to increase efficiency and productivity. Presently, a system of “last come, first go” exists where the employer is required to retrench the person last employed in any category unless he can prove that the employee retrenched is inefficient, unreliable or habitually irregular. Even then, no workman who has been in continuous service for at least one year can be retrenched until and unless the following conditions are met:

1. Notice/Notice Pay: The employer is required to serve three months’ notice of his intention to retrench the workman with reasons for the same, in the prescribed form, to every workman who is being retrenched.

2. Approval of the Government: The employer is required to obtain prior approval of the concerned governmental authority. Permission can be obtained by submitting an application in form within 60 days before the proposed retrenchment. The application should clearly state the reasons for the intended retrenchment. A copy of the application should be served simultaneously on the workman concerned.

3. Retrenchment Compensation: Where the approval of the government has been granted the workman being retrenched shall be entitled to receive retrenchment compensation.

Such a long and cumbersome procedure does not mean that no employees get fired. It only serves as yet another provision for the inspector or the trade union leader to collect bribes and needless to say, an utterly inefficient burden on the employer.

Like these, there are several other Acts such as Payment of Bonus Act 1965, Payment of Gratuity Act 1972, Payment of Wages Act 1936, Workmen’s Compensation Act 1923, Environmental Regulations, Income Tax Act, Corporate Tax Act, Excise Duty Act, Acts on Sales Tax, Quality Standards, Land Use Regulations, the Industries Development and Regulation (IDR) Act, 1951, the Industrial Establishment Acts, Employees Provident Fund Act, Employees Stock Option Act, the Shops and

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16 Section 12, the Minimum Wages Act, 1948.
17 Section 14.
18 Section 25G, the Industrial Disputes Act, 1947.
Establishments Act, the Trade Union Act, the Air and Water Pollution Act, Environmental Protection Act, Delayed Payment Act which are also applicable to factories.

Once a business or a factory is set up, there are numerous inspectors who visit supposedly to check if the exporter is complying with the rules and regulations. However, the laws are so antiquated that it is just not possible for any institution to function successfully within their gambit. So, the inspectors come, collect their bribes and leave. There are rarely any official penalties or challans for breaking any laws. There are fixed cuts which every officer gets and before being transferred he informs the incoming officer how much to take from where. As for the rules themselves, the exporters seemed to know very little about those. The inspectors do not want to inform the rule makers that the rules are bad and need to be changed as that would endanger their livelihood and the exporters are so used to paying the bribes that they consider it part of their cost calculation. An interesting example is the use of generators. The electricity provided by the government is erratic and to use generators the exporter needs permission from DVB, which is a long and painstaking process. For example, the Okhla Industrial Area does not get proper water or electricity supply and they are not allowed to use generators without permission from DVB. The particular exporter I visited had applied for permission more than a year ago and his file is still waiting to be seen at the DVB office. They are obviously running generators as no work can be done without them. This is not the situation in only one export house but a very large number of export houses all over Delhi.

There are a large number of inspectors that visit a factory for inspection. The following list is merely illustrative and not exhaustive as an inspector from any department of the central or state government is permitted to visit the factory at any reasonable time to inspect if all the rules and regulations are being complied with. Some of the inspectors are:

1. Chief Inspector of Factories
2. Labour Inspector
3. Bonus Inspector
4. Factory Inspector
5. Minimum Wage Inspector
6. Inspecting Officer (contract labour)
7. Vigilance Inspector
8. Enforcement Officer
9. Employee’s State Insurance Inspector
10. MCD Inspector
11. Health and Safety Inspector
12. DDA Inspector
13. General Inspector

Inspectors: Duties and Powers

Duties
- Enquiring into the correctness of any of the particulars stated in any return of contribution or register
- Ascertaining whether all of the provisions of the prevailing laws have been complied with
- Such other duties as may be authorised by the governing department or specified in the regulations.

Powers
- To require any employer or contractor to furnish to him necessary information
- To enter, at any reasonable time, any office, establishment, factory or other premises of the employer or contractor and require the person in charge to produce for examination accounts,
books and documents relating to the employment of persons and payment of wages or to furnish to him necessary information

- To examine the employer or contractor, his agent or servant or any person found in the factory, establishment, office or other premises or any employee
- To make copies of or take extracts from any register, account books or other documents maintained in such a factory, establishment, office etc.

For Exporting
In order to export, the manufacturer requires an Export/Import Code and membership of various export promotion councils such as:

- Apparel Export Promotion Council
- Silk Export Promotion Council
- Wool Export Promotion Council (WEPC) license
- Cotton Textiles Export Promotion Council (CTEPC) license

All these Councils come under the Ministry of Textiles of the Government of India. The basic objective of export promotion councils is to promote and develop the exports of the country. Each Council is responsible for the promotion of a particular group of products, projects and services.

