

LABOUR MARKET INSTITUTIONS
IN INDIAN INDUSTRY: A
COMPARISON OF MUMBAI AND
KOLKATA

by

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ABSTRACT

LABOUR MARKET INSTITUTIONS IN INDIAN INDUSTRY: A COMPARISON OF MUMBAI AND KOLKATA

by Satoshi Miyamura

The thesis examines labour-management relations in Indian industries to provide an alternative analysis of labour market reform priorities. It argues that labour market institutions (LMIs) reflect the balance of power at the macro level, and in turn affect the historically specific ways in which industrial development proceeded in India.

Using a combination of micro level data collected from field research in Mumbai (Bombay) and Kolkata (Calcutta), complemented by secondary evidence on the wider social and historical context, the reproduction and transformation of different types of LMIs are explained in terms of their location within changing patron-client politics. The thesis challenges the common argument that industrial performance in Mumbai was better because it enjoyed professional company-based unions compared to unions organised at industry level and affiliated to political parties in Kolkata. Our interpretation is that the causality is at least partially in the opposite direction, with dynamic regions providing strong incentives for unions to organise to seek company based 'rents' rather than political rents that are more attractive in less industrially dynamic regions.

This approach contrasts with some mainstream theories that focus on informational and transaction costs and policy failures as the main determinants

of LMIs. We also examine how the labour process is managed under different types of LMIs. We establish the importance of different types of macro political conflicts in shaping the opportunities, incentives and constraints of micro bargaining agents. The mode of bargaining in the LMIs is also shown to be affected by the bargaining powers of other actors in the wider social context in which labour-management bargaining takes place.

Many mainstream models that inform policy assume that LMIs precede growth and misleadingly treat them as 'exogenous' variables. An important implication of the thesis is that LMIs are 'endogenous' variables and therefore a broader set of reforms are required for sustaining economic growth.

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INTRODUCTION

Labour market institutions – culture vs. social relations

Between late 1997 and early 1998, I was working as an assistant in a field research project visiting Indo-Japanese joint venture companies in Delhi and its neighbouring States. In interviews with Japanese company executives, many of whom were experienced in managing companies in other parts of Asia and Europe, I often came across comments that labour management in India was very 'different' from that in other countries. They talked about the 'culture' and 'societal problems' unique to India, and complained about how management in India had to deal with trade unions, political and social actors, government officials and even mafias on a day-to-day basis in a distinctive way. This experience motivated me to study labour-management relationship in Indian industry in an attempt to provide a material explanation for them that goes beyond such cultural categorisation.

In recent decades, the field of labour economics has seen a general decline of interest in studies on trade unions and collective bargaining in favour of a more ambiguous notion of human resource management, partially reflecting the apparent decline in the influence of trade unionism in many parts of the global economy, especially in advanced capitalist countries. It has also seen an increase in the influence of new institutional economics (NIE), which has generally dominated the discipline of economics, resulting in trade unions and other collective bargaining institutions to be analysed as part of the wider labour market institutions (LMIs), a concept that contrasts to the labour market. As we discuss in Chapters 1 and 2, this has led to an emerging consensus amongst mainstream economists to consider inefficient or unproductive LMIs itself as the sources of

economic problems, and thereby treating LMIs as ‘exogenous’ variables. The policy recommendations that are informed by such models focus on policy instruments that lower transaction costs and reduce rent-seeking by bargaining agents. We also point out that where inefficient or unproductive LMIs persist, as is often perceived to be the case in India, these are explained either in terms of policy failure that can be attributed to ideology of key actors or with reference to patron-client relations between political ‘elites’, industrial capital and organised labour, which once again tend to appeal to cultural explanation of different social formations.

This thesis makes interventions both in theoretical and policy debates on unionism and labour-management relations by proposing that LMIs should be seen as *forms* of capitalist social relations and manifestations of the balance of power at the level of macro political economy, which in turn reflects the particular processes and patterns of accumulation. We argue that patron-client relations that dominate distributional conflicts in developing countries such as India can be problematised and explained by specifying historical and material conditions, rather than to reduce them to cultural factors and policy failures. In terms of our theoretical framework, this alternative approach makes an important contribution to the growing field of political economic analysis of institutions and governance, such as Khan (1996; 1998; 2000; 2005b) amongst others, by arguing that LMIs should be treated as ‘endogenous’ variables. The policy implication of this thesis is that labour law amendments and micro-level governance reforms with regards to unions and collective bargaining institutions that do not address structural problems are insufficient as effective policy instruments to sustain economic growth.

Plan of the thesis

The thesis is broadly split into two parts. The first part from Chapters 1 through 3 develops our analytical framework for a political economic analysis of LMIs in Indian industry. Chapter 1 further elaborates on the motivation of this thesis as discussed in this introduction, by critically reviewing the on-going debates on labour market reforms in India, and proposing an alternative perspective on the existing types of LMIs in Indian industry that focuses on the historical and social contexts in which labour-management relations have taken place. In Chapter 2, we critically reassess the existing economic models of LMIs and collective bargaining and outline the analytical framework of our alternative political economic approach to the LMIs in India. Chapter 3 outlines some methodological challenges and dilemmas related to a research on labour-management relations.

The second part of the thesis, from Chapters 4 to 6, examines competing hypotheses on LMIs using data collected from the author's field research in Kolkata (Calcutta) of West Bengal and Mumbai (Bombay) of Maharashtra. In Chapter 4, we identify types of LMIs in our surveyed units, which are then explained by focusing on a combination of technological and production organisational factors on one hand, and macro-level structural conditions on the other, as outlined in Chapter 5. Chapter 6 examines the micro-level responses and implications of different types of LMIs. The concluding chapter outlines the theoretical hypotheses and findings of the empirical analysis, and discuss further theoretical insights.

Chapter 1

RETHINKING LABOUR MARKET INSTITUTIONS IN INDIAN
INDUSTRY

1.1 Political economy of labour market institutions (LMIs)

This thesis aims to develop a political economic analysis of labour market institutions (LMIs) in Indian industries. We define political economic analysis as an analytical approach and methodology whereby the emphasis is placed on the structural totality by which the opportunity, incentives, constraints and capacity of micro-level agencies are significantly influenced. The overall aim of this thesis is to analyse the existing forms or types of LMIs in Indian industries as determined by economic, social, and political conditions, and to examine their implications for the way in which the labour process¹ is managed, as opposed to treating the different types of LMIs as being ‘chosen’ by micro-level bargaining agents as typically assumed under the framework of new institutional economics (NIE).

In India, there is a well established body of literature that has examined industrial labour in India from structural and historical perspectives, such as Sen (1997), Bagchi (2002) and Das Gupta (1979; 1981), amongst others. However the recent policy agenda on labour law reform and LMIs has generally been debated between the so-called ‘distortionists’ who highlight the extent and scale of the labour market distortion due to LMIs and the ‘institutionalists’ who focuses on the type of LMIs and its potential differential effect on efficiency and growth, as

¹ Labour process can be defined as the process whereby objects and instruments of work are transformed into exchangeable products by a purposeful and productive activity. In other words, the labour process is about how labour power is put together in the sphere of production, which gives rise to the antagonistic relationship of exploitation, and which extends to social patterns of this relationship (Bensaïd 2002). We shall further elaborate on the concept of labour process in Chapter 6.

well as the more recently emerging consensus on LMIs based on the NIE framework (for example see surveys by Bhattacharjee 1999; Shyam Sundar 2005; Sharma 2006). As we shall discuss in Chapter 2, the analytical approach that dominates this debate treats LMIs as operational variables that can be chosen by micro-level agents. We will also discuss the implications of this mainstream perspective, which is consistent with the so-called 'Post-Washington' consensus or the 'good governance' agenda in the mainstream development economics literature (Fine 2001; Khan 2005), whereby failed institutions are ultimately explained in terms of information asymmetry and preferences of micro-level agents. However, these models and theories that inform the on-going policy debates are scholarly attempts to analyse the labour-management relations in India, and cannot be reduced simply to ideology of promoting or justifying neo-liberal labour market reforms. Therefore there is a need to seriously engage with the existing literature in order for us to develop an alternative analysis of labour market reform priorities.

Nevertheless, these conventional approaches based on the NIE framework are in contrast to our political economic analysis in which the types of LMIs and bargaining relations are seen as packages or constellations of variables that are interdependent to each other, rather than being explainable in terms of 'choices' by micro-level agents. In our view, differences in LMIs are reflections of different social and political structures within which bargaining agents operate, not a result of different extents of information or transition costs, as often postulated in mainstream models (Pencavel 1995; Banerji, Campos, and Sabot 1995; Aidt and Tzannatos 2002).

While there are some commentaries on the policy issues from the Marxian perspective, such as Chakrabarti and Dasgupta (2007), the political economic alternative has been generally underrepresented in recent debates. Therefore our

objective in this chapter is to critically review the debates on Indian LMIs as a starting point in developing our political economic alternative, which will be followed by chapter 2 in which we provide a critical reassessment of the existing theoretical approaches to the analysis of LMIs and further expand on our analytical framework to provide political models on the relationships between different types of macro political economic conflict and the type of micro-level strategies by bargaining agents in the LMIs.

It is worth noting at this early stage that our discussion of LMIs primarily focuses on its effect on productivity growth. This is of course not to suggest that other effects of LMIs on class formation, distribution and workers' rights are not important, and these themes will frequently appear in our discussion. However the main focus of recent debates has been on their impact on growth and efficiency, by often reproducing a stylised image of LMIs in Indian industries, as we discuss in this chapter. The aim of this thesis is to challenge this conventional wisdom by offering an alternative analytical framework of the differential effects of LMIs on productivity growth.

Political economic or dialectical analysis focusing on social and political contexts is important in developing countries such as India, where income and income streams of bargaining agents in LMIs are significantly influenced by many other actors who compete over public resources. Sociologists use the term political entrepreneur to describe such rent-seeking actors, including local councillors and state bureaucrats (Veron, Williams, Corbridge and Srivastava 2006), rich farmers and rural elites (Jeffrey and Lerche 2000; 2001), and intermediate classes (Harriss-White 2003). Because by definition markets and property rights are not well-established in developing countries, transfer of rights and resources are often determined by distributional conflicts between these political entrepreneurs who organise factions and coalitions of various interests (Khan 1996; 1998). LMIs and

bargaining relations are also formed within this context of distributional conflicts in the macro political economy, and therefore the types of LMIs and their differential effects are better understood by focusing on the social and political structural factors.

1.2 Defining labour market institutions (LMIs)

Labour market institutions (LMIs) can be defined as a set of rules, formal or informal, that governs labour markets². Organisations involved in wage setting and negotiating terms of employment, such as trade unions, employer associations and tri-partite bodies are commonly cited examples of LMIs. Laws and regulations, such as employment protection legislation, minimum wage legislation, and unemployment benefit systems, also constitute LMIs by influencing labour market outcomes, such as labour costs and wage structure. Certain forms of state intervention in industries such as the provision of subsidies and taxation may also be interpreted as LMIs when they are used to shape the opportunities, incentives and constraints of bargaining agents in labour markets.

A political economy analysis requires understanding of the existing type of LMIs within the context of how society organises the process of development and accumulation, and as a result how it manages the labour processes. This is particularly important in developing countries where the capitalist property relations are not dominant, the transfer of rights and rents relies on extra-market processes (Khan 2000), industrial capital is always in need of intervention and support by extra-economic powers (Wood 2002), not only in general but also in detail, including organising industrial production and maintaining industrial labour and labour-management relations, even to the extent of managing the hiring and firing of labour, and imposing labour discipline (Morris 1955).

² For example, Nunziata (2003) and Baker, Glyn and Howell (2004).

Therefore the type of LMIs is closely associated with the mode of managing labour processes. In this Chapter, we shall discuss how existing LMIs were established and maintained in a historical context, and also the relationship between the types of LMIs and the mode of managing labour processes will be examined using data collected from our field research in Chapter 4.

In developing countries, LMIs as defined above are thought to differentiate between the so-called 'unorganised sector' and the 'organised,' 'formal' or 'registered' economy, whose workers are organised by registered trade unions and whose activity is directly regulated by the state. In 1999-2000 India had a workforce of around 393 million in a population just below 1 billion (Sundaram 2001: 932). It is estimated that less than 10 per cent of this total workforce was in the organised sector (Bhowmik 1998; Dev 2000: 48), which largely consists of the public sector, registered manufacturing, and the private corporate sector³. The organised manufacturing sector refers to factories under sections 2m(i) and 2m(ii) of the Factories Act 1948, i.e. employing 10 or more workers and using power and those employing 20 or more workers if not using power on any day of the preceding 12 months. It is this small segment of the population that receives

³ The Central Statistical Organisation (CSO) defines the organised sector as consisting of 1) Agriculture: government irrigation system, non-departmental enterprises and crop production in plantation crops of tea, coffee and rubber covered in private corporate sector; 2) Forestry: recorded production of industrial and fuelwood, as reported by the State Forest Departments; 3) Fishing: non departmental enterprises (public undertakings); 4) Mining & quarrying: major minerals, as reported by the Indian Bureau of Mines; 5) Manufacturing: registered factories covered under Factory Act; 6) Electricity, gas and water supply: total activity of electricity, public sector part of gas and water supply; 7) Construction: construction works in the public sector and private corporate sector (Joint Stock Companies); 8) Trade, hotels & restaurants: public and private corporate sector and cooperatives; 9) Railways: entire sector; 10) Transport by other means: public sector, private shipping companies and road transport under the private corporate sector; 11) Storage: warehousing corporation in public sector, cold storage covered under Factory Act 1948; 12) Communication: public sector and companies covered under the private corporate sector; 13) Banking and insurance: total activity except the commission agents attached to life Insurance Corporation of India and unorganised non banking financial undertakings including professional moneylenders and pawn brokers; 14) Real estate, ownership of dwellings and business services real estate companies in the private corporate sector and public sector; 15) Public administration and defence: entire sector; 16) Other services: public sector medical, education and sanitary services, TV and radio broadcasting and recognised educational institutions in the private sector.

protection from most labour laws and legislation, such as the Trade Union Act of 1926 and the Industrial Disputes Act of 1947. Workers who are members of trade unions are even fewer, estimated to be about 2 to 5 per cent of the total work force⁴.

It is generally accepted that organised workers enjoy relatively secure employment and higher wages than their unorganised counterparts. By definition, data on the unorganised sector are difficult to obtain, but the sample survey carried out by the National Sample Survey Organisation (NSSO) in 1999-2000 reports that the average money wage of urban males who were in regular employment was 169.5 rupees per day compared to 63.3 rupees for casual labourers, implying that urban male workers in regular employment earned more than 2.5 times of those in casual employment (Ghose 2004: 5110). Also the lowest money wage of urban male regular employees was 60.2 rupees per day whereas the lowest wage for the casual labourers in the same category was 49.7 rupee per day⁵. Of course, since the data do not allow us to control for the types of occupations and jobs, these are not rigorous estimates of the wage differentials between different segments of the labour markets in India, but it at least allows us to infer that organised workers are highly unlikely to be amongst the poorest in the world of Indian labour.

⁴ Bhowmik (1998) estimates that about half of the workers in the organised sector is unionised, and accordingly 5 per cent is obtained. 2 per cent is obtained by dividing the number of unionised workers (6.1 million) according to the Labour Bureau by the total workforce (306.8 million, which is 37.68 per cent of the total population) according to the population census in 1991. Following the similar method, the unionised workers is 22.8 per cent of the organised labour. As we will point out below, statistics regarding unionisation is unreliable and therefore these figures should be seen as a rough indication rather than precise estimate. While this figure of union density may appear to be low compared to many of European countries, in relation to other developing countries in Asia it is one of the highest together with Japan (24 per cent of wage and salary earners), Pakistan (29 per cent of formal sector wage earners) and the Philippines (38.2 per cent of wage and salary earners) (all data for 1995; according to the ILO statistics).

⁵ Mohammad and Whalley (1984: 409) assume a differential of the region of 50 percent, which involves an estimated 30 billion rupees of rent-seeking costs in labour markets of India in 1979/80.

While the perception of the organised sector as a privileged and protected enclave of 'labour aristocracy' (Holmström 1976) which enjoys secure employment, higher wages and better skills and working conditions, may still be dominant amongst some economists and is reproduced in policy debates, as we shall discuss in this chapter, sociological and anthropological studies in recent years have found that in reality the distinction between the organised and unorganised may be difficult to make⁶, as expressed in Holmström's (1984: 319) revised view that "[t]he organized/unorganized boundary is not a wall but a steep slope." For example, the perception that there are no regulations or organisation of labour in the informal economy underestimates the division of labour and the disciplining mechanisms in the informal sector which involves contracting and subcontracting by middlemen (Breman 1999b; Harriss-White 2003). Also the laws and policies that divide the two sectors constantly change and may differ between sectors and regions, and more importantly the extent of its implementation and enforcement varies. Even within the 'organised' and 'registered' firms and factories, typically in the public and corporate sector, there are various activities organised informally by sub-contractors that escape state regulation and formal institutions (Breman op cit.: 413).

These observations should not mean that concepts such as organised/formal labour or sector are redundant. Rather they offer several important implications to our analysis of LMIs in Indian industries. First, the observations show that there is "enormous diversity, not only between formal and informal sectors but also within them, that should above all be stressed" (Breman op cit.: 418). Workers employed by 'organised' and 'registered' firms and factories range from

⁶ The view that organised/unorganised or formal/informal are clear-cut dual segments of the labour market is attractive for neo-liberal proponents such as Soto (1989; 2000) in which development through 'self-help' and entrepreneurship, rather than through "supranational or intra-national redistribution of the sources of wealth and prosperity" (Breman 2003, p.205) is promoted.

educated skilled workers in a multinational company to temporary and casually employed, some of whom are hired by subcontractors and ‘jobbers’ under informal, typically verbal, arrangements. This means that workers in the organised sector are diverse in terms of income, social background, caste composition, education, and life style, as is the case amongst workers in the so-called unorganised sector. Analysis and policy debates on Indian labour based on a simplistic categorisation of organised vs. unorganised, and on stylised images of organised workers, is therefore hardly helpful.