In order to get the above licenses, the exporter requires an import/export code number and for that he requires RBI clearance. To get that, he needs a bank account with a reasonable credit limit. An undertaking that the factory will be located in an industrial area must also be given. Banks may offer a lower rate of interest to exporters but this is done only against some collateral accompanied by an obligation to export a certain amount in three to five years.

A Note on the Apex Body

The Apparel Export Promotion Council

Incorporated under Section 25 of the Companies Act, 1956 on February 22, 1978, Apparel Export Promotion Council promotes and regulates the growth of Readymade Garments in order to establish India as a reliable supplier of high quality readymade garments & services. The Government of India, Ministry of Textiles, sponsors the council. AEPC acts as a catalyst for the Indian Garment Exports, organises Buyer Seller Meets, sponsors Trade Delegations, organises garment shows, offers technical advice and market briefs etc. It does service to its more than 35,000 registered exporter members in a specialised manner through its committees and various sub-committees. Some of the notable Sub-Committees of AEPC’s Executive Committee are Quota Advisory Committee, Export Promotion Committee, Exhibition Advisory Committee, and, Finance and Budget Sub-Committee. The Council administers the Export Entitlement Policy of the Government of India. It has also been authorised to allot Quotas to exporters and issue Certificate of Origin and Export Certificate/ Visa.

How Does the Export Procedure Begin?

The exporter hires a designer who designs the garment and then a sample is produced. The next step is to contact retailers or buyers in the country that the exporter is interested in exporting to. He makes a presentation to them, shows them his samples and if they like them, they give him a contract. They have their own designers who then work in collaboration with the exporter’s designer to finalise the exact garment including the fabric, style, size, etc. These are actually tried on by models and a final decision made on how many of what size are to be ordered. The importer also has a team for quality control that ensures that the specifications laid down by them are met with satisfactorily. A very important aspect of exporting to the developed countries, particularly Europe, is the strict code of conduct that is mandatory. This refers to the regulations regarding child labour, minimum wages, work environment, fire safety, first aid and adequate sanitation in the factories among others.
export unit must comply with all the regulations to qualify as a supplier. Hence, it is in the exporter's own interest to maintain proper standards in the workplace.

Quotas
Another important aspect is that of Quotas. Quotas are the price the importing countries impose on the suppliers to permit them to export. These are imposed to control the volume of exports and to protect the importing country's domestic economy. There are various categories of quotas, and they vary in price. In India, the government offers the quotas in the open market quarterly and the exporters can buy them after assessing their current or projected orders. Quotas are available on four bases:

First Come First Serve basis (FCFS): this is something like an auction. The AEPC grants the quota to the exporter who bids for it first. This is especially useful for new exporters.
Past Performance Entitlement (PPE): this refers to the quota allotted on the basis of the past performance of an export house i.e., the volume exported in the past and the goodwill built up by it.
New Investment Entitlement (NIE): this is the quota that is allotted on the basis of the new investment that is made in an enterprise.
Non-Quota Entitlement (NQE): there is a certain amount of quota that is reserved for export houses that export to non-quota countries. This is called the non-quota entitlement.

The quotas for dresses are the most expensive, followed by skirts and blouses. Quotas are a very important part of the cost of the garment and must be taken into account while pricing. Sometimes buyers are willing to share the burden of the cost with the suppliers. It is expected that quotas will be abolished by 2005. However, countries may still resort to non-tariff barriers.

Small-Scale Industry and its Relevance in the Context of Garment Exporting
Till the year 2001, the ready-made garment industry in India was reserved for small-scale sector and hence, normally ready-made garment unit could only be set up within an investment limit of Rs 60 lacs in plant and machinery. However, with 20% export obligation the investment could go upto Rs 75 lac. With 50% export obligation the investment was allowed provided an industrial license is taken with 75% of export obligation.

What is a Small-Scale Industry?
An industrial unit in which the investment in fixed assets in plant and machinery does not exceed Rs one crore is said to be small-scale industry. Such plant and machinery may be owned or obtained on lease. While calculating the investment in plant and machinery items like land, building and some equipment required for quality control, pollution control etc., are excluded.

Registration
Registration of SSI means that you register your proposed/existing enterprise with the State Directorate or Commissioner of Industries. This will make you eligible for availing of government assistance. A unit is normally registered provisionally first and accorded permanent registration later. Registration is not compulsory.