Second, the observations advise us that the existence and continued reproduction of organised and unorganised sectors must be understood within the wider process of industrial development and capital accumulation (Fine 1998). We argue that the existing labour market structure is a reflection of how society organises the process of development and accumulation, and how labour processes are managed and controlled. For example, the politicised trade unionism, which has been the focus of much of the recent policy debates in India, is at least partially explained by the way in which unions are organised in response to opportunities, incentives, and constraints shaped by the organisation of political power and the specific *form* of capitalist social relations in India. The mode and extent to which trade unions and the state act as mediators of controlling or managing the labour process again reflects the specific patterns of accumulation under India’s historical and social conditions⁷. Similarly, specific labour laws and legislation are understood as particular legal *form* of capitalist social relations. Therefore the existence of the dual sector cannot be explained merely in terms of state intervention or the interests of ‘insiders’ in the organised sector who ‘exploit’ the subordinated unorganised workers. Differential types of LMIs, including the types of labour organisations, bargaining agencies, and

⁷ Morris (1955: 304) inferred that “the ways in which the state uses the union as a disciplinary agent vary considerably” between countries and societies with different historical conditions.

contractual arrangements, are diverse because of specific needs to manage labour processes in different sectors at a particular point in time. Further, we must focus on the historical context in which segmentation of labour was encouraged in order to detach “the industrial elite from its links with the far greater mass of workers” (Breman 1999: 31) by excluding the majority of labour from formal industrial relations. An analysis of the types of LMIs must therefore pay considerable attention to the social and political structure in which both “beneficiaries of the segmentation of the labour markets” and the workers are embedded, and also which determines their opportunity, incentives and constraint (Breman 2003: 198). Thus by focusing on the LMIs in Indian industries, the purpose of our analysis is not to specifically focus on the organised sector at the cost of neglecting the unorganised sector, but is rather aimed at examining factors that influence the choices of bargaining agents, particularly under differential social and political conditions.

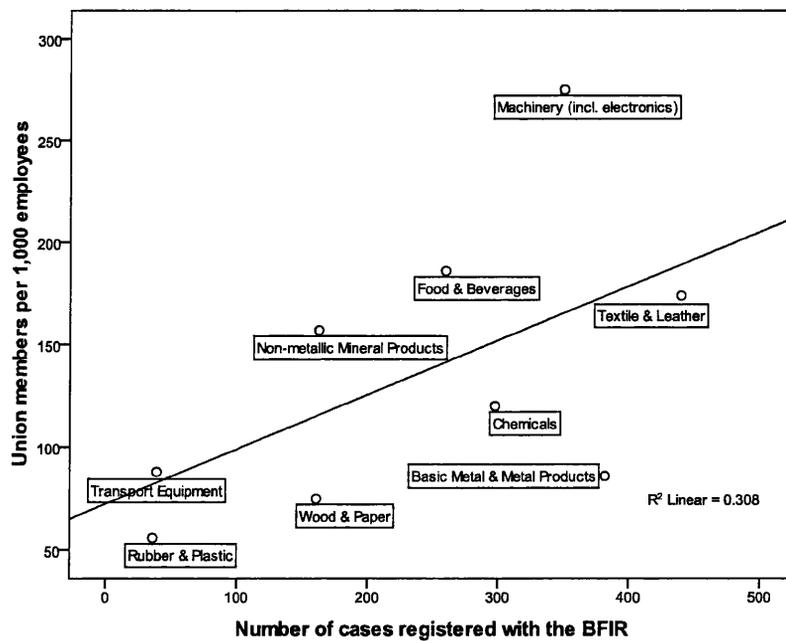
1.3 The stylised image of LMIs in Indian industry

The predominant image that emerges from the literature and debates on industrial relations in India is that of rigid, confrontational, and interest-driven LMIs. For example, in a World Bank industrial survey, labour regulation was identified as the second highest obstacle to the operation of business and growth, only after inflation and ahead of corruption, which is seen to have resulted in employment protection and relatively high wages amongst the few employed in the formal sector (World Bank 2000: 84). The labour legislation is also seen to be responsible for creating “a very wide scope for initiating industrial disputes (which can be initiated on the basis of ‘interests’ rather than ‘rights’)⁸, long procedures for settlement of industrial disputes, inflexible provisions relating to change in conditions of service (instead of being part of the collective bargaining

⁸ Note the preference of liberal legal ‘rights’ over class ‘interests’, which again reflects the particular ‘legal form’ of capitalist social relations.

process), and provisions enabling government interventions in areas such as lay off[s], retrenchment and closures.” In addition, Indian trade unions are perceived to be undemocratic and unaccountable due to the peculiar laws that govern them (Debroy 2000). And these trade union militancy and job security laws are seen to “impede efficient resource allocation and thus constrain the capacity of economies [in South Asia] to grow faster” (Hossain, Islam and Kibria 1999: 67). Unionisation as the source of high wages and constraints on employment flexibility is often cited as one of the causes of ‘industrial sickness’ (Anant 2005). A casual correlation, such as that produced in figure 1-1, shows a positive (but statistically weak) association between the extent of unionisation and the number of industrial units recognised by the statutory Board for Financial and Industrial Reconstruction (BFIR) as ‘sick’.

FIGURE 1-1 SCATTER PLOT OF UNIONISATION AGAINST INDUSTRIAL SICKNESS



Note: Pearson’s correlation coefficient is + 0.56 and significant only at the 12% level
 Source: Falk (2005: 136).

The image of rigid and over-politicised LMIs preventing smooth ‘adjustment’ and productivity growth is attractive both theoretically and politically. The observation of wage increases in the formal sector combined with limited growth of organised employment appears to confirm the perception that labour markets can be described in terms of conflict between the insiders, or the incumbent employment in the organised sector, and the outsiders, whereby insiders are only interested in their own jobs and are indifferent to the fate of outsiders (Lindbeck and Snower 1988). In the context of Indian labour, some go further to suggest that workers in the organised sector tend to ‘selfishly’ align their interests with the middle class or even identify with their employers. The idea of a ‘labour aristocracy’ is a popularly held image of organised workers in Indian industries, and reemphasised in some studies such as Holmström (1976), which is seen to give justification to labour market reforms from the ‘economic’ interest of removing the ‘distortion’ and releasing the allocative efficient ‘markets’ (Harriss 1990) and/or from the political interest of transforming relations and forces of production (Ghose 1994).

Note the contrasting analytical frameworks of conventional models of LMIs and its political economic alternatives. Many mainstream models that inform the policy debates in India assume that LMIs precede efficiency or productivity growth, as we shall discuss in Chapter 2, and misleadingly treat them as ‘exogenous’ variables. Thus correlation is confused with causality in the interpretation of empirical observations such as Figure 1-1. In contrast, political economic analysis treats LMIs as ‘endogenous’ variables reflect the balance of power at the macro level, which in turn both reflect and affect the historically specific ways in which industrial development proceeded in India.

In the following sections, we shall critically assess the highly problematic evidence that apparently supports the above stylised image of LMIs. Reviewing this evidence on the types of labour legislation, unionisation, wages and employment is important for the purposes of the present thesis, not only to respond to the current debates on labour market reforms, but also because from our political economic perspective, social and political structures are experienced as these judicial-socio-economic processes, as we shall examine in Chapters 5-6.

1.3.1 'Rigid' labour legislation as the apparent source of 'jobless growth'

Various attempts have been made by mainstream economists to measure the extent of 'distortions' to the labour market. For example, by comparing the number of ILO conventions ratified by the government, whereby India's 36 ratified conventions is compared to, say, four in South Korea, advocates of labour market reforms argue that the legal framework in South Asia allows for more institutional intervention than in East and South East Asian economies (Hossain, Islam and Kibria 1999: 73; also see table A1-1 in the appendix of this chapter).

Another well cited example is Agarwala's (1983) index, which aims to measure the degree of distortion in factor markets, foreign exchange markets and product markets. As can be seen from table 1-1, his distortion index implies that South Asian countries have "high" to "medium" level of distortion whereas East Asia has "low" to "medium" distortion. The contrast is particularly stark when comparing Agarwala's index for wage distortion, which is measured by "whether real wages in manufacturing rose significantly faster than per capita real income" and qualitative evidence of intervention in labour markets by government and/or trade unions (pp.26-7). From table 1-1, we see that all South Asian countries are classified as 3 which indicates high wage distortion in contrast to the East Asian economies with the index of 1 implying low distortion. He then tries to relate this

to growth performance and argues that East Asia with relatively low distortion tended to perform better than other developing countries with higher factor price distortion.

TABLE 1-1. AGARWALA'S (1983) DISTORTION INDEX

	Index of wage distortion	Overall distortion index
Bangladesh	3	2.57
India	2	1.86
Pakistan	3	2.29
Sri Lanka	3	1.86
Indonesia	1	1.86
Korea	1	1.57
Malaysia	1	1.57
Thailand	1	1.43

Source: Agarwala (1983)

Labour legislation is thought to signal 'rigidity' in labour markets for several reasons. Advocates of labour market reforms, such as the World Bank (2000) and Debroy (2004; 2005), highlight the so-called 'Inspector Raj' syndrome⁹ and argue that existing labour laws and legislation increase transaction costs for business as well as for society in general. In addition, in the so-called 'exit policy' debate¹⁰ (Singh 1995), job security regulations such as the 1976 amendment of the Industrial Dispute Act (IDA) of 1947, in which Chapter VB was added to stipulate that firms employing more than 300 workers have to obtain permission from the government in order to layoff or retrench workers or close down

⁹ Labour legislation come under the concurrent list (list III) under the Indian constitution, which means both the central and the state governments can enact labour laws. In all there are 47 central labour laws and over 200 state labour laws (Datta and Sil 2007). Each labour law has separate inspector whose inspection are not synchronised, and each demand maintaining and filling appropriate returns, which are not standardised. Definitions of concepts such as wages vary between legislation and case law also differs. It is argued that such arbitrariness in the legal framework as well as the inspection process opens scope for corruption, and hence further transaction costs. Advocates of labour market reforms such as Debroy (2004) have argued for the need to harmonise the legislation to reduce transaction costs.

¹⁰ Advocates of 'exit policy' argue that if economic liberalisation enables capital, including foreign investment, to enter and operate freely, the reverse movement of exiting and closing down must also be eased.

establishments¹¹, have come under scrutiny, on the grounds that they only serve to protect a small minority of the total work force at the cost of economic development and employment growth by constraining flexibility, which leads to both static and dynamic inefficiency, and ultimately to reduction of welfare for society as a whole. For example, as possible consequences of constraints on 'exit', Fallon and Lucas (1991, pp.401-2) highlight that job security provision might lead to (1) the speed in employment adjustment to be severely retarded; (2) employment of permanent workers to be reduced in favour of temporary contracts, which may have implications for productivity, and further declines in employment demand; (3) bargaining power of unions and 'insiders' in general to increase which may lead to increases in wages, although workers with wages higher than the minimum wage may agree to lower the wages in return for further employment security; (4) increase in longer hours per employee leading to diminishing productivity. The empirical evidence for Fallon and Lucas's argument is based on the estimation of a labour demand equation, whereby the logarithm of the number of employees is regressed on the lagged dependent variable as well as the current and lagged labour-demand-related variables, and a job security dummy variable that takes the value zero up to 1975-76 and one thereafter. On the basis of the coefficient on the job security dummy variable, Fallon and Lucas estimate a long-run reduction in employment that averages 17.5 per cent across industries in India. More recently Besley and Burgess (2004) have focused on the amendment to the IDA at the state level and suggested that not only has pro-worker labour legislation lowered investment, employment, productivity and output in registered manufacturing sector, but that it has also contributed to increases in urban poverty. Although these empirical studies are not without controversy, as we shall see below, they are nonetheless influential and

¹¹ The 1982 amendment has further extended the application of this provision to firms employing more than 100 workers.

frequently-cited in policy debates to apparently give credibility to the advocates of labour market reforms.

Despite both the Congress government and the National Democratic Alliance (NDA) coalition, led by the Bharatiya Janata Party (BJP), producing sound bites in favour of drastic reforms with regard to LMIs, and despite the 'exit policy' being proposed to the parliament on several occasions in the early 1990s, the reforms on LMIs is alleged to have been relatively hesitant and policy proposals have been dropped in the face of labour protests¹². Under the NDA government, the Second National Commission on Labour (SNCL) was compiled which sparked opinions and debates on its proposal for Chapter VB of the IDA to be repealed. This has led advocates of labour law reforms such as Srinivasan (2003) to prompt another widely-accepted popular perception that powerful unionism and state officials with a stake in labour regulations are hindering progress in the aspects of reforms such as the 'exit policy'.

The hypothesis of protective labour legislation as the main cause of economic efficiency and slow employment growth in the organised sector is problematic for several reasons. First, since legislation such as the IDA of 1947 is applicable to a relatively small segment of the total employment, Papola (1994) argues that the effect of labour legislation on employment may be negligible (p.11). Another reason the effect on job security provision on employment cannot be the only explanation for 'jobless growth' is the poor enforcement of such laws. Freeman (1993) points out that the poor compliance with regulations means that there is little direct effect of job security provisions on employment and suggests that this results in de facto flexible wages. For example, Mathur (1991) found that, while

¹² In the winter session of 1992, the Congress government proposed an amendment to the IDA that would remove requirement of mandatory government permission for retrenchment and closure. In face of protests and bandh (general strikes) by trade unions and workers, the amendment was redrawn, was put back on the agenda in 1993, only to be dropped again (Singh 1995).

labour law has not changed, its implementation differed in different states. It has been observed that the procedure of conciliation proceedings in recommending disputes for judicial scrutiny and the approaches of conciliation officers varied from state to state, in some cases even within the same state. Mathur explains that because of the lack of clear policy guidelines, “labour department officials invoke their own understanding of fairness based on past court verdicts” (p.50). This implies that even in the organised sector which supposedly is protected by labour law and legislation there is scope for the actual enforcement to be influenced by rent-seeking and political processes. At the least, the claim that laws give income and employment security to organised workers must be considered within the context of implementation of such legislation. Singh (1995), Jenkins (1999), and Bardhan (2002) go further to suggest that part of the reason for the slow progress in reforms on labour laws and legislation is because employers have increasingly been given the ability and the measures to avoid laws effectively resulting in ‘reform by stealth’, and thereby making the need to dismantle or relax labour laws and legislation redundant.

In addition, empirical evidence that supposedly supports the case for labour market reforms tend to be problematic. For example, the empirical support for the postulated relations between Agarwala’s distortion index and growth is weak at best. If we plot Agarwala’s distortion index against GDP growth as in Figure A1-1 (i), we find a negative but at best weak association, represented by a low coefficient of correlation $r = -0.31$.¹³ Also note that when Agarwala (1983) talks

¹³ The postulated negative correlation appear to fit well with East and South East Asian economies, such as Korea, Thailand, Indonesia and Malaysia, combining rapid GDP growth with low index of real wage distortion, and slow growing South Asian countries such as India, Pakistan, Bangladesh and Sri Lanka which were rated to have a high extent of wage distortion. However, we must also note that there are examples of economies such as Bolivia and Colombia which had low wage distortion but also slow growth. Similarly, the performance of economies such as Chile with a very high extent of wage distortion is comparable to many of the East Asian economies with less distortion. Plotting distortion index against GDP growth in Figure A1-1 (ii), again, we find negative but weak correlation.

about real wage distortion, what he actually measures is the difference in institutional structures, such as the strength of trade unionism and government intervention in wage determination. The assumption here is that such institutional characteristics necessarily lead to wage distortion. Yet the same centralised industrial relations system whereby conflicts of interests are resolved by recourse to corporatism between the state, employers and unions in Northern and Western European countries is seen as a factor in achieving wage restraint, as we shall see in Chapter 2. In other words, institutional and state interventions in wage determination may by definition be 'distortions' to the labour markets, but it does not necessarily follow that such LMIs are negative for efficiency and productivity. Therefore, while Agarwala's study is a useful starting point in recognising the extent of the social costs of LMIs in India, it fails to discuss under what conditions LMIs are harmful for productivity and when they lead to efficiency and growth enhancing outcomes.

Similarly, recent studies raise questions with regard to the validity of some influential empirical studies such as those of Fallon and Lucas (1991) and Besley and Burgess (2004) that apparently gave weight to the argument that concerns over the restriction on exit adversely affected organised employment growth. For example, Bhalotra (1998) questioned the statistical significance of the estimated coefficients in Fallon and Lucas's labour demand function, which led them to conclude an average of 17.5 per cent reduction in employment growth (p.7). She finds that the negative coefficient on the job security dummy variable was statistically significant for only 11 out of 35 industries. Similarly, Bhattacharjea (2006) has criticised the scoring methodology Besley and Burgess employed in constructing their index of state-level labour market regulations, which is sensitive to small changes in the scoring system or the interpretation as to whether a particular amendment is 'pro-labour' or 'pro-employer'. Also Bhattacharjea points out validly that frequently cited econometrical evidence is based almost exclusive

on the IDA, when other laws as well as judicial interpretations of such laws are also important in determining the nature of labour market regulations.

In addition to the lack of judicial enforcements as well as the weakness of empirical evidence for 'rigidity' and its effect on efficiency and employment, the hypothesis of 'rigid' LMIs is problematic at a more fundamental theoretical level, in that the argument is made in a remarkably static and casual causality linking the observed existence of LMIs to inefficiency and lack of employment growth with little attention to the structural changes in the Indian economy since the 1980s. This aspect has been exposed most evidently in the 'jobless growth' debate in recent decades.

1.3.2 Rethinking the 'jobless growth' debate

The perception that the extent and nature of trade unionism and labour legislation in India have resulted in a combination of high wages in the organised sector and slow utilisation of labour in India's industrial sector has attracted renewed attention since the 1980s in the so-called 'jobless growth' debate¹⁴. In contrast to the industrial stagnation of the 1970s, the 80s was understood to be a decade of improved industrial growth. The output growth of the manufacturing sector as a whole increased from 4.3 per cent per annum in the 1970s to 7 per cent per annum in the 1980s, and the increase in the organised factory segment was much sharper, increasing from 4.6 per cent per annum in the 70s to 7.9 per cent in the 1980s (Sundaram and Tendulkar 2002). In contrast, employment in

¹⁴ The recognition of slow utilisation of labour in industrialisation is not a new theme. Despite the initiative for industrialisation in the post-independence era, the structural change in the labour markets in India has been marginal, particularly concerning the industrial sector. During the 50 years between 1951 and 2000, the share of the secondary sector's share of the GDP rose from 16 per cent to 27 per cent (Joshi 2004). Although this change in the share of output is less dramatic compared to the experience of many East and South East Asian countries, the changes in the labour market have been much more modest; the male work force involved in the secondary sector has only increased from 12.6 per cent to 16.9 per cent during the same period (see Table A1-3). Many authors, including Byres (1991), have commented that given that early planners were trying to make industry the dominant sector, the intended objective of structural change of the economy was not achieved.

the organised manufacturing sector, which experienced steady growth in the 1970s at a rate of 3.8 per cent per annum, declined sharply in the 1980s to 0.53 per cent per annum (Goldar 2000). The observation that the employment growth in the organised manufacturing sector has been slower than the growth of output or value added led some to argue that 'jobless growth' is 'the most significant problem facing industry at the present time' (Ghose 1994: 143). In the early 1990s, an improvement in employment growth was noted, but the 1990s as a whole the employment growth was "at a slower rate and with a greater fluctuation – peaking in 1995-96" (Dev 2000; 3447; see also Goldar 2000). Generally there is no evidence to suggest a turnaround of the declining trend of employment growth in the organised manufacturing sector in the 1990s onward. Therefore it appears that the slow employment growth in the organised sector relative to its output growth has been a constant feature of the Indian economy since independence.¹⁵

As one explanation of the 'jobless growth' it has been suggested that there was a sharp increase in wages. Ahluwalia (1991) reported a real wage increase of 6.8 percent in the manufacturing sector, and in particular a hike of 9.1 percent¹⁶ in the consumer durables sector between 1980/81 and 1985/86, while Lucas (1988: 189) as well as the World Bank country report written by James Hanson and

¹⁵ While growth in the organised employment stagnated, there is a debate on the growth of employment in the unorganised sector. While Dev (2000: 48) reports a faster employment growth in the unorganised sector, suggesting that there has been a tendency for employers to shift away from secure permanent contracts and increase informal and casual employment arrangements, others such as Ghose (2004) finds that employment growth in the unorganised sector is declining. As a possible explanation for the lack of employment growth in the unorganised sector, Nagaraj hypothesises that use of labour in the unorganised sector is more intensive and flexible, for example workers working longer hours or taking up more than one job, which restricts employment generation in this sector (Nagaraj 1994). Nevertheless, even if employment is generated outside the organised sector, given the often inferior wages, working conditions and security in the unorganised sector, increased informalisation and casualisation raises obvious concern for its impact on poverty. For example, when workers in the organised sector lose jobs as a result of closure or restructuring of the industries, such as in textile mills in Mumbai and Ahmedbad, they often seek unorganised casual jobs in competition with migrant workers and other incumbent informal workers, further weakening the position of each other in the process (Breman 1999b; 2003; Mosse 2007).

¹⁶ In a widely cited article, Sharma (2006) quotes a 34 per cent real wage increase in the manufacturing sector during the same period, citing the same source, but this appears incorrect.

Samuel Lieberman focused on an increase of product wages by 7.2 per cent per annum between 1979/80 and 1984/85 (World Bank 1989)¹⁷. Another explanation is that the slow formal employment growth is due to the capital deepening observed during the 1980s, which is also thought to be consistent with this explanation based on changing factor prices. Focusing on the observation that the average annual rate of growth of net capital stock in the manufacturing sector increased from 3.14 per cent between 1975/75 and 81/82 to 5.93 per cent in 82/83 to 88/89 period, Ajit Ghose of the ILO also supports the argument that the rising relative price of labour has resulted in a substitution of capital for labour adopted (Ghose, 1994)¹⁸.

Several problems with the argument that 'jobless growth' in Indian industry is caused by LMIs such as employment security legislation and trade unionism that protect existing organised employment can be highlighted. First, the notion that wages are set higher in the organised or unionised sector because of institutional interventions is not consistent with historical evidence. It has been suggested that "long before the era of trade union or government intervention, wages in large textile factories were high in comparison with alternative earnings" (Mazumdar 1989 p.11 cited in Freeman 1993).

¹⁷ Curiously in another well cited report by World Bank economists, Fallon and Lucas (1991) found little evidence of labour law affecting wages or speed of adjustment, but nonetheless maintain that it reduced total employment. Freeman (1993) rightly questions this conclusion as 'odd'.

¹⁸ Significantly, while both the World Bank and ILO studies focused on the importance of the rising wages as an explanation for the slow employment growth in the organised sector, the reason for the wage increase seems to differ. The World Bank's perspective is represented in Hanson and Lieberman's focus on LMIs such as restriction on retrenchment and closer, reflected in the 1976 and 82 amendments of the Industrial Dispute Act, as the main cause for the increase in costs of labour adjustments, which led to employers become reluctant to increase employment (World Bank, 1989). Also they focus on the "overindexation of wages" which takes the form of dearness allowances (DA) in many Indian industries as another cause of increase in labour cost (p.113). In contrast, the ILO position, represented in Ghose (1994), rejects the popular argument that this was caused by LMIs such as employment security regulations. Rather Ghose focuses on the difference in food price control by the government, which stabilised the relative price of labour in the 1970s and increased it in the 80s.

Moreover, the observation of rising wages has come under scrutiny in recent years. For example, Ramjas (1992) presents an econometrical study that shows no wage effect by the job security clauses in the IDA. Similarly Nagaraj (1994) and Bhalotra (1998) amongst others argue that the earnings growth in the 1980s coincided with an increase in man-days, and thus the wage rate rose only modestly, a view later debated by Goldar (2000) and Nagaraj (2000).

Significantly, Nagaraj (2004) has calculated the wage rental ratio¹⁹ for the organised manufacturing sector and found that it has decreased by 19.4 per cent between 1981 and 1991 and by 24.8 per cent between 1991 and 2001. This implies that the cost of labour relative to capital fell rapidly in the two decades when output increased at over 7 per cent and employment growth was marginal. Moreover, Nagaraj finds that the same period saw an increase in labour productivity (by 119.1 per cent in 1981-91 and 80.6 per cent in 1991-2001) and capital per worker (83.3 per cent in 1981-91 and 131.2 per cent in 1991-2001). On the basis of such evidence Nagaraj questions the perception of rigid labour market in Indian industries. He hypothesises that the labour market was 'flexible' enough to allow productivity increases and changes in the production structure to augment output by work intensification to move closer to the production possibility frontier, in face of increased market pressure during this period.

Those who challenge the hypothesis that sharp increases in wages led to the substitution of capital for labour or labour market rigidity due to LMIs have explained the slow employment growth in the organised manufacturing sector by focusing on various changes in the industrial structure that have taken place since the 1980s. Within the organised sector it has been observed that the industrial structure of Indian manufacturing has shifted in favour of less labour intensive

¹⁹ Wage-rental ratio is computed as the product wage per worker divided by the deflator for machinery and equipment, which is used as proxy for cost of capital.

industries and smaller sized establishments. Nagaraj (1994: 182) reports that industries with above average growth in value added during the 1980s were also those with a below average share of wages in value added²⁰. Contrary to the standard argument of capital-labour substitution, what is observed here is a shift of industrial structure, not necessarily an increase of capital investment across the sector as such. Nagaraj also points to field evidence that suggests that firms' response at the micro level is to increase labour intensity by linking wages to productivity; to reorganise jobs and work content; and to intensify the use of sub-contracting, contract labour, and part-time workers (*op. cit.*: 183).

Taking the argument further, Jose (1992: 214) has turned the causality in the standard orthodoxy to argue that increases in real earnings were made possible by an improvement in productivity, by pointing out that an increase in real earnings was observed in capital intensive industries which experienced sharp acceleration in productivity rates in the 1980s. This is of course not to suggest that there was no link between the slow down of employment and the observed wage/ earning increase, and indeed Jose reports that employment stagnated or declined in those industries which saw a significant rise of productivity and real earnings (p.215). However, Papola (1994: 10) points out that the major reduction of organised manufacturing employment in the 1980s took place in two major industrial groups, namely cotton textile and food products, which is "caused mainly by the closure of a large number of mills due to sickness [...] and rationalisation of many of them to overcome obsolescence".

These critiques of the 'jobless growth' hypothesis is important because it places the observed slowdown in employment within the context of the structural changes that has taken place in Indian industries during the 1980s and 90s,

²⁰ These industry groups included food products; rubber, plastic, petroleum and coal products; chemical and chemical products; non-metallic mineral products; and electrical machinery.

including restructuring of industries away from traditional sectors such as textiles, and the shift in production from the organised to the unorganised sectors. It is however also critical to note that the debate reflects two contrasting assumptions about labour markets and LMIs in the mainstream literature (Freeman 1988; 1993). On one side, there are the ‘distortionists’ represented by economists such as Agarwala (1983), Lucas (1988), Ahluwalia (1991) and Srinivasan (2003), all of whom have been influential in the policy debates of institutions such as the World Bank, who see LMIs as hindrance to competitive and allocative efficient labour markets, and argues for the removal of state and institutional interventions. In the other camp, we see variants of ‘institutionalists’ such as Jose (1992), Papola (1994) and Nagaraj (1994; 2000; 2004) who sees the problem as caused by the failure of regulations and ineffective LMIs, and argue for reforms that ensure “workers accept income security and flexible labour use, while employers offer better work and productivity sharing agreements” (Nagaraj 2004: 3390). However the two sides of the debate share much in common in that both perceive the existing ‘mix’ of LMIs as ‘inappropriate’ and propose reforms to change them. In fact, as we argue in Chapter 2, distortionists and institutionalists make contributions to the same theoretical framework, in which the persistence of ineffective LMIs is seen as irregularity or divergence from the some notion of equilibrium, and can be ‘chosen’ by micro-level agents. This is in contrast to our political economic approach in which existing types of LMIs are reflections of the way in which society organises the process of development and accumulation, particularly how the labour processes are controlled and managed, an idea which we shall explore in the context of the historical development of India’s LMIs in Section 4 of the present chapter, and will be theoretically developed in Chapter 2.

1.3.3 Politicised LMIs and the ‘patronage regime’ hypothesis

Another popular criticism to trade unionism in India is that it harms the efficient running of businesses, citing, for example, the frequent strikes and lockouts

imposing high costs to industries (Surendra Nath 2005). For example, Agrawal (1997: 155) has pointed out that Indian labour unions are known to call strikes with the slightest pretext or very short notice “creating an atmosphere of uncertainty about production schedules, and exposing employers (and public) to considerable inconvenience”. It is also often perceived that that strikes and other labour protests are often called by political parties for their political gains, and may have little to do with the interests of workers²¹. Curiously, as shown in table A1-3, although it is certainly the case that India has one of the highest number of labour disputes (Shyam Sundar 2004; Nath 2005), with more than 1,000 labour disputes with often more than 20,000 work-days lost as a result of labour disputes in the 1990s, it is important to note that the number of workers involved in disputes is relatively low. Workers involvement during the period between 1985 and 1998 ranged from 600 to 1,200 workers per dispute in India, which was much less than countries like the USA (6,000-12,000 workers per dispute), Italy (400-3,600) and Brazil. (6,400-7,700). Countries like the USA also had a much higher number of man-days lost due to disputes. The combination of frequent labour disputes combined with relatively low worker participation in collective action reveal a ‘paradox’ about Indian unionism and questions the popular image that Indian trade unions have strong bargaining power (Bhattacharjee 1999).

A glance at the time trend of labour dispute statistics (figures A1-2 to A1-4) reveals that the number of disputes peaked in the mid-1970s, the period of political contestation to the Nehruvian-style state-dominated industrialisation strategy leading up to the Emergency Regime. That the labour disputes increase at the time of economic crisis is not surprising, but again this is taken as indication that bargaining agents are “highly politicised [... and] are more

²¹ “Removing old stigma,” *Deccan Herald*, Monday, April 19, 2004

interested in cultivating their political affiliations rather than dealing with enterprise-level issues” (Hossain et al. 1999: 77).

The alleged consequence of politicised unionism is what Pencavel (1995: 4) calls “the macroeconomics of populism”, which is a situation where macroeconomic policy tools are used “to engineer a redistribution of income” to deliver higher wages for workers, leading to macroeconomic instability. Similarly, Bardhan (1988: 70) argues that:

The deliberate promotion of trade unions affiliated to the ruling political party often leads to damaging union rivalries and irresponsible ‘economism’. Overstaffing, ‘featherbedding’, fake payrolls, absenteeism in regular hours and working only for ‘overtime’ payments, and other irregularities are condoned, if not actively encouraged, by trade unions and their political bosses by citing flagrant cases of corruption, political patronage and cronyism [...] Irresponsibilities at the managerial, technical and worker levels thus feed on each other, creating a general atmosphere of demoralization and parasitism on the state.

Pencavel characterises India as a “patronage regime” whereby close ties exist between political parties and labour unions. With trade unions highly politicised, the union’s relation “with the state and political leaders becomes more important than their dealings with the employers of the workers they represent” (p.3). While Pencavel accepts that “a highly politicized collective bargaining system is neither a necessary nor a sufficient condition for the macroeconomics of populism” it is often argued that the Indian economy represents a case of this problem.

The popular perception that the politicised nature of LMIs, often through politically-motivated labour militancy, impair efficiency and productivity growth, has led to advocates of labour market reforms to propose various measures to remove state and institutional interventions to the industrial relations. For example, the Second National Commission on Labour (SNCL) has proposed various measures to restrict government intervention in dispute settlement

(section 6.34) and to curb the influence of central trade union organisations, such as limiting the role played by ‘outsiders’ who are not workers at the establishment (6.50), resolution of inter- and intra-union rivalries, and limiting the use of union funds for political purposes (6.56). The current policy consensus is that outside political interference prevails in Indian unionism because of the lack of legislation on the method to identify and recognise the representative bargaining agent in the Trade Union Act. While accepting that secret ballots may be “logistically and financially” difficult, the SNCL also recommends the selection and recognition of the negotiating agent on the basis of a check-off system, which “ascertain the relative strength of trade unions based on continuing loyalty reflected by the regular payment of union subscription” (GOI Ministry of Labour 2002: 40-1)²².

It is interesting that in the argument about labour disputes, the distinction between strikes and lockouts is often ignored. For example the SNCL sees illegal strikes and illegal lockouts as equal sins (Datt 2002). This does not take into account the reality that it is the increase in lockouts that is having a significant impact on industrial relations²³. On the basis of such observations some writers like Jenkins (1999) argue that what characterises industrial dispute in India today is ‘management militancy’ whereby labour disputes have also often been used as a

²² The SNCL recommends the check-off system for establishments employing 300 or more workers, whereby “with 66% entitling the union to be accepted as the single negotiating agent, and if no union has 66% support, then unions that have the support of more than 25% should be given proportionate representation on the college” (GOI 2002: 41).

²³ In figure A1-2, in which the data for number of disputes is provided with one series representing strikes alone and another for the sum of strikes and lockouts, we notice that over time the number of lockouts has increased, both in absolute terms and as a proportion to the total number of labour disputes since the mid-1960s. In 1961 lockout accounted for 8.62 percent of the total labour disputes. In 1996 this ratio has increased to 31.33 percent. Again this trend of increasing significance of lockouts in industrial disputes in Indian industries can also be observed for the number of workers involved in disputes (figure A1-3) and number of work days lost in disputes (figure A1-4). Particularly figure A1-4 suggests that the increasingly labour disputes initiated by lockouts tend to go on for a relative long period compared to strikes.

pretext for putting into effect an ‘indefinite lockout’.²⁴ Though a more careful look at data on lockouts, Shyam Sundar (2004) reveals that the tendency for lockouts to become more dominant in industrial disputes is not necessarily the same across the country, with West Bengal and Maharashtra amongst the states where lockouts occupy a significant proportion of disputes (table A1-4). We shall examine this in the next section, but at this point the popular image of labour militancy due to strong unionism must be questioned.

It is also worth noting that the focus on politicised LMIs is increasingly becoming a policy consensus amongst institutions such as the World Bank and the ILO²⁵, which traditionally adopted opposing positions on labour related policies. It is also interesting to evaluate this trend within the context of the increasing dominance of new institutional economics (NIE) in the development economics literature. This development, particularly amongst researchers associated with the World Bank, is evident in the publication of the *World Development Report 1995: Workers in an Integrating World*, and various working papers leading up to the Report by Pencavel (1995), Banerji, Campos, and Sabot (1995), and more recently in an influential report by Aidt and Tzannatos (2002). Many observers²⁶ have hailed this as a sea change in the policy debate on labour since unlike in the Bank’s traditional discourse, trade unions and other institutional interventions in the labour market are no longer considered to be necessarily hindrances to improving economic performance. Instead the argument is that countries that

²⁴ We must be careful about simplistically associating strikes with labour and trade union militancy and lockouts with employer militancy. As Sundar (2004) points out, it is often difficult to distinguish lockouts from strikes because the causes of disputes are complex. It is possible that strikes are called in response to aggressive tactics by employers, as it is equally possible to argue that closure and lockouts are caused by pressure from unions.

²⁵ For example, see an ILO researcher Hayter (2002/3)’s policy research paper quoting North (1997), to explain different types of bargaining relations focusing on the role of politics.

²⁶ Amongst many, for example see the AFL-CIO (2003)’s review of Aidt and Tzannatos (2002) welcoming that “[a]fter years of bashing unions, the World Bank is acknowledging that union membership can be a boon to workers and to a nation’s economy”.

have performed poorly have done so because the institutional arrangement is such that trade unions and other institutions do not contribute positively to growth and efficiency.

Given that the apparent task is to find the “appropriate mix” of LMIs (Dean, Glyn, Howell and Schmitt 2004: 4), it is important to consider why the seemingly inefficient and growth-diminishing LMIs persist and to identify the factors that are important in changing them. Here the NIE-inspired literature is not helpful. For example, Banerji, Campos, and Sabot (1995) argue that amongst the many factors²⁷ that determined the type of institutional regime in India, the most important, at least at the initial stage, was the “intellectual heritage” (p.22):

The elite’s choice of a distributional strategy was not the result of short-term rent-seeking but based on the belief that a non-distributional strategy would have low returns. The elite’s choice does not seem to have been influenced by their expectations of labour’s choice between confrontation and non-confrontation.

The elite’s ‘distributional’ strategy was mirrored by the ‘confrontational’ approach adopted by organised labour, which was ‘chosen’ because of their own leftist ‘ideological bent’ that led them to believe that market forces erode their gains rather than to lead to higher returns for labour. The persistence of this ‘confrontational-distributional’ strategy mix is then explained as a ‘prisoner’s

²⁷ For example, Banerji et al. (1995) argues that political elites in Africa, Latin America and South Asia were “less contestable” compared to the East Asian counterparts. According to this argument, because elites in East and South East Asia were under threat from domestic communist insurgents, and other powerful political forces, leaders had to widen their base of political support. This led to the adoption of “encompassing” strategy expressed by their commitment to a “labour demanding growth path”. In contrast, Banerji et al. argues that the ruling elites was less contestable in South Asia, which allowed the elites to form an implicit pact with wage labour to “maximize their share of the pie at the expense of the poor” (p.12). However Banerji et al. goes on to note that this issue of contestability was perhaps less important in the case of India, since the Congress Party “drew its support from rich and poor alike” (p.22). In our view, the question of political contestation is extremely significant in understanding why distributive politics prevailed in India, but an analysis of the type and the structure of political groups contesting the state is required..

dilemma' game whereby neither side changes their strategy due to lack of information and credibility to sustain alternative policies.