SSI registration gives recognition to industrial units and helps in maintaining database for policy planning and other purposes. Though it is not compulsory to register one's enterprise, it is an essential requirement for getting benefits of special schemes for promotion of SSI viz. Credit guarantee Scheme, Capital subsidy, reduced custom duty on selected items, ISO-9000 Certification reimbursement and several other benefits provided by the state government.
Application in a prescribed application form is available with State Directorate/Commissioner of Industries/DIC, is submitted to the concerned authority along with a set of documents specified separately for provisional and permanent registration.

### Procedure for Registration
For provisional registration, only a project proposal is required since it is expression of intent to set up an enterprise. For permanent registration, NOC from Municipal Corporation, Pollution Control Board and Electricity Board, Proof of rent/Ownership of workplace etc. are needed.

The following formalities are required to be completed for seeking permanent registration:
- Ownership/tenancy rights of the premises where unit is located
- Municipal Corporation clearance
- State Pollution Control Board/Committee clearance
- Electricity Board sanction
- Copy of partnership deed/Memorandum of articles of association in case of private limited company
- Sale bill of product manufactured
- Sale bill of each end product
- Purchase bill of each raw material
- Purchase bill of machinery installed
- An affidavit giving status of the unit, machinery installed, power requirement etc.

Comprehensive laws govern the Labour Policies for Small Scale Industries. The following laws and policies are applicable for Small Scale Industries in India:
- Apprentices Act, 1961
- The Bidi and Cigar Workers (Conditions of Employment) Act, 1966
- Bonded Labour System (Abolition) Act, 1976
- Child Labour (Prohibition & Regulation) Act, 1986
- The Children (Pledging of Labour) Act, 1933
- The Contract Labour (Regulation & Abolition) Act, 1970
- The Employees Provident Funds and Misc. Provisions Act, 1952
- Employees State Insurance Act, 1948
- Employers Liability Act, 1938
- Employment Exchange (Compulsory Notification of Vacancies) Act, 1959
- Equal Remuneration Act, 1976
- The Factories Act, 1948
- The Industrial Disputes Act
- The Industrial Employment (Standing Orders) Act, 1946
- The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
- Labour Laws (Exemption from Furnishing Returns & Maintaining Registers by Certain Establishments) Act, 1988
- Maternity Benefit Act, 1961
- The Minimum Wages Act, 1948
- The Payment of Bonus Act, 1965
- The Payment of Gratuity Act, 1972
- The Payment of Wages Act, 1936
- The Sales Promotion Employees (Conditions of Service) Act, 1976
- The Shops and Establishments Act, 1953
- The Trade Union Act, 1926
- Workmen’s Compensation Act, 1923
Benefits for exports
SSI units get special benefits such as duty drawback, advance licensing for import of capital goods and raw materials, pre-shipment and post shipment credit against firm export orders and marketing development assistance. Income tax benefit is available on exports earning. Since garment exporting has been dereferred, the tax exemption has been reduced to 60% of income, which is to be phased out over the next five years.

Conclusion
The first thing that comes to the forefront is that there is no need for such extensive laws that lay down such stringent rules and regulations that can not even be followed. The large amount of paperwork is simply a waste of time, energy and scarce resources. The present policy of “last come, first go” promotes inefficiency and allows labour to take it easy after having worked for a while. In China and Turkey, about 20 shirts are stitched on one machine in eight hours compared with eight in India. To be able to compete with those standards, the archaic labour laws need to be removed. According to Sakthivel, former chairman of the AEPC, labour laws in India are deterring fresh investments by entrepreneurs who are required to achieve economies of scale and operate in very competitive global markets.

Moreover, there are no criteria for election of a union leader. Anyone with a bit of muscle power can become the leader and he too works towards taking his cut instead of working for the betterment of the workers.

There are unnecessary complications in the customs policy which inspectors themselves do not understand. For example, the duty drawback policy lays down a different drawback for blouses, dresses, pants etc., and also specifies how to distinguish one from the other in a long and complicated way. To cite an example, a salwar is described as “loose fitting trousers, legs either straight or baggy with extra fullness at thighs” while a tamba is described as “loose fitting trousers with typical Indian ornamentation.” This gives the customs officer a lot of scope to harass the exporter while trying to decide how much drawback is to be given on what garment. The exporters need the drawback in order to compete in the world market with countries like China who have hire and fire policies and where exporting is highly subsidised.

Instead of having absurd laws that are not possible to follow and that are not even followed in practice, it would be better to let market forces function on their own. For example, instead of the rule on having ambulance rooms for every 500 employees, it would be much better for a number of factories in an area to form some sort of an association and have a well equipped ambulance room for the entire group, no matter how many workers are working in each factory. This would turn out to be more economical and easy to arrange. A similar solution can be found as an alternative for some of the other ridiculous rules that are just the government’s way of interfering in the working of any industry or business.