This ideologically-based reasoning is insufficient in explaining the persistence of seemingly inefficient and growth-damaging LMIs in the long-run. Firstly, even if we accept Banerji et al.'s argument that the elites (in the case of India, the 'tall men' such as Jawaharlal Nehru and subsequent leaders of the Congress Party) were ideologically committed to a "distributional" strategy, this does not explain why 'elites' and organised labour have been able to continue to maintain alliances at the cost of denying the remainder of the workforce increased wage employment and the rest of the economy cheaper commodity prices. Explanations based on lack of information and ideology are insufficient (Khan 2000) without addressing the material basis on which 'elites' could justify the belief that "a non-distributional strategy would have low returns" (Banerji et al. op cit.: 22).

Secondly, Banerji et al.'s reasoning is that while internal-politics within the Congress Party and the national debate over the model of development in post-Independent India clearly had a strong ideological aspect, it is too simplistic to assume that the socialist planning models received majority support amongst the political actors who led the Freedom Struggle and was influential in Indian politics after independence. In fact, as Corbridge and Harriss (2000) have argued that the political leaders within the Congress Party were far from united in promoting the model of socialist planning as the engine for development in India. Indeed, state control over industrial relations, such as the pay commission model of wage determination and dispute resolution based on compulsory adjudication was resisted even from within the government. Given that not all of the political elites were ideologically united in pursuing a "distributional" strategy, there is a

need to explain what economic and political conditions contributed to the shaping and maintenance of the existing LMIs.

Thirdly, there is also a need to explain why the group of elites who promoted the distributional solution was able to exercise control and power to the extent that they could define the mode of industrial relations regardless of labour's choice between strategies. It is difficult to think that the ruling elites in the Congress Party enjoyed such strong political legitimacy. Rather their political legitimacy depended on their ability to offer economic benefits to their supporters.

The report by Aidt and Tzannatos (2002: 15), published as part of the World Bank's "Directions in Development" series, also focuses on the "inappropriate" mix between types of government and unions as the key factor in explaining economic outcomes of LMIs. In addition, they argue that "[m]ost industrial countries have stable, liberal democracies" but "[t]his is not the case in many developing and middle-income countries". They argue further that the "economic impact of unions in an environment of ill-designed labor [*sic*] and product market in which rent seeking is profitable is very different from the economic impact of unions in a well designed environment". This implies that the positive economic effect of collective bargaining may apply to advanced industrialised countries but may not be the case for developing countries.

Aidt and Tzannatos's argument takes us back to our earlier comment on the business environment and 'good governance'. The observation that the efficiency implication of LMIs tends to be negative where there is market imperfection and a larger potential for rent seeking is tautological and unhelpful, since the implication is that almost all developing countries would have growth-damaging LMIs solely on the basis of their being 'developing'. However, such view is reflected in policy suggestions, such as those proposed by the Second National

Commission on Labour (SNCL), which claims that, if market distortions are addressed and rent-seeking is policed better, say by encouraging democratic processes in LMIs and enhancing information flows, then LMIs may be growth enhancing. The assumption that the elimination of rents and rent-seeking, as well as improving on democratic accountability and transparency, are the precondition for productive LMIs is not only somewhat Eurocentric, it is also theoretically tautological, since conventional economic models explain the existence of LMIs in terms of rent or surplus (more on this in Chapter 2), the very thing that is suggested to be reduced to make LMIs more conducive to economic growth and adjustment. Also such policy prescription is empirically questionable as it is difficult to establish relationships, and more importantly causality, between governance of LMIs and successful growth performances²⁸. Here, Khan's (2005a) observation that the historical experiences suggest that 'good governance' is the outcome, rather than the source, of growth is insightful.

This is of course not to say that the politicised nature of LMIs is not important. Rather, it is precisely the task of the political economic analysis to problematise the politicised form for LMIs. However, from our political economic perspective, the politicised nature of Indian LMIs must be understood as a systematic consequence of the historically and socially specific ways in which industrial development proceeded in India. The historical process of the creation and reproduction of the types of LMIs cannot be reduced to individual optimisation or to arbitrary and tautological attachment to well-defined and stable property rights, since this is a question about how society deals with the process of capitalist incorporation (Fine 1998; Khan 2000b). At the core of any process of

²⁸ In the Indian debate, it is popularly held that the success of East Asian economies was related to their labour standards, and the resulting wage repressions. For example, Nath (2005) cites Singapore as a success case of a labour standard reform implementing a system of industrial relations that promotes productivity growth and accountability. However, others such as Freeman (1993) argue that labour standards were not significant factors in growth performances of East Asian countries.

industrialisation and economic development lies the problem of organising and managing production and labour processes. In contrast to developed economies, in which such processes are organised in the 'economic' sphere (Wood 2002), in developing countries, where the capitalist sector is relatively underdeveloped, this process typically takes a politicised form. Unlike the conventional models in which the political interventions are treated as a deviation from or compromise from the norm, our political economic analysis aims to explain the existing types of LMIs within the socially and historically specific context.

We shall elaborate on our analytical approach further in Chapter 2. At this point, it is important to highlight the methodological contrast between the NIE-inspired conventional models and the political economic alternative. The NIE framework is an important development in mainstream economics to the extent that it goes beyond the simple policy failure paradigm to explore factors that determines the extent of institutional failures. However this analytical approach that dominates the theoretical and policy debates on LMIs is limited in explaining the persistence of seemingly inefficient institutions because the NIE fails to recognise that there may be distributive or political conflicts over the emergence or transformation of institutions, which adds important additional dimension to the transaction costs, and have significant implications to the forms of distributive conflicts within which LMIs operate (Khan 2000b). For example, the NIE approach cannot offer an explanation for the persistence of politicised form of LMIs in India beyond referring to cognitive or cultural factors, and thereby treats them as 'exogenous' variables.

In contrast, political economic approach treats LMIs as 'endogenous' to the wider patterns of economic development and accumulation, and thereby explains why LMIs in India take its 'peculiar' form. For the political economic analysis, this is a question that cannot be theoretically pre-determined but must be resolved within

the specific historical and socio-political contexts that give rise to the specific forms of distributional conflicts. Therefore in the following section, let us examine the historical origins and processes that gave rise to the specific types of LMIs in India.

1.4 Evolution and involution: LMIs in India in a historical perspective

In the following sections, we shall explore the historical conditions for India's particular LMIs, which was the subject of the debates examined in Section 1.3. The first part surveys the economic, social, political and legal conditions since the dawn of industrialisation under the British colonial rule up to the 1960s when the institutional frameworks of labour-management relations were established. This is followed by the second part in which we interrogate the changing conditions in the 1970s, when the contradiction inherent in the institutional frameworks became apparent, and in the third part, consider how the LMIs may have been reorganised since the 1980s. From our political economic approach, the observed judicial-social-political processes are reflections of structural tendencies in the overall patterns of economic development and accumulation, and how the labour processes are managed. Therefore while summarising some key legal, social and political features of each period, we will also try to draw inference for our political economic analysis, which we shall further develop in Chapter 2.

The general character of institutional frameworks of labour-management relations in Indian industries is critically termed as 'involved' or 'state dominated pluralism' (Rudolph and Rudolph 1987; Bhattacharjee 1999; 2000), whereby the state not only constrains, fragments and manipulates interests and activities of bargaining agents, but "it is also itself a major interest, competing with" groups involved in the bargaining process (Rudolph and Rudolph *op cit.*: 247). Under this model, the labour relations described as 'paternalistic' were established "based on the belief that the state knew more about workers' need than they did

themselves” (Bhattacharjee 1999: 7). Of course in reality diverse types of LMIs can be observed, ranging from the centralised tri-partite bargaining involving traditional party-based unions to the decentralised bargaining and plant-based ‘independent’ unions, as well as non-political federation at regional-cum-industrial level such as Datta Samant’s Maharashtra Girmi Kamghar Union (MGKU) and the Engineering Mazdoor Sabha led by R. J. Mehta (Ramaswamy 2000: 55). Moreover, the model of state-dominated pluralism has come under increasing scrutiny after the crisis of the Nehruvian state-led industrialisation strategy after the mid-1960s. Nonetheless, state intervention in industrial relations and involvement of ‘outside’ agents, especially political entrepreneurs and intermediate classes, are important characteristic of LMIs in India.

While there are some disagreements about the different structural breaks that are significant in describing the history of industrial relations in India²⁹, most authors seem to broadly agree that (a) there was a particular type of bargaining relation that was established in the 1950s, following the condition in the pre-Independence period; and (b) that bargaining relations has undergone a structural change sometime after the mid-1960s. More specifically it seems that a crucial turning point in the industrial bargaining relations of India was the economic crisis leading up to Indira Gandhi’s National Emergency in 1975-77 since this historical event exposed the failure of cooperation between the state and labour unions. This is perhaps contrary to the public perception of a structural break in LMIs as a result of liberalisation and globalisation in the 1990s. Rather, these

²⁹ Venkata Ratnam (1996a: pp. 9-12) divides the historical evolution of Indian industrial relations in two phases: the postcolonial period (1945-90) and the period of structural changes (1991 to date). Papola and Rogers (1992) describes the development of LMIs in four phases going further back in history and starting from the (i) early and limited industrial development (1850 - First World War); (ii) inter-war period; (iii) post-War and post-Independence period; and (iv) industrial restructuring since the 1980s. Bhattacharjee (1999) divides the history into four phases in his 1999 paper (1950 to mid-1960s; mid-1960s to 1979; 1980 to 1991; and 1992 to 2000), while in his 2000 paper it is reduced to two phases (1950 to the late 1970s and 1980 to the present).

historical or 'evolutional' (Bhattacharjee 2001) approaches attempt to understand the problem of LMIs in Indian industries within the context of how those institutions developed during the earlier phases of industrialisation.

1.4.1 State-led industrialisation and 'paternalistic labour relations'

The institutional framework of industrial relations in India started to take form in the late 19th to early 20th century when the British colonial government laid out laws in face of the emergence of trade unionism and labour protest, as well as a response to the perceived need to fulfil labour requirement³⁰. After Independence, India followed the path of a state-led industrialisation strategy, which involved the formation of a large labour intensive public sector (Bhattacharjee 1999). This has created space for unionised employment, which is reflected in the rapid increase in the number of trade unions and union membership, as shown in figure A1-5 and A1-6. While the data suffer from various sampling and non-sampling error³¹, for our purpose, it is sufficient to

³⁰ From the late 19th to the early 20th century, it was generally perceived that securing employment is a challenge due to labour shortage. For example, Mehta (1954) argues that owners of cotton textile mills in Bombay suffered severe shortage of labour, and that this perception was recognised and shared by policy makers. The labour shortage hypothesis is however challenged by some economic historians such as Morris (1965) amongst others.

³¹ Before we comment on the trend of unionisation in India, it should be noted that these official statistics on trade unions and union memberships are frustratingly unreliable. Official statistics on trade unions and union memberships in India, published in Indian Labour Year Book and Indian Labour Statistics by the Labour Bureau, rely on voluntary annual return by trade unions. It is known that trade unions often ignore the requirement to submit returns (Rudolph and Rudolph 1987). Therefore there are three categories of unions: unions that do not register; unions registering but do not report their membership size; and unions that register and submit returns. The first group of unions are invisible in official statistics. Rudolph and Rudolph (280-1) estimates that the number unregistered union is as significant as one-third to one-half of the number of officially recognised union. The second group of unions is accounted for in terms of the number of registered unions but not in terms of union memberships, while the third group is reflected in both. From figure A1-5, it is evident that increasingly large proportion of unions does not submit annual returns. Moreover it is often pointed out that even if unions did submit returns, the submitted membership claims tend to be inflated (Ramaswamy 1992). Therefore the number of unionised workers that is available from official statistics in figure A1-6 is the claimed number of memberships unions that is registered with and submit returns to the government. The reason for not registering or submitting returns may be due to administrative inability to collect basic information about membership, but it may also be due to various social and political reasons. Although these weaknesses of the office statistics are clearly recognised, there is no obvious way to verify how much sampling and non-sampling error is contained in the data.

confirm from figure 1-5 a general upward trend in the number of registered unions throughout the post-Independence period. Also from figure 1-6 we may note that at least until 1979 there appears to have been a constant growth in unionised workers in India. At the centre of this process of unionisation was the relatively scarce educated and skilled white collar workers and professional personnel in public sector enterprises and some high technology private firms, who formed powerful interest groups, to the extent that Bardhan (1984) argued that they formed one of the 'dominant proprietary classes' of India³² in the 1960s and 70s. In addition, urban industrial labour played important roles during the freedom struggle for Independence (Ramaswamy 2000). For the organised left, supporting the formation of trade unions became the basis of party organisation. Socialist politicians and the middle class intelligentsia, who were at the heart of the Congress-led freedom movement in the 1930s and 40s, identified strikes and labour unrest against wage cuts and for the improvement of working conditions, and early attempts of unionisation with the nationalist effort. It was also important to restrain 'red unionism' in industrial centres like Mumbai (Bombay).

For the Congress government in pursuit of industrial development, it was important to accommodate both industrial entrepreneurs and workers (Morris 1955). Industrial disputes were considered to be disruptive for smooth economic development and it was deemed to be the state's responsibility to contain conflict in the industrial sector. This 'involved' or state dominated pluralism' or 'paternalistic labour relations system' (Rudolph and Rudolph 1987; Bhattacharjee 1999; 2000) is evidently reflected in legal frameworks, which is characterised by

³² Critiques such as Dhar (1987) and Jenkins (1999) have argued that Bardhan has left out some major pressure groups from his analysis, including the unionised labour. While it is perhaps correct that the emphasis is placed in the role of industrial bourgeoisies, rich farmers, and the professional class, Bardhan (1984) does mention "the white-collar workers with partial salary-indexation in the form of 'dearness allowances'" (p.68) and also argues that as a result of political democracy, "[s]ome section of unionized workers [...], taking advantage of their larger numbers, are increasingly vocal in electoral politics for a larger share of the pie" (p.67).

the state's active involvement, rather than through bi-partite collective negotiation, in sustaining stable labour-management relations, whereby a breach of contract is dealt with by a criminal sanction by the state, not by civil action (Sankaran, 2007)³³. Two pieces of legislation in particular significantly reflect this peculiar character of Indian LMIs, and also have been the focus of recent policy debates; namely, the Trade Union Act of 1926 and the Industrial Disputes Act (IDA) of 1947³⁴.

The Trade Union Act of 1926, legalises trade unions in both organised and unorganised sectors, and facilitates freedom of association, whereby any seven people can form and register a union. However, significantly the Trade Union Act does not provide a method of recognition, such as a secret ballot mechanism to determine the bargaining agent, let alone legislate so that the employers must recognise the representative union, or they are compelled to enter into a collective bargaining. This means that the employers may recognise, or even set up, trade unions favourable to their interests as the representative union, even if their status in terms of the rank-and-file support may be questionable, as has been the case in the Mumbai (Bombay) cotton textile industry, where the unrepresentative Congress-affiliated RMMS is the sole bargaining agent of workers (Karnik 1978; Bhattacharjee 1988; 1989; D'Monte 2002). The combination of the ease of registering a union and the lack of a process for recognition through the Trade Union Act is often thought to have contributed to multiple, typically political party-affiliated, unions within units in many industries (Bhattacharjee 1999: 4). Also, the Act does not require office bearers and members of unions to be workers directly employed by a particular employer, allowing 'outsiders' to

³³ At the same time, the Trade Union Act 1926 gave immunity to the trade unions against certain forms of civil and criminal action (Nath 2005:182).

³⁴ Labour legislation come under the concurrent list (list III) under the Indian constitution, which means both the central and the state governments can enact labour laws. In all there are 47 central labour laws and over 200 state labour laws (Datta and Sil 2007).

intervene in industrial disputes between workers and employers³⁵ (Datta and Sil 2007: 11). These outsiders may include contractors and brokers who may combine the roles of jobber, recruiter, and supervisor, as well as political entrepreneurs who organise factions and coalitions and engage in distributional conflicts in the wider macro political economy (Khan 1996; 1998; Jeffrey and Lerche 2001; Harriss-White 2003; Veron, Williams, Corbridge and Srivastava 2006).

The Industrial Disputes Act (IDA) of 1947³⁶, which was amended in 1965, 76, and 82, and legislates the legal framework for conflict resolution by state intervention, conciliation, arbitration, and adjudication, as opposed to that through bi-partite collective bargaining. Ramaswamy (1997) points out that the model of conflict resolution charging “the state with major responsibility to contain conflict and negotiate order in labour-management relations” is deeply rooted in the British colonial policy to restrain strikes and lockouts “forcing the disputants to resolve their differences through conciliation and adjudication”.

Similarly, state intervention is dominant in the area of wage determination. Government may influence and regulate wages directly through appointing pay commissions or indirectly by endorsing recommendations made by ad hoc administrative bodies. One classical example of this is the Rau Court of Inquiry in 1940 and the Central Pay Commission of 1947, which established indexation of income in the form of dearness allowance (DA) as a norm of wage payment in

³⁵ The amendment in 2001 (i) raised the minimum number of workers to 100 or more to form a union, and (ii) restricted the number of outsiders to one-third or five officers, whichever is less, in the organised sector (Datta and Sil 2007).

³⁶ The IDA was in fact a descent of two laws that existed prior to it: the Trades Dispute Act of 1929, which provided for investigation and settlement of trade disputes, and the Deference of India Rules No. 81-A which prohibited strikes and lockouts in public utilities.

Indian industries to neutralise price inflation³⁷ (Rudolph and Rudolph 1987: 278-9).

Such legal frameworks for the LMIs in India were not uncontested. In the 1950s, alternative institutional frameworks to the Trade Union Act had been proposed and discussed without being enacted, including voluntary arrangements to determine the representative union in a single bargaining unit (Bhattacharjee 1999: 6). The most famous attempt to readdress the LMIs in the early phase of independence came from V. V. Giri, whilst serving as the Labour Minister between 1952 and 54, who criticised the compulsory adjudication process in the IDA and proposed making collective bargaining statutory. This so-called ‘Giri-approach’ was vetoed by the government’s executive branch and Giri resigned his post in protest (Rudolph and Rudolph 1987: 285). Contestation of the existing laws concerning LMIs has been attempted in various parts of India, most notably in the Mumbai textile industry, but with limited success (D’Monte 2002).

Another aspect of the ‘involved pluralism’ in India’s LMIs was the dominance of trade unions affiliated to central political parties. The observation that unionism in India closely linked to political parties is however not new. A. R. Burnett-Hurst (1925), an English sociologist who wrote in the early 20th century, also commented that unions in India “have not been established in the best interest of labour, but are largely to be used to employ the voice and strength of labour for political ends”. The history of organised labour movement in the industrial sector goes back to the formation of the Bombay Millhands’ Association in 1890. However workers’ organisations at this early stage existed to promote workers’ welfare and while it can be considered a trade union in the sense that it is a

³⁷ Dearness allowance (DA) is used widely in Indian industries, often accounting for a majority of earnings in the organised sector. It was initially introduced in the 1940s in order to keep the real wages constant in face of the rapid price inflation after the First World War. The system, however, is used in various forms today, reflecting different modes of managing the labour process, as we argue in Chapter 6 Section 6.3.

coalition or collective association of workers to protect common interests and improve working conditions, it did not take the form of modern trade unionism, it did not have any explicit notion of membership, there were no rules or regulations, and no wage settlements to negotiate (Ramaswamy 2000: 47). During the next two decades various collective organisations emerged in various industrial areas, gradually forming the characteristic of modern trade unionism. In 1920, the first central trade union organisation (CTUO) was formed. This was the All India Trade Union Congress (AITUC). The AITUC was, of course an outcome of decades of struggle by rank-and-file workers. But it is not entirely correct to say that it was 'unionism from below'. What made the AITUC become the first central trade union organisation was the formation of the International Labour Organisation (ILO). India who hosted the ILO's foundation conference needed to select its representative, and this was at least part of the reason why the formation of the AITUC received strong support from the government. Also while the AITUC did not have formal political affiliation at the time, from the beginning there was rivalry between different political groups, particularly between communists, congress activists, and moderate socialists. This led to continuous infighting and organisational splits, which ultimately led to the formation of the Indian National Trade Union Congress (INTUC) by Indian National Congress party activists in 1947. In 1948, non-communist non-congress socialists formed two organisations, the independent Hind Mazdoor Sabha (HMS) and the United Trade Union Congress (UTUC) affiliated to the Revolutionary Socialist Party, which resulted in the AITUC being controlled by the Communist Party of India (CPI). In 1955, the Bharatiya Janata Party (BJP) set up its own labour arm Bharatiya Mazdoor Sangh (BMS); and in 1970, the Centre of Indian Trade Unions (CITU) was set up following the split of the Communist Party of India (Marxist), or CPI(M), from the CPI in 1964. This tendency of political parties forming trade union fronts can be found in regional parties as

well, most notably the split of labour movement between those affiliated to DMK and AIADMK in Tamil Nadu, and the emergence of Shiv Sena ('Shivaji's Army') unions in Mumbai in the mid-1960s (Bhowmik 1998; Hansen 2001).

Proliferation of trade unions in India thus has been significantly driven by political parties as well as regional, communal, and caste lines. Within this context of politicised bargaining, links with political actors, parties and the state becomes important to gain access to resources. Under this framework, "agreements are far more determined by state goals and interests than by bargaining struck between employers and employees" (Rudolph and Rudolph 1987: 269) and as Ramaswamy (1997) observes "[w]ith the government assuming the role of arbiter in industrial relations, the question before labour and management often is not how to influence each other, but how to mount pressure on the government which is going to determine their fate".

The 'paternalistic labour relations' in India's LMIs may partly be explained by the dominance of the public sector in the organised sector, at least in the early phases of India's industrialisation. It is also often argued that the paternalistic labour relations were employed as a strategy by the state to dominate industrial relations and keep labour weak and fragmented (Rudolph and Rudolph *op cit.*: 268-9). Similarly Bhattacharjee (1999) argues that in light of the attempts such as the "Giri approach" to introduce alternative labour legislation that promotes 'genuine' collective bargaining, it may have been a "strategic mistake" by the state to adhere to the paternalistic labour relation system. The model implicitly assumes that the state and political elites were able to choose between different labour policy options, for the benefit of the society as a whole. However, in reality, Bhaskar and Khan (1995) argue that the state and politicians use a particular section of organised labour, such as the educated white-collar workers, for political mobilisation. Therefore the types of LMIs that took shape cannot be

understood without considering the patron-client networks, within which bargaining agents such as trade unions were accommodated, and which dominated the macro political economy of India.

It would however be misleading to associate the types of LMIs directly and solely to the accumulation strategies of the political elites, or the ‘choice’ of state planning as the development strategy (Bhowmik 1998: 149). These patron-client networks³⁸ were organised by intermediate or middle class political entrepreneurs, at the backdrop of relatively underdeveloped capitalist economy, in which both industrial capital and wage labour were (and still are) a minority, both numerically and politically, as we shall argue below.

On the final point, another insightful observation, not mutually exclusive from the above, is that the condition of the industries was such that the state and political officials, as well as other social actors, were inclined to intervene because of entrepreneurs and managers’ inability to establish labour discipline at the local level. Again this is an observation that reflects the particular pattern of economic development and accumulation in India, in which capitalist property relations are not dominant, and extra economic coercion is the rule rather than exception (Khan 2000; Wood 2002). For example, in his study on the Mumbai (Bombay) textile mills in the 1920s and 30s, Morris (1955) observes that in the early stage of industrialisation, “[a]ll recruitment and virtually all disciplining (including discharge) of workers was left by employers in the hand of foremen [...] called

³⁸ The use of this term ‘patron-client’ relations is often associated with the neo-Weberian analysis of neo-patrimonialism (Bratton and van de Walle 1994; Erdmann and Engel 2006; 2007) whereby personalised politics and rent-seeking are analysed with reference to cultural explanations (Khan 2005b). This is exactly the opposite to our approach in which the network of patron-client relations must be given a materialist explanation; as a form of capitalist exploitation. As we show in this section, the reason why the social relations take this form of patron-client relations must be understood within the historical context of India’s early phase of industrialisation, particularly the colonial arrangements of organising resource redistribution. However, a fully developed political economic analysis of patron-client network requires a separate study.

jobbers” (p.294) who, based on personal contacts developed ‘cliente’ relationships with, and controlled, a specific group of workers typically from the same village or region (van Wersch 1992; Chandavarkar 1994). Similarly important were neighbourhood headmen or *dada* (‘elder brother’) who “could exercise very real physical power and could, like the jobber, be an instrument in making or breaking a strike” (van Wersch *op cit.*: 16). A similar observation is made by Ratina Sen (1997) in relation to the Kolkata (Calcutta) jute mills in the 1930s, whereby the jobbers (*sardar*) “had absolute rights to hire and fire, and who alone dealt with the management”. Morris argues that this mode of controlling the labour process through social networks and organisation is a reflection of the failure by employers to establish discipline effectively, which was later institutionalised by the increasing role of the state in creating labour discipline and “the peculiar role of trade unions”:

Because of the potential political influence of industrial workers and the need to avoid prolonged labor unrest, the state in these other areas also seems to undertake the responsibility of distributing wage-welfare benefits, while leaving increasingly to the unions the responsibility for acting as an instrument of labor discipline. (Morris *op cit.*: 308)

At the background of this hypothesis is the weak legitimacy of capital-owning groups in the early phase of development in many parts of India. This is somewhat paradoxical considering that India is thought to have had a reasonably strong industrial capitalist class at the time of Independence. Many of the traditional industrial houses in India derive from merchant communities such as the Marwaris, Parsis, and the Muslims. It has been pointed out that many of these early business families were dominated by “a set of reckless, unscrupulous insubstantial speculator[s]” (Ray 1992) who were more interested in getting rich quickly by selling mismanaged factories at times of boom, rather than focusing on day-to-day operations of firms. There are largely three explanations to the weakness of industrial capitalism, based on cultural, technological and political

economy factors. Buchanan (1934) argued that entrepreneurship was inhibited by religious philosophy of resignation and the rigid social and economic system of caste, purdah and the joint family. Morris (1983) focuses on the “technological backwardness” of the Indian economy as a possible explanation for the lack of successful development of large-scale industries, and argues that the reason Indian entrepreneurs stayed away from industries was because there were more profitable activities elsewhere such as the bazaar. Some writers such as Bagchi (1992) argue that there was an “imperial division of economic space” such that the colonial interest inhibited investment by domestic capital owning groups. An important consequence was that in general the capital owning groups in the society was not always the same as the social groups who had political power. There are cases such as the cotton textile industries in Bombay (Mumbai) and Ahmedabad, where local capital owning groups, such as the Marwaris and Gujarati families, founded textile mills, and became dominant business groups in the region. But Bombay and Ahmedabad were exceptions. Other industries like the jute manufacturing in Bengal were dominated by European enterprises between the 1850s and 1880s. Despite initial attempts by the Bengalis to collaborate with the Europeans (Kling 1992), strong endogenous capital did not emerge in Calcutta (Kolkata). Instead it was the Marwaris that became the most successful business group in Calcutta, who had “strategic position” as collaborators of the Europeans in the China trade (Ray 1992; Timberg 1992) initially in the form of managing agency (Rothermund 1993: 44-45). and later stepped into the breach to take over the control of the industry (Sen 1997). That industries like jute in Calcutta were run by capital owning group who was not part of the dominant social groups at the locality had implications in terms of the policies legitimacy and ability of these industrial capitalists to manage the labour processes, making dependency on extra-economic (i.e. non-market) power and

actors necessary, including trade unions, other mediators such as the jobbers, and most importantly, the state and bureaucratic agency.

It is important to understand the observation of unionisation from ‘above’ and the reliance on political process to manage the labour processes within the context of the early phase of industrialisation in developing countries such as India, where by definition, capitalism is not the dominant sector of developing economies, and also industrial capital and wage earners are not the numerical majority of the society. Khan (2005b) argues that industrialisation in developing countries involves the mobilisation of resources to the capitalist sector, but this may not always take fiscal or regulatory means, given the limited size of the formal economic sector. Rather, distributional politics in developing countries tend to be dominated by political entrepreneurs who organise patron-client networks by mobilising “enough organizational muscle to be able to capture resources through a combination of fiscal, off-budget and even illegal means” (*op cit.* p.718). In the case of India, these political entrepreneurs are predominantly from the middle or ‘intermediate’ classes (Raj 1973; Jha 1980; Khan 1998; 2005b; McCarthy and Harris-White 2000), which include the educated self-employed petty-bourgeoisie as well as the middle to rich peasants and small farmers, who form a distinct socio-economic class/regime, in that “its earnings can neither be classified as a reward for labour, nor as a payment for risk taking (i.e. profit) but are an amalgam of the two. The self-employed thus lie midway between the large scale, professionally managed capitalist enterprises of the private sector, and the working classes.” (Jha 1980: 95).

The establishment of ‘paternalistic labour relations’ and the peculiar type of LMIs associated with them can therefore be understood as a reflection of the patron-client politics that dominates the process of redistributive conflict in India. The process of industrialisation opened space and opportunity for appropriation by

political entrepreneurs, not only in the form of the creation and transfer of property rights, economic resources and activities, but also by the emergence of rapidly expanding but disgruntled wage labour in the industrial sector. Industrial workers were incorporated into the patron-client networks of political factions as ‘foot soldiers’ who can be mobilised for political events, including strikes (Khan 2005b: 719). As Singh (1980: 214) observed, “[i]nstances of how unions are formed show the attempts of middle-class intermediaries to provide some form to the nebulous mass of unaware workers and to act as links between modern bureaucratic institutions and the dissatisfied workers”. However it is also possible that the ‘pay-offs’ from being part of the patron-client organisation, which would have included not only income, but also secure employment and other fringe benefits, were higher than those from alternative activities, given the relatively low productivity across the industrial sector. Industrial capitalists and employers, with weak political legitimacy, also had to deal with and accommodate these political entrepreneurs, not only to secure their property rights and economic activities, but also to manage the labour process. Thus, we argue that the socio-economic structure in the early period of industrialisation in India created incentives for bargaining agents in industrial relations to engage in redistributive conflict as part of the patron-client network.

1.4.2 Contradiction and crisis of the state dominated pluralist model

At least on the surface, the Nehruvian model of state-led industrialisation and harmonious industrial bargaining relations based on the “state pluralism” model appeared to have achieved moderate economic growth exceeding or matching the target growth rates set by the first and second 5-year plans (target for first plan 2.1%, actual growth 3.61%; target for second plan 4.5%, actual 4.32%). This was accompanied by growth in industrial employment both in public and private sectors, with wage increases kept relatively low and the overall the industrial conflict moderate (Jackson 1972; Bhattacharjee 1999).

However there are indications that the 'state pluralism' model contained an inherent paradox from the beginning. First, if we consider the state-led development project, within which the "state pluralism" model was embedded, we see that it can be described as a mixed economy, neither the socialist planning nor the market-driven private enterprise economy. (Corbridge and Harriss 2000: 59). This mixed economy was a result of compromise between vested interests: between those who believed Congress as the vehicle of social transition and those who saw the Congress as the instrument of national unity; and between the English educated political actors in the centre and the conservative coalition between the landowning classes in the country-side and business classes in the urban area. In addition, while the state under the Congress promoted development, it failed to put into place a developmental state. This leads us to the second point. The Congress under the leadership of Nehru, came to dominance by holding together disparate elements of the Indian society and trying to "occupy not only the centre ground of Indian politics but also much of the terrain both to the left and the right" (Corbridge and Harriss *op cit.*: 53). While the struggle in the 1930s was strongly influenced by the left wing English speaking intelligentsia, the prospect that the Congress would come into power after Independence attracted new members seeking patronage. Many of these new members who became dominant in the Congress government were from the dominant landowning class and business families. Particularly the dominant landowning caste (the 'big men') was able to attract mobilisation of electoral support, in exchange for offices, jobs and access to public resources (*op cit.*: 49-50). This network of political affiliation through the hierarchy of local notables became an increasingly important support base of the Congress, in addition to the organised labour. Corbridge and Harriss argue that the state in this period had to take an accommodating policy over a broad spectrum of interest groups and "the power of the Congress depended upon networks of intermediation and of

clientelism,” (*op.cit.*: 58) which directed policies in such a way that they “enhance the power of industrial and commercial bourgeoisie, rich peasantry” and “the bureaucratic office holders” (*op.cit.*: 65).

The state dominated pluralist model was justified on the ground that it was “being run in the interests of an alliance of a heterogeneous but numerically dominant class” (McCartney and Harriss 2000: 30). However, as the industrial and economic growth started to stagnate, the political influence and rent seeking activities of the intermediate classes was highlighted as one of the factors that led to inefficient investment, bad income and resource distribution, and poor planning management (Jha 1980). These contradictions were already present during Nehru’s premiership, but by the 1970s it became clear that Nehru’s accommodating strategy was facing a crisis (Corbridge and Harriss *op.cit.*: 92). The GDP growth rate dropped to 2.38 per cent during the third plan (1961-66) and 3.21 per cent during the fourth plan (1969-74), both of which was way below the target growth rates. This was followed by industrial stagnation in the 1970s, most evident in the rapid drop of industrial production during the fourth plan, which was “not only short of the (lowered) targets, but was also much slower than in the earlier period” (Ahluwalia 1998: 273). After three five years plans, “the rate of inflation rose above the politically sensitive danger-mark of 10 per cent in 1966/67 and 1967/68, and food price inflation was even higher (around 20 per cent)” (Joshi and Little 1994: 48).

The failure of achieving the social goal of the Nehru’s project led to wider inequality in Indian society and social discontent expressed through various channels, including labour disputes, such as the railway union strike in 1974; popular uprisings, such as riots in Gujarat in the same year; and armed conflict between peasants/labour and landlords, such as the Naxilite movement that started in West Bengal. Particularly the rail workers strike represented “the first

political challenge by a trade union to the central government at a national level” (Rudolph and Rudolph 1987: 274). Also, the internal struggle within the Congress party meant that Mrs Gandhi lacked organisational power and that she had to rely more on her popular image (Corbridge and Harriss 2000: 73). The high court ruling accepting accusations of corruption during Indira Gandhi’s election campaign and declaring her seat in the Lok Sabha invalid, combined with Congress’s defeat in Gujarat local election triggered the implementation of the Emergency Regime from 1975 to 1977, which included imprisonment of political opponents, suspension of civil rights, censoring of the press, and postponement of elections. In order to justify the declaration of emergency as a necessary engine for social change, Indira Gandhi presented the Twenty-Point Programme, which included rural improvements, abolition of bonded labour, mass education, and urban renewal. It is possible to see the Emergency as the last attempt by the Congress government to pursue Nehruvian project of what is today often seen as urban-biased development policies and over-emphasis on industrial development through state planning (for example, Waelbroeck 1998). Whatever the motivation, in reality Indira Gandhi lacked political support to implement these programmes. The end of the Emergency saw the defeat of Mrs Gandhi in the 1977 election and a brief rule by the Janata Party, the precursor of the Hindu nationalist Bharatiya Janata Party (BJP). Our primary concern here is how these political crisis leading up to the Emergency may have induced a reorganisation of patron-client networks, within which LMIs such as trade unions were embedded.

In terms of industrial relations, the Emergency had a seemingly contradictory effect. This has to be seen within the context of the intent and limitation of the Indira Gandhi’s government. On the one hand, the Emergency was an attempt to revive the Nehruvian ‘state pluralism’ model of industrial relations. This is reflected in the pro-labour 1976 amendment to the Industrial Disputes Act, which may have been largely a “populist” measure (Bhattacharjee 1999: 9), but

nonetheless legislated that firms employing more than 300 workers had to obtain permission from the government in order to layoff or retrench workers or close down establishments. On the other hand, the Emergency saw the first clear indication of the central government retreating from the industrial relations arena. Draconian measures such as freezing wages, phasing out of the wage-based 8.33 per cent annual bonus, transferring increments in the dearness allowances (DA) to a compulsory saving scheme and the de facto banning of strikes (Rudolph and Rudolph 1987: 276), but more importantly this period saw the formation of the National Apex Body (NAB), a bipartite body between central trade union organisations such as the AITUC, INTUC and HMS on one hand, and employers' organisations such as the Employers' Federation of India, the All India Organisation of Employers, and the All India Manufacturers' Organisation on the other hand. Although the Ministry of Labour had a close involvement in the organisation, reflected in the fact that the Labour Minister and Ministry officials attending many of the NAB meetings (All India Trade Union Congress 1976), the NAB was intended as a platform to discuss bipartite solution to problems of lay-off, retrenchment and closure that took place during the Emergency. However, Rudolph and Rudolph (1987) argue that the impression that the NAB was a more voluntary and open-ended collective bargaining organisation that was responsive to bargaining agents, namely trade unions and employers, compared to previous tripartite organisations, such as the Indian Labour Conference, where the voice of trade unions was restricted to a strictly consultative role, was "deceptive" and "spurious" (p.275).

There is no question that NAB meetings ultimately reflected the government's desire to restrain militancy and keep production costs low. Indeed some argue that the bi-partite solution (or lack of it) to the problem of lay-off, retrenchment, and closure enabled firms to increase profits and assets at the cost of the repression of labour (Corbridge and Harriss 2000: 87). This evidence suggest that

industrial relations under the Emergency should be seen as “an exaggerated and repressive version of the more general Indian approach to industrial relations common to national centrist parties” (Rudolph and Rudolph 1987: 276), rather than to see it as an immediate shift away from the state dominated pluralist model.

Nonetheless the Emergency and the period after it saw a subtle but significant change in the organisation of patron-client networks and the position of LMIs within them. Once the Congress lost the ability to function as “an effective instrument of class rule” (p.94) the numerically small and organisationally weak and fragmented organised labour became weaker in its ability to extract public resources under the process of India’s development. The contradiction of the state dominated pluralist model and the LMIs associated with this was further exposed since the process of economic liberalisation, which began ‘hesitantly’ in the mid-1980s and became more ‘systematic and systemic’ since the introduction of the New Economic Policy in 1991 (DeLong 2003; Panagariya 2004; Rodrik and Subramanian 2004; 2005). At a macro-economic policy level, there has been a shift away from planning economy to a neo-liberal economic reform. This was mirrored at sector level by the dynamic, but uneven and segmented, development in labour and skill intensive industries such as garment, jewellery, information technology (IT) and light engineering. These structural changes in the Indian economy during the course of the 1980s has led to a relative decline in the political influence of the intermediate classes that flourished under the planned economy and stagnation, while also creating a set of countervailing class forces (McCartney and Harris-White 2000: 29). In urban India, a new group of middle class, such as professional managers, who are politically unaffiliated and enjoys the global consumption culture, which led to a progressive thawing of autarchic attitudes (p.34). In the rural area, the influence of rich peasants was challenged by the rise of backward castes, who became the centre of social mobilisation in the

nineties. The emergence of these new groups of middle class does not mean an end to redistributive conflict driven by political entrepreneurs, but rather signals a reorganisation of factions. Indeed, just as much as the new middle class with aspirations for 'globalised' lifestyle and consumer culture, there are indications that economic liberalisation has in turn created new space and opportunities for patron-client politics, as apparent in the rise of regionalism, ethnic and communal politics (Corbridge and Harriss 2000; Hansen 2001; Harriss-White 2003).

The long-term future of such redistributive politics remains to be seen. However, for the objective of this present thesis, the question is how this reorganisation of patron-client politics has altered the types of LMIs in Indian industries.

1.4.3 Reorganisation of LMIs

Since the 1980s, there is a growing perception amongst academics, policy makers and the popular media that the traditional form of industrial relations based on confrontational union politics and state intervention is no longer relevant, and that there is a paradigm shift in favour of a more ambiguous human resource management (HRM) (Ramaswamy 2000: 216-7). We have already seen that, in recent decades, pro-reform policy makers, industrial associations, mainstream media, and several influential economists have put forward a renewed attack on the legal framework of LMIs in India, most notably in the 'exit policy' debate, on the ground that the existing types of LMIs need to be altered in response to labour market conditions under globalisation and economic liberalisation (Basu 1995; Basu, Fields and Debgupta 1996; 2000; Debroy 2004; 2005). While employers³⁹ and advocates for labour market reforms argue that changes in labour law and labour market reforms are "desirable and will almost certainly make reforms better serve the masses in the long-run", they are "either too slowly

³⁹ For example, see comment by Mr. Subrata Dutta Gupta, Managing Director, Birla Home Finance Ltd. (http://www.birlahome.com/news_interview_bhfl_md.html; retrieved 26 January 2006).

implemented, or may come later than sooner” (Sachs, Varshney and Bajpai 1999), it has also been pointed out that, despite the lack of official exit policy, the conditions faced by organised labour have changed drastically since the 1990s and it is as if the industrial-relations reform was “preceded by stealth” (Jenkins 1999). The cornerstone of the ‘unstated’ reform is the voluntary retirement scheme (VRS), which was initially intended as an integrated programme for redeploying surplus labour, but increasingly functioning as a “‘back door’ labour reform” aggressively pursued by management⁴⁰ and the state. In fact the VRS has been so successful in making adjustments that for example, “the big capitalists themselves stopped pushing the government for an unrestrained Exit Polity, and argued they could manage with the VRS” (Singh 1995: 1359).

Despite such erosion of labour rights in the organised sector and dynamic accumulation in less-unionised sectors such as handloom textile and software industries, it is difficult to accept the argument that the politics of labour has changed fundamentally, nor can it be argued that industrial relations is no longer relevant (Chakrabarti and Dasgupta 2007). Organised and unionised labour has always been a numerical minority in India’s labouring class (Harriss-White 2000), and as we have argued, even in the unionised sector, intervention from other actors in the wider social context was always the norm rather than exception in collective bargaining. The perception of an apparent ‘retreat of the state’ from

⁴⁰ Another important change that must be commented is the nature of industrial capital. Since the 1980s, and increasingly the 1990s, employer’s attitude toward unionism has hardened, partly in response to the perceived rise of labour costs and militancy during the 1970s, and the crisis of industrial relations around the period of the Emergency Regime. The introduction of liberalisation policy in 1991 also created opportunities as well as compulsion to change the employment system dramatically. But another significant change is the development of ‘management accounting framework’ as means to increase “the ability of headquarters management to monitor wage costs and labour productivity” (Armstrong 1994: 199). Armstrong points out that there has been an “increased influence of accounting control systems on the managerial conduct of industrial relations” (191) in large British companies since the mid-1970s, and Hensman and Banaji (2001: 2) suggests that this change in corporate control may have taken place in some industrial establishments in India as well, particularly in big modern sector firms in places like Bombay. Such change would also have impact on the role bargaining agents may play in controlling the labour process.

industrial relations, as in the traditional 'state dominated pluralism' model, masks the active political interventions at various levels that allowed the 'reforms by stealth'. Liberalisation policies and rising fiscal deficits meant a decline in public sector investment and central support for state-level expenditures. This has forced certain state governments to adopt a more 'liberal' interpretation of labour laws regarding restructuring, retrenchment and closure in order to attract private and foreign capital (Tendulkar 2003). Jenkins (1999) observes that Chief Ministers in a number of states have been centrally involved in pushing through VRS as 'compromises' between unions and managements. This is another change that has taken place. In addition, there are various examples of the state effectively giving implicit permission to firms to restructure, retrench and close down, which includes substituting regular employees with contract employees (*op cit.*: 193); the use of restructuring as a way of closing unviable production units (*op cit.*: 194); making firms "immune to strike" by declaring their products "essential public-utility items" (140); and deregistering unions that do not comply with a narrow definition of the Trade Union Act. These observations reaffirm our argument that these are particular 'legal *form*' of capitalist social relations.

The implication of these 'back door reforms' for the bargaining agents has been a change in the 'payoff' structure which determines their opportunity, incentives and constraints. Traditional party-affiliated unions have increasingly found it difficult to deliver an acceptable level of wages and non-wage benefits to mobilise workers, who have sought alternative forms of political accommodation. Indeed there have been reorganisations in the LMIs in response to the changing factional politics since the 1980s, especially in the rise of caste and communal-based politics by traditional 'intermediate' classes such as the petty commodity producers and middle peasants.

Thus the 'evolution' of labour movements since the 1980s can be reinterpreted within this context of changing patron-client politics. For example, the 1980s saw a number of large scale industrial actions, the most famous of which is the Mumbai (Bombay) textile strike of 1982-83 (Bhattacharjee, 1988; 1989; 1999; van Wersch, 1992). It started as a dispute over the regularisation of casual workers (or *badli*) and wage increases in a few cotton textile mills, and expanded to an industry-wide stoppage that lasted over a year. At the heart of the dispute was the dissatisfaction amongst the rank-and-file workers towards traditional party affiliated unionism that imposes centralised settlement from above (Bhattacharjee 1999: 12). The textile industry is amongst those under the Bombay Industrial Relation Act (BIRA) of 1947, where industry-wide collective bargaining was mandatory, represented by the Congress-affiliated Rashtriya Mill Mazdoor Sangh (RMMS), despite apparent weak support from the rank-and-file. With the Shiv Sena unions withdrawing from the strike in support of the Congress government, mill workers turned to the Maharashtra Girini Kamghar Union (MGKU) of Dr. Datta Samant, the leader of the 'independent' trade union movement in Mumbai (Adarkar and Phatak 2005). Since the case provides us with important insights on the transformation of LMIs and the particular pattern of accumulation in Mumbai, we shall return to the textile strike over the course of our discussion in Chapters 4, 5 and 6.

The Mumbai textile strike is one of many disputes whereby dissatisfaction towards traditional party affiliated unionism was one of the underlying issues. This was especially so in places like Mumbai where the segmentation of growth was rapid, and also a relatively long history of employee unionism. The process of accumulation under liberalisation was severely uneven, not only between sectors, but also within sectors, which was the basis of discontent towards traditional industry-level collective bargaining, as indicated by the strong preference towards enterprise or plant-level bargaining amongst 'independent' unions. In industries

with high productivity, plant-based unions were able to extract higher wages, while in the low paid sectors, traditional party-based unions faced difficulty in delivering the 'wage-welfare' pay-offs. (Bhattacharjee and Chaudhuri 1994). There are some examples of organised 'independent' unions, most notably the Hindustan Lever Employees' Union, with a strong membership base and sufficient financial resources overcoming problems of multiple unionism and internal union rivalry. However, such successful cases of 'independent' unions are few and far between, and have so far not been able to provide an alternative all encompassing labour movement (Bhattacharjee 1999). Also such attempts to challenge the existing LMIs have not always achieved stability of industrial relations. For example, despite the display of unity amongst mill workers, the Mumbai textile strike came to an end without a resolution to the issue of representation, and resulting in the loss of as many as 75,000 jobs (Hensman 2001: 10).

It is our interpretation that the reorganisation of LMIs since the 1980s reflects the struggle for accommodation in the changing patron-client politics. Two factors, economic and political, which are not independent of each other, are important in explaining this⁴¹. Firstly, the shift in industrial structure meant that not only traditional party-based unions could no longer deliver sufficient benefits to industrial workers, but also the mode of managing the labour process changed. This does not necessarily mean that employers were able to "exert greater control over the labour process" (Bhowmik 1998: 158) since there is the active involvement of state government and other political actors in regulating labour,

⁴¹ At a more fundamental level, these economic and political conditions must be understood and historically situated as particular manifestations of 'late' capitalist transformation and social formation in the context in which there is increasing integration into the world economy and the international division of labour (Trotsky 1969; Callinicos 1990). While the focus of the present thesis is on the specific forms of labour relations and particular process of accumulation within India, it is recognised that these of course must be conceived as part of capitalist development in the perspective of world-historical *totality*, the analysis of which would require a separate paper to develop further.

but the type of intervention required to maintain the specific pattern of accumulation after liberalisation is likely to be different from that under the 'state-led industrialisation' of the 1950s and 60s. Secondly, and not unrelated to this economic process, the period after Indira Gandhi saw the rise of new political forces organised around regional, caste and communal symbols. The combination of the factional nature of Indian politics and the 'deepening' of democracy meant that increasingly politics depended on votes from 'lower castes', a loose term that refers to various social groups that are sandwiched between 'middle' castes and schedule castes and tribes⁴². Parties like the BJP benefited most from playing the communal card, but Indira's son Rajiv Gandhi and his Congress-(I) also participated, to some extent hesitantly, in this 'politics of communalism and religious nationalism' (Corbridge and Harriss 2000: 115). This also implied a relative shift of political attention to rural India. The struggle for accommodation has intensified for both organised labour and employers in that they are now competing for resources with these new political forces that have gained a strong political influence. However, changes in economic and political conditions proceeded differently across regions, and therefore created different structural opportunities, compulsions and capacities for bargaining agents to reorganise their LMIs, as we shall discuss in Chapters 4 and 5.

1.5 Summary and discussion

This chapter highlighted key hypotheses underlying the current policy debate on reforms of labour markets and legislation. First, we have seen that, despite being based on strongly contested empirical studies, the perception that poor industrial performance and slow employment growth in the organised sector can only be addressed by tackling the rigid LMIs, is widely shared. This is reflected in the

⁴² Scheduled caste and tribes (SCs/STs), also known as *dalits* and *adivasis*, are the so-called 'depressed classes' who are defined and listed under the Indian Constitution. According to the 2001 Census, SCs/STs together comprise over 24% of India's population.

fixation on the Chapter VB of the IDA in the policy debate, for instance apparent from the headline-grabbing recommendation by the Second National Commission on Labour (SNCL) to repeal the provision.

Second, a policy consensus has emerged in recent years around the hypothesis that the politicised nature of the LMIs is the main cause of inefficiency and slow industrial development in developing countries, such as India. Again the SNCL has made recommendations which are thought to prevent trade unions and other LMIs from being exploited by political parties and outside political entrepreneurs, making them more responsive to the economic realities at the shop-floor and firm levels.

What emerges from the policy discourse is the idea that the existing types of LMIs prevalent in Indian industries are the “inappropriate” ones chosen either because of ideological beliefs (Banerji, Campos, and Sabot 1995) or because of rent-seeking and lack of effective democratic representation (Aidt and Tzannatos 2002). This logic is used to justify the promotion of the micro based reforms focusing on changing bargaining institutions, by promoting better democratic process and transparency, as measures that enable LMIs to contribute more effectively to economic efficiency and growth.

Such an emerging consensus in the policy debate on LMIs is also consistent with the methodologically individualistic view of institutions and society prevalent in contemporary economic analysis, most evidently developed in the work by Douglass North (1990; 1999). North and his followers argue that institutions and institutional structures can change incrementally as political and economic entrepreneurs perceive new opportunities. Of course, institutions, which are thought of as an accumulation of rules, norms and beliefs over time, has path dependence, and therefore constrains the choices of micro-level agents. However,

as the perception about the reality changes, sets of beliefs and ideologies regarding the reality are formed, which incrementally changes policy and in the end also the institutional structure. From this viewpoint, the on-going attempt to change LMIs in Indian industries can be seen within a wider effort to 'adjust' the institutional structures to make it more comfortable to the opportunities and threats faced by micro-level agents. The implication is that by making micro-level adjustment to allow better representation and information flows, the incremental changes in the institutions can be achieved.

There is however an alternative perspective on the relationship between the institutional structure and choices of individual micro-level bargaining agents. According to this view, organisational and distributional conflicts at the macro political economic level, and more specifically, how political and economic entrepreneurs of different types compete for resources might precisely be what characterises the institutional structure of society (Khan 1998; 2005b). These macro political economic conflicts in turn reflect the broader patterns of economic development and accumulation, whereby industrial capital requires extra-economic interventions in organising the labour process. This social and political structure determines the opportunities, incentives and constraints of local bargaining actors such as trade unions and employers. Thus different types of LMIs are reflections of the social structure and pattern of accumulation, rather than something that is 'chosen' by micro-level agents. It also implies that micro-level reforms regarding 'good governance' are inadequate in addressing what is essentially a structural problem, and that a broader set of reforms are required for adjustment and sustaining economic growth. This is an aspect insufficiently addressed by the on-going policy debates as well as conventional institutional and bargaining models, if not ignored entirely.

The dichotomy of the two perspectives is of course represented in classical debates between rational choice approaches and structuralism in social sciences (Callinicos 1988; Giddens 1989; Hargreaves Heap *et al.* 1992). To some extent we find interesting insights in both arguments, but in the context of the analysis of LMIs in developing countries such as India, the latter structural arguments require closer attention. The emphasis on social structure is important in countries like India where industrial capital and organised labour are numerically small and politically less established, and they are subjected to the institutional structure that results from the organisational and distributional conflicts, which give rise to different types of rent-seeking based on patron-client networks (Khan 1998; 2000b). This being the case, the task for this thesis is to explore the structural opportunities for and capacities of micro-level bargaining agents as being determined by macro political economic conditions.

APPENDIX TO CHAPTER 1

TABLE A1-1 RATIFICATION OF ILO CONVENTIONS

	Total no of ratification
Bangladesh	31
India	36
Pakistan	31
Sri Lanka	33
Indonesia	10
Korea	4
Malaysia	11
Singapore	21
Thailand	11

Source: Hossain, Islam and Kibria (1999)

TABLE A1-2 SECTORAL SHARE IN MALE WORK FORCE (%)

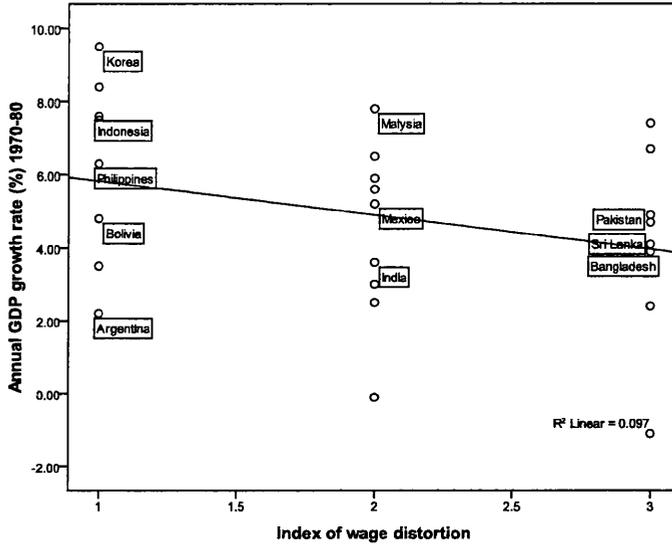
	1951	1961	1971	1981	1991	1993-94	1999-2000
Primary	69.1	68.0	69.7	65.6	62.8	64.6	60.5
Secondary	12.6	12.7	12.0	14.5	13.9	15.2	16.9
Tertiary	18.3	19.3	18.3	19.9	23.3	20.3	22.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Primary sector is defined as agriculture and allied industries; secondary includes mining, manufacturing, and construction; and tertiary includes trade and commerce transport and other services. Note that figures are based on the national census for 1951-1991 while the 1993-94 and 1999-2000 are based on the national sample surveys. Due to difference in coverage and data collection methods the two types of data are strictly not comparable, and therefore should be interpreted with care.

Sources: Figures for 1951-91 are census data; 1951 and 61 from Rao (1983); 1971 and 1981 from Deshpande and Deshpande (1985); 1991 from Census of India 1991.1993-94 and 1999-2000 are based on NSSO cited in Sundaram (2001).

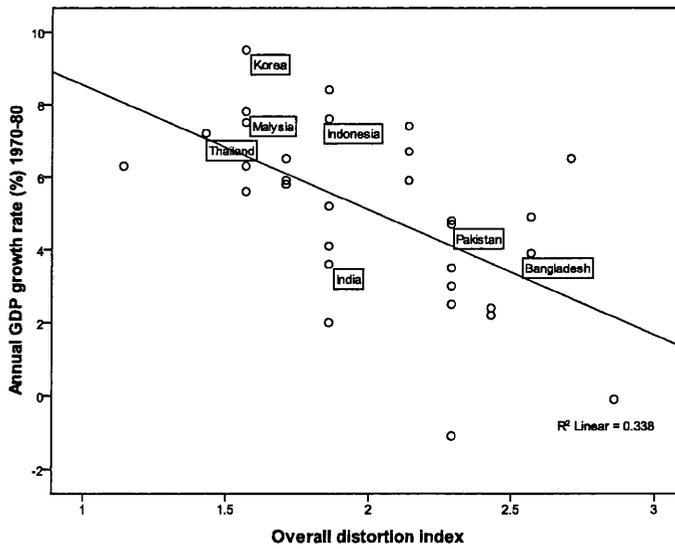
FIGURE A1-1 SCATTER PLOT OF AGARWALA'S DISTORTION INDICES AGAINST ANNUAL GDP GROWTH RATE

(i) Index of real wage distortion



Note: Pearson's correlation coefficient is -0.31 and significant at the 8.8% level

(ii) Overall distortion index



Note: Pearson's correlation coefficient is -0.58 and significant at the 0.1% level
 Source: Authors calculation based on Agarwala (1983)'s indices.

TABLE A1-3 NUMBERS OF LABOUR DISPUTES, WORKERS INVOLVED IN DISPUTES, AND WORKDAYS LOST IN DISPUTES IN SELECTED COUNTRIES/REGIONS, 1985-1998.

		1985	1990	1994	1995	1996	1997	1998
India ¹⁵⁾	No of labour disputes	1,755	1,825	1,066	1,166	1,305	1,097	565
	No of workers involved in disputes	1,078.8	1,307.9	989.7	939.3	981.3	1,288.9	647.7
	No of workdays lost in disputes	29,239.5	24,086.2	16,289.6	20,284.8	16,971.4	22,062.0	8,857.7
Japan ¹⁾	No of labour disputes	627	284	209	193	178	144	NAV
	No of workers involved in disputes	123.4	84.3	37.5	23.2	47.2	26.3	NAV
	No of workdays lost in disputes	264.1	144.5	77.0	42.8	110.2	101.5	NAV
USA ²⁾	No of labour disputes	54	44	31	37	29	34	17
	No of workers involved in disputes	323.9	184.9	191.5	272.7	338.6	386.8	72.6
	No of workdays lost in disputes	7,079.1	5,925.5	5,771.2	4,888.6	4,497.1	5,115.7	1,995.8
Canada ³⁾	No of labour disputes	829	579	328	330	284	375	413
	No of workers involved in disputes	162.2	270.5	149.2	281.8	257.7	232.9	158.6
	No of workdays lost in disputes	3,125.6	5,079.2	1,583.1	3,351.8	3,609.8	2,460.8	2,445.7
UK ⁴⁾	No of labour disputes	903	630	235	244	216	166	205
	No of workers involved in disputes	791.3	298.2	174.0	364.3	130.0	92.7	140.9
	No of workdays lost in disputes	6,402.0	1,903.0	415.0	1,303.3	234.7	282.4	241.8
Germany ⁵⁾	No of labour disputes	NAV	777	361	200	144		
	No of workers involved in disputes	78.2	257.2	183.3	165.7	13.5		
	No of workdays lost in disputes	34.5	363.5	247.5	98.1	52.9		
France ⁶⁾	No of labour disputes	1,901	1,790	2,066	1,439	1,607	1,475	
	No of workers involved in disputes	22.8	18.5	43.5	11.4	12.2	10.1	
	No of workdays lost in disputes	726.7	528.0	783.8	444.1	393.4	345.6	
Italy ⁷⁾	No of labour disputes	1,341	1,094	545	904	923	1,103	
	No of workers involved in disputes	4,842.8	1,634.0	445.0	1,689.4	737.3	435.4	
	No of workdays lost in disputes	3,830.8	5,181.3	909.3	1,930.0	1,185.6	580.4	
Sweden ⁸⁾	No of labour disputes	160	126	36	9	14	13	
	No of workers involved in disputes	124.5	73.2	125.5	9.1	11.9	0.6	
	No of workdays lost in disputes	504.2	770.4	627.3	61.3	23.6	1.7	
Russia ⁹⁾	No of labour disputes	NAV	260	8,856	8,278	17,007	11,162	7,285
	No of workers involved in disputes	NAV	99.5	489.4	663.9	887.3	530.8	238.4
	No of workdays lost in disputes	NAV	207.7	1,367.0	4,009.4	6,000.5	2,881.5	1,827.2
Hong Kong ¹⁰⁾	No of labour disputes	3	15	9	17	7	8	
	No of workers involved in disputes	0.4	1.5	1.3	1.8	0.4	0.6	
	No of workdays lost in disputes	1.2	3.5	1.0	2.7	0.8	1.4	

TABLE A1-3 (CONT.)

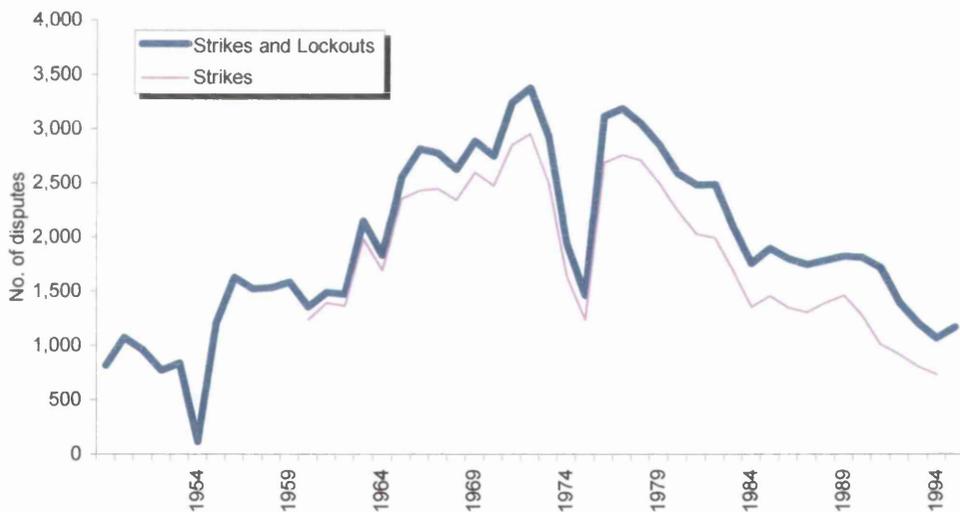
		1985	1990	1994	1995	1996	1997	1998
South Korea ¹¹⁾	No of labour disputes	265	322	88	85	78	129	198
	No of workers involved in disputes	28.7	133.9	49.7	79.0	43.9	146.1	92.0
	No of workdays lost in disputes	64.3	4,487.2	392.6	893.0	444.7	1,452.1	1,366.0
Malaysia ¹²⁾	No of labour disputes	25	17	13	9	5	12	11
	No of workers involved in disputes	9.0	98.5	1.7	1.0	0.8	1.8	3.5
	No of workdays lost in disputes	36.0	302.0	4.9	2.6	2.4	2.7	10.6
Thai	No of labour disputes	4	9	39	18	23	NAV	
	No of workers involved in disputes	0.6	4.3	16.8	8.7	11.9	NAV	
	No of workdays lost in disputes	13.1	71.6	219.9	92.1	150.6	NAV	
Indonesia ¹³⁾	No of labour disputes	78	61	276	346	234	NAV	
	No of workers involved in disputes	21.1	31.2	126.9	221.3	145.6	NAV	
	No of workdays lost in disputes	557.0	262.0	1,300.0	2,496.4	1,250.4	NAV	
Philippines ¹⁴⁾	No of labour disputes	371	183	94	89	93	92	58
	No of workers involved in disputes	111.3	68.4	54.4	32.3	51.5	34.5	15.5
	No of workdays lost in disputes	2,457.7	1,344.6	584.2	518.9	672.7	556.8	229.2
Australia ¹⁶⁾	No of labour disputes	1,895	1,193	643	543	447	518	729
	No of workers involved in disputes	570.5	729.9	344.3	577.7	315.4	348.3	460.9
	No of workdays lost in disputes	1,256.2	1,376.0	547.6	928.5	534.2	526.2	650.4
New Zealand ¹⁷⁾	No of labour disputes	383	137	69	72	42	35	32
	No of workers involved in disputes	182.2	50.0	32.1	42.3	7.7	15.2	10.7
	No of workdays lost in disputes	756.4	330.9	53.4	69.5	24.6	11.8	16.7
Brazil ¹⁸⁾	No of labour disputes	843	1,846	NAV	NAV	NAV	NAV	
	No of workers involved in disputes	5,431.0	14,243	NAV	NAV	NAV	NAV	
	No of workdays lost in disputes	49,575.0	17.0	NAV	NAV	NAV	NAV	

Sources: Japan: Ministry of Health, Labour and Welfare, *Rodo-sogi Tokei Chosa Nen-hokoku [Annual Report of Labour Disputes Statistics]*, Germany: Federal Statistical Office, *Statistisches Jahrbuch*, 1997, Others: ILO, *Yearbook of Labour Statistics*.

Note: Number of disputes in actual units. Number of workers involved in disputes in 000s. Number of workdays lost in 000 days. 15) Excludes political and sympathetic strike, and disputes with less than 10 workers involved. Figures for 1999 are preliminary. 1) Exclude disputes lasting less than a half-day. Number of workers involved in disputes is the number of workers actually participated. 2) Exclude disputes with less than 1,000 workers involved and lasting less than a day. Disputes started within the year. 3) Disputes lasting half day or more and with 10 workdays or more lost. Number of workers involved in disputes is the number of workers actually participated. 4) Includes disputes lasting less than a day, or with less than 10 workers involved, if the workdays lost exceeds 100. Excludes political strike. 5) Ex-West Germany prior to 1990. Includes disputes lasting less than a day, if the workdays lost exceed 100. Excludes public sector after 1993. Number of workers involved in disputes is the number of workers actually participated. (Note continued on next page)

Note (continued): 6) Excludes localised disputes (disputes at the level of single firm), agricultural and public sectors. Measures the number of disputes by the unit of establishments. Number of workers involved in disputes is calculated from the monthly average. 7) Number of workdays lost is calculated assuming 7 work hours per day. 8) Excludes disputes lasting less than 8 hours. Number of workers involved in disputes is the number of workers actually participated. 9) Excludes disputes lasting less than a day. 10) Includes disputes lasting less than a day, or with less than 10 workers involved, if the workdays lost exceeds 100. Exclude public sector. Number of workers involved in disputes is the number of workers actually participated. 11) Number of workers involved in disputes is the number of workers actually participated. 12) Strikes only. Number of workers involved in disputes is the number of workers actually participated. 13) For 1985 number of workdays lost is calculated assuming 7 work hours per day. 14) Excludes disputes lasting less than a day. Number of workers involved in disputes is the number of workers actually participated. 16) Excludes disputes with less than 10 workdays lost. Figures for 1994 measured in new industrial categorisation. Number of workers involved in disputes is the total number of workers employed in firms involved in disputes. 17) Excludes disputes with less than 10 workdays lost. Figures for 1985 excludes public sector. Number of workdays lost is calculated assuming 8 work hours per day. 18) Strikes only. Number of workers involved in disputes is the number of workers actually participated.

FIGURE A1-2 NUMBER OF DISPUTES



Source: Indian Labour Yearbook, Indian Labour Statistics, Indian Labour Journal, Labour Bureau, various years.

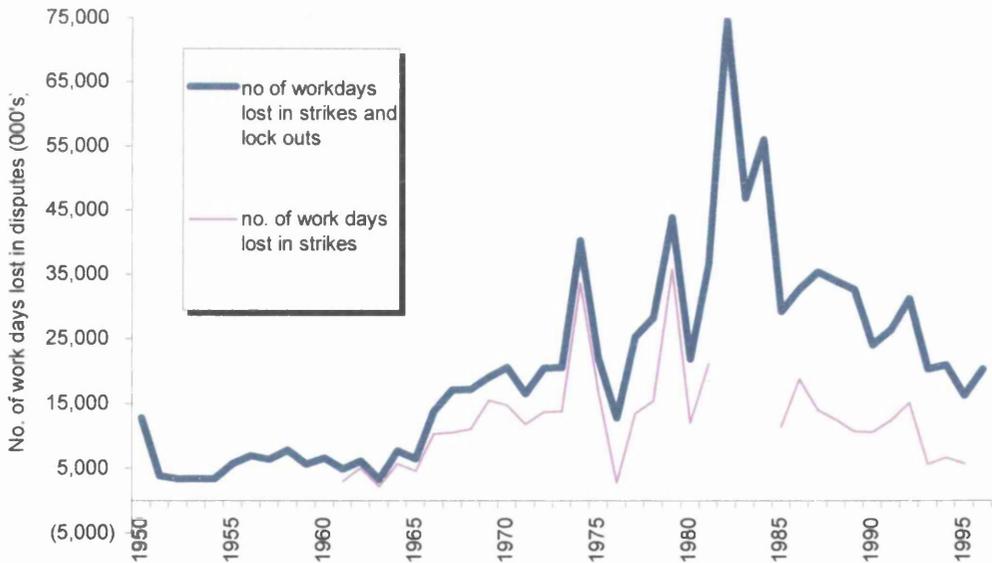
FIGURE A1-3 NUMBER OF WORKERS INVOLVED IN DISPUTES



Note: Figure in '000s.

Source: Indian Labour Yearbook, Indian Labour Statistics, Indian Labour Journal, Labour Bureau, various years.

FIGURE A1-4 NUMBER OF WORK DAYS LOST IN DISPUTES



Note: Figure in '000s.

Source: Indian Labour Yearbook, Indian Labour Statistics, Indian Labour Journal, Labour Bureau, various years.

TABLE A1-4 PERCENTAGE SHARE OF LOCKOUTS IN TOTAL LABOUR DISPUTES

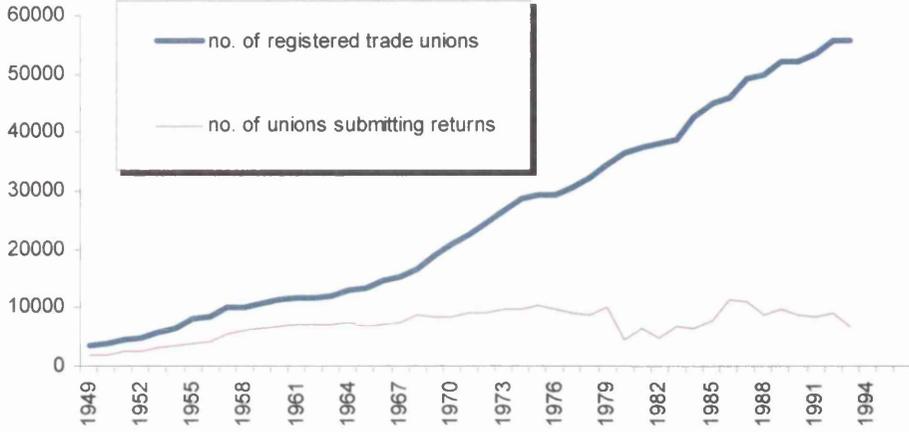
	1967-69			1986-88		
	Number of occurrences	Number of workers involved	Number of workdays lost	Number of occurrences	Number of workers involved	Number of workdays lost
Andhra Pradesh	5.6	8.3	14.8	24.0	12.6	9.3
Bihar	7.3	2.6	6.5	20.9	6.5	64.9
Gujarat	1.7	3.4	6.5	13.4	21.4	39.4
Karnataka	8.0	32.4	42.8	18.4	18.3	51.9
Kerala	6.9	2.7	6.8	25.5	10.9	17.8
Maharashtra	4.1	3.3	15.1	33.8	27.3	67.3
Tamil Nadu	22.8	14.8	43.8	11.7	7.8	24.8
Uttar Pradesh	11.0	17.7	54.4	17.4	12.2	43.1
West Bengal	36.6	17.2	43.6	75.1	32.3	85.6
India	12.0	9.9	30.5	24.4	15.8	55.6

TABLE A1-4 (CONT.)

	1993-95			1996-98		
	Number of occurrences	Number of workers involved	Number of workdays lost	Number of occurrences	Number of workers involved	Number of workdays lost
Andhra Pradesh	57.2	63.4	71.7	65.0	62.6	64.6
Bihar	53.4	10.3	77.5	30.8	11.7	35.3
Gujarat	10.1	10.1	50.7	13.8	7.6	23.9
Karnataka	42.3	23.7	49.7	25.2	3.1	29.9
Kerala	43.6	21.2	61.9	37.8	11.7	66.3
Maharashtra	26.0	28.6	69.0	33.1	21.7	68.0
Tamil Nadu	13.5	14.8	21.9	15.5	13.4	31.2
Uttar Pradesh	39.2	33.1	68.0	53.3	52.6	74.9
West Bengal	83.8	15.2	95.3	81.0	46.5	85.4
India	33.0	29.0	68.8	37.8	36.2	60.4

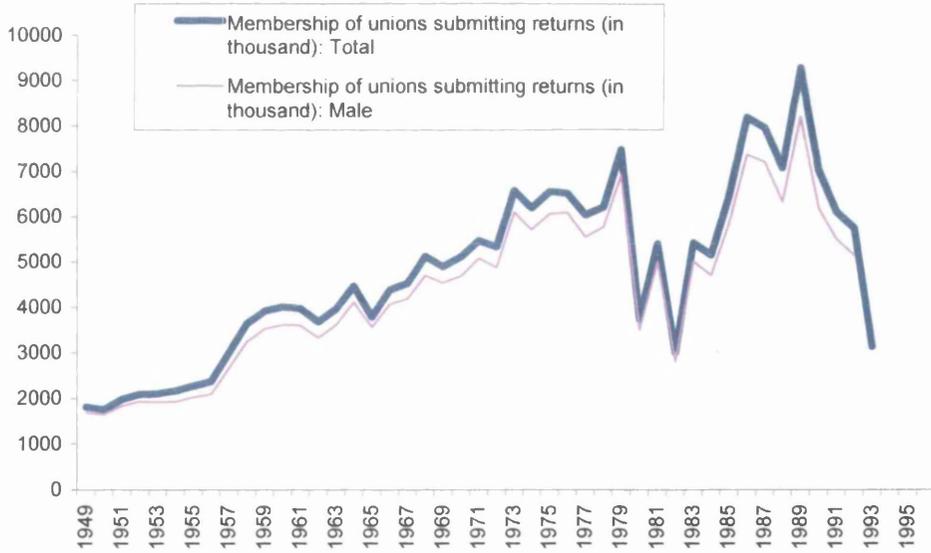
Source: Sundar (2004) p.4381.

FIGURE A1-5 INDIA: NUMBER OF TRADE UNIONS



Source: Indian Labour Yearbook, Indian Labour Statistics, Indian Labour Journal, Labour Bureau, various years.

FIGURE A1-6 INDIA: UNION MEMBERSHIP



Note: Figure in '000s.
Source: Indian Labour Yearbook, Indian Labour Statistics, Indian Labour Journal, Labour Bureau, various years.

Chapter 2

THEORIES OF COLLECTIVE BARGAINING AND LABOUR
MARKET INSTITUTIONS

2.1 Towards an analytical framework of LMIs in developing countries

This chapter aims to develop a methodological and theoretical approach for analysing the institutions of collective bargaining in developing countries, by reviewing the main theoretical literature in economics and critically assessing them. The purpose is not to produce a comprehensive literature survey of economic models of labour market institutions (LMIs), but to critically evaluate the strengths and limitations of each model and highlight issues that our analytical framework would address, particularly in the context of analysing LMIs in developing countries. At the same time, these theories and models are a result of scholarly attempts to analyse the labour-management relations of particular countries or industries, and thus are manifestations of *real* historical experiences of different ways in which LMIs are involved in controlling and managing the labour process.

Economic models highlight possible types of LMIs associated with specific effects on productivity growth and economic efficiency. However, we point out that conventional models undervalue the social and economic conditions within which LMIs operate, mirroring the assumption in new institutional economics (NIE) that higher level institutions and organisations, even ultimately the social structure, can be attributed to micro-level behavioural models, whereby the persistence of failed institutions is explained by the cognitive limitations of economic agents. We argue that this lack of emphasis on social and political structure is problematic, especially in applying the models to LMIs in developing countries such as India, where the ‘organised’ or ‘regulated’ industrial capitalist

sector is still relatively small and underdeveloped; bargaining agents' opportunities, incentives and constraints are subject to the pattern of distributional conflicts at the macro political economy; and the scope for productivity growth is typically not high enough compared to the payoff gained from rent-seeking over public resources. This leads to our proposition in favour of an alternative political economic approach, whereby the existing types of LMIs are explained within a more holistic framework of economic, social and political determinants.

2.1.1 Efficiency implications of LMIs

The economic analysis of LMIs is concerned with its various economic effects. There is the principal effect on allocation of resources through the bargaining process in the presence of LMIs. For example, wage increases associated with unionisation and collective bargaining, known as the union-wage premium, has a similar effect to taxation in that it imposes higher labour costs in the unionised sector compared to the non-unionised sector and thus leads to factor market distortion and allocative inefficiency (Johnson and Mieszkowski 1970; DeFina 1983). Successful wage increase in the unionised sector leads to a decline of demand for labour in that sector, which results in displacement of labour from the unionised to the non-unionised sectors. In theory the social welfare loss arises from workers being employed where their marginal productivity is lower than before (Sapsford and Tzannatos 1993: 327).

In addition there is also the secondary effect of LMIs on rent-seeking and transaction costs, which ranges from 'over-manning' and creation of complex work rules in order to protect jobs or resist technological change, an act known as 'featherbedding' in the US labour relations literature, to corrupt transactions to political administrators, which are resources spent by bargaining agents in competing over a larger share of resources.

Thirdly, LMIs such as trade unions can potentially play a role beyond its 'narrow' economic effect on resource allocation and output, and contest the social and political structure. Apart from the social and ideological influences such a role may have, this could also in turn have economic effects by increasing the instability of existing property rights and the institutional structure of society. However such 'corrosive' effects of LMIs is difficult to predict, and therefore most economic literature focuses on the above two 'allocative' effects of institutions (Khan 1996: 14).

Traditionally the debate on LMIs in economics has been between what Richard Freeman (1988; 1993) famously labelled the 'distortionist' and 'institutionalist' perspectives. The 'distortionist' position is associated with economists such as Agarwala (1983), Fallon and Lucas (1991), Joshi and Little (1994), and Pencavel (1995), who were instrumental in the policy research at the World Bank up to the 1990s. According to the distortionists, trade unionism and labour legislation is typically harmful for allocative efficiency and growth by increasing labour costs and lowering labour demand, as well as increasing rent-seeking and transaction costs. In the context of Indian industrial labour, much of the recent debates on 'jobless growth' and labour law reforms have predominantly taken place within this traditional distortionist position.

In contrast, the alternative position categorised as the 'institutionalists' is associated with writers such as Freeman and Medoff (1984), Calmfors and Driffill (1988), Nelson (1991) and Standing (1992), many of whom are associated with the policy research at the International Labour Organization (ILO). The main argument of the institutionalists is that trade unionism and state regulation can create conditions for economic development and efficiency. For example, trade unions can act as a channel of information by collecting information about employees' preferences and use it for negotiation with the employers (Freeman

and Medoff 1984). If employers can act on this information, unnecessary turnover or replacement can be reduced. Also unions can contribute in monitoring and maintaining 'effort levels' or the amount of labour power provided, by collectively agreeing on work norms and implementing them. LMIs can also have 'dynamic effects' (Standing 1992) on efficiency and growth. Unions can help establish long-term cooperative relations on which human capital development and efficiency enhancing measures can be instigated. The effect of imposing higher than market clearing wages can force capital investment and can potentially have a positive impact. This was the explanation put forward in the *Produktivitätspeitsche* ('productivity whip') debate in Germany or the Rehn-Meidner model in Sweden, whereby firms are forced to adopt new technology and improve efficiency in order to reduce costs (Calmfors et al. 2001: 68).

While these two positions represent two opposing camps in the debate on the efficiency effects of LMIs, in fact they are merely highlighting two aspects or 'faces' of institutional interventions. The distortionist perspective emphasises the cost incurred by the firm and society by the presence of LMIs, while the institutionalist view focuses on the potential benefits from it. But for the economy as a whole, the issue is its net efficiency effect, that is, whether the allocation of resources and output subsequent to the bargaining through LMIs signals higher productivity and efficiency compared to the initial ones, or to put it differently, whether the efficiency and welfare-improving aspects of LMIs exceeds its social costs. For example, Aidt and Tzannatos (2002: 37) define the net benefit of unionism as "participatory and dispute resolution benefits minus the sum of monopoly and rent-seeking costs".

Empirical studies suggest that the generalised conclusion on this net efficiency effect is difficult to arrive at. On the social costs of LMIs, a large number of studies have focused on estimating the wage mark-up from unionisation, or

union-wage premium, typically by comparing the coefficients in wage functions for unionised and non-unionised workers. Much of this literature is on advanced industrialised economies, particularly the US and the UK. For example, Blanchflower and Bryson (2002) estimates the wage differential between the unionised and non-unionised sectors in US industries as 18 per cent and in the UK as 10 per cent, while for an average of 17 countries (Australia, Austria, Brazil, Canada, Chile, Cyprus, Denmark, Japan, New Zealand, Norway, Portugal and Spain) the wage mark-up is estimated to be 12 per cent. The evidence for unionisation wage premium for developing countries is mixed. On the one hand, countries such as Malaysia appears to have higher wage premia ranging from 15 to 20 per cent (Standing 1992), Panagidas and Patrinos (1994) estimate the overall union-nonunion wage gap as 10.4 per cent, and similarly Butcher and Rouse (2000) finds a union-wage premium of around 20 per cent for African workers and 10 per cent for white workers in South Africa. But there is also evidence of lower wage differentials than in advanced industrial economies, for instance a mark-up of less than 4 per cent in 1988 in South Korean manufacturing sector. India is generally thought to belong to the first group of developing countries with high union wage premia, as suggested in Madheswaran and Shanmugam (2003), which provides an estimate of the wage differentials between unionised and non-unionised workers, controlling for occupations, education, experience, marital status etc., to be around 42-47 percent using data for blue collar male workers employed in the manufacturing industry in Chennai (Madras). A number of studies also offer estimates of the social cost of the union-wage premium by measuring the dead weight welfare loss, which suggests that in advanced capitalist economies such as the US, the allocative consequences of the union-wage premium tend to be small. Empirical studies in the US based on general equilibrium models suggest that the output loss associated with unionisation is as low as 0.1 to 0.4 per cent of the GDP (Freeman and Medoff 1984: 110). While all

such estimates must be interpreted with caution given the limitation of data, the difficulty of controlling for all other factors other than unionisation in the wage function, and self-selection problems (Sapsford and Tzannatos 1993), it is interesting that the extent of 'wage distortion' due to unionisation does not necessarily seem to be correlated with the efficiency or growth performances of the economy. This implies that we cannot evaluate the efficiency and growth implications of LMIs by the scale and extent of its monopoly and rent-seeking costs alone.

On the other hand, empirical studies on other effects of LMIs on efficiency and growth are even more complex to summarise. Freeman and Medoff famously estimated that the effort of unionisation leading to lower turnover is "equivalent to a 1 percent to 2 percent reduction of cost" and that this corresponds to 0.2 to 0.3 per cent of GNP in the US, which is "of comparable magnitude to the social cost of unionism" (*op. cit.*: 109-110). However the overall effect of LMIs on productivity is difficult to generalise (Booth 1995; Aidt and Tzannatos 2002; Metcalf 2002; Hirsch 2003). Studies on the US and the UK suggest that the differential levels and growth of productivity between unionised and non-unionised firms may be "positive, negative, or insignificant, depending on the particular industry" (Booth 1995: 199). Similarly in studies on Japanese firms, Muramatsu (1984), Bruno (1992), and Noda (1997; 2007) find differential productivity effects depending on types of firms and model specifications. In a study on Malaysian unions, Standing (1992) finds positive impact on productivity levels associated with the dynamic efficiency effects of unionism. Again, keeping in mind that these empirical estimates are subject to various empirical issues, including doubts over the validity of the production function approach, on which many of these analyses are based, we may at least suggest that there appears to be greater variations in the effects of LMIs on differentials and growth of productivity.

A glance at the conventional distortionist-institutionalist debate indicates that there is no simplistic way in which we might make inferences about the monopoly and rent-seeking costs or the types of efficiency and growth enhancing effects, without reference to more specific conditions. Yet we may observe that some types of rent and rent-seeking clearly signals inefficient resource allocation and barriers to growth, while others might be a reflection of dynamic efficiency in the economy. In other words, we need to explore how different types of rent and rent-seeking may be associated with differential implications on productivity.

2.1.2 Rents, bargaining agents and social structure

Economic analysis of labour market institutions (LMIs) such as trade unions and collective bargaining focuses on the economic rent sought. This is because “for a union to be able to increase workers’ remuneration there must exist some economic rent or surplus that is available for sharing” (Booth 1995: 259), or from a political economic perspective, to force capitalist to reduce the rate of surplus extraction. There has been competing definitions of economic rent or in economics¹. Neoclassical economics define economic rent, or ‘quasi-rent’ if we borrow the term from Marshall (1969), as the payment to the factor of production in ‘excess’ or above its opportunity cost or transfer earnings (Gravelle and Rees 1992: 272-3). Opportunity cost or transfer earning is the amount that could be produced if the production factor is used in the next best opportunity.

¹ While the neoclassical definition of rent is associated with the classical theory of agricultural rent, it is also a departure in several respects. Most apparently, the concept is no longer limited to agriculture. The implication of this is that categories such as wages, profits, and rents are treated as equivalent, with obvious ideological content (Fine 1982). This also reflects the failure of neoclassical economics to explain the non-temporary existence of surplus profits. Khan (2000a) points out that under the standard neoclassical assumptions of perfectly competitive markets in long-run equilibrium and homogenous production function, all factor payments equal to their opportunity cost, and thus there is no rent and the rate of profit is zero. A temporary existence of profit and rent is explained by the firm being in a position of monopoly or monopsony, by dynamic economic changes (as in Joseph A. Schumpeter), or by the premium earned through managing risks (as in F. H. Knight). Hence the profit has a rent-like characteristic in the neoclassical theory.

In other words, the rent is defined as the amount necessary to keep the factor in the current employment status. For classical political economists, such as Ricardo (1996) and Marx (2000), the term rent was used to refer to the landowner's income from the appropriation of surplus profit created from application of capital to lands with different productivity.

In this thesis we will use the term rent to refer to income and income stream generated through or influenced by bargaining, or to put differently, income stream generated by making, changing, or destroying property rights that would not have existed if those changes in property rights did not take place. The income stream is again broadly defined, which includes not only wages but also other non-wage payoffs obtained from employment relations, *inter alia*, employment, security and fringe benefits. Bargaining influences income in this case by changing the access to resources. Our working definition of rent enables us to analyse diverse types of rents in existing economic models, and more importantly, focus our analysis on how bargaining influences creation and allocation of different types of income and income streams.²

² While our broad definition of rent serves our purpose in terms of analysing different types of income streams and its implication to the opportunity, incentives, and constraints bargaining agents face in industrial relations, it is recognised that our definition does not address the problems highlighted in the debates on the theory of rents. Like the neoclassical definition, we are using the term rent or 'quasi-rent' in the sense that the effects of state intervention or monopoly represents obstacles to the pure mechanism of competition and capital accumulation, just as agricultural rent arises from the ability of landowners to intercept the surplus profits generated from the application of capital to lands with different productivity (Fine 1982; 84). In this sense, our definition also fails to distinguish rent from surplus profits or wages, which is problematic because it confuses distinctively different economic processes and treats different money forms of surplus value as economically equivalent. At the same time, as we have pointed out, in developing countries where the capitalist sector is not necessarily dominant in its economy and where property rights are not well established, distinguishing rent from surplus profit can be difficult. Also income received in a form of transfer (in our terminology outside-firm rents) may have implications on the size and share of surplus generated through production (within-firm rents), which further blur the boundary between these categories.

The broad definition of rent employed here is also relevant for our purpose of analysing the bargaining process in developing countries such as India, where factor markets are underdeveloped, and therefore the opportunity cost of a factor is difficult to pin down, where property rights are unstable, capital does not necessarily have monopoly over the means of production, and the division of factor compensation cannot be easily evaluated, and further where the payment to keep the factor in production may take diverse *forms*, which cannot necessarily be reduced to wages or monetary income.

Within- and outside-firm rents

Rents discussed in the context of collective bargaining can be broadly categorised from their income streams into two types, which we shall call within- and outside-firm rents.

‘Within-firm rents’ are rents directly generated as a result of a firm’s production activities. More specifically it is the share of above normal returns that exists because of the market power of firms; the ‘monopoly’ rent in modern economics literature. Note that the existence of monopoly rent does not necessarily mean that the firm has a monopoly. A firm can have market power to earn above normal returns due to (‘artificial’ or ‘natural’) barriers to entry and sunk costs. Under these conditions ‘within-firm rents’ can be targeted by unions without the firm going out of business.

In contrast, our second category of rents, the ‘outside-firm rents’ are a share of politically created incomes that are not directly generated by the production activities of the firm or negotiated by bargaining within the firm. Rather they are targeted by bargaining agents’ lobbying activities to state officials and politicians. ‘Outside-firm rents’ can be of two types. The first is various forms of transfer made from within the political mechanism through taxes, loans and direct

subsidies, the share of which may be negotiated by bargaining agents. For example subsidies to sustain an industry and keep workers employed can be considered a type of rent or rent-like income (Khan, 2000a). Note that the ‘outside-firm rents’ in the form of transfer cannot be considered in isolation to the ‘within-firm rents’, because the subsidy or tax benefits may be necessary for the firm to stay in production in the short run, and more importantly to act as critical incentive for the firm to invest in new technology and improve its productivity in the long run. The second type of outside-firm rent is the change in labour laws, regulations or regulatory frameworks that give bargaining agents access to resources. This second type of outside-firm rent also overlaps with within-firm rent because it does not work unless the firm has market power that justify surplus, that is, even if the regulatory framework is changed in favour of the particular bargaining agents, this only translates into extra earning for the agents if the surplus to share exists and if that can be appropriated.

Our categorisation of within- and outside-firm rents avoids the misleading dichotomy between company-based ‘economic rent’ and ‘political rent’ in conventional rent-seeking literature. From a political economic perspective, what we call within- or outside-firm rents are both part of the (total) surplus value, over the distribution of which labour and capital struggle, which is at once both an ‘economic’ and ‘political’ process.

However, it is not our intention to suggest that ‘within’ and ‘outside’ firm rents are essential categories that characterise a particular macro political economy. From our political economic approach, these differential types of rents are reflections of particular patterns of economic development or accumulation, as opposed to be ‘chosen’ by bargaining agents at the micro-level, as we shall elaborate below. However the categories of ‘within’ and ‘outside’ firm rents are useful to the extent that they provide us with a framework to critically evaluate

the differential types of rents assumed in the conventional literature on LMIs. In our literature survey in Section 2, we shall argue that different models of LMIs in economics implicitly assume specific types of rents which reflect particular processes of accumulation in the society in question. We also point out that within-firm rent-seeking is often associated with ‘economic’ processes, while outside-firm rent-seeking is typically representing political or extra-economic processes. We argue that this dichotomy of the economic and the political is problematic, especially in applying these models to developing countries such as India, where almost all economic activities involves some form of extra-economic interventions. In our view, identifying outside-firm rents as the cause for rent-seeking and politicisation would be simplistic and tautological. Also, calling for micro-level governance reforms in LMIs, such as improving democratic accountability and transparency of unions, fails to address the social and political structures within which LMIs are embedded, as we discussed in the context of India’s labour market reforms in Chapter 1.

Internal and external bargaining agents

Different types of rent-seeking can also be categorised in terms of the bargaining agents involved. By definition, bargaining in LMIs involves bargaining agents internal to the firm, which typically consists of incumbent employees and the employer. In conventional economic analysis of labour-management bargaining, such as the neoclassical labour market models and insider-outsider models, which we shall discuss in the next section, it is assumed that trade unions represent the interest of incumbent employees alone, who seek to increase their share of ‘within-firm rents’ in the form of higher wage and secure employment, while the employer tries to maximise the firm’s profit (Cartter 1959; McDonald and Solow 1981; Oswald 1982; Lindbeck and Snower 1988).

In reality, collective bargaining in LMIs may also involve agents who are external to the firm. These external agents may be state officials and bureaucrats, politicians and political entrepreneurs of different types who not only can significantly influence the process and outcome of collective bargaining, but also may actively take part in the bargaining process. One of the reasons why external agents may play a role in the bargaining process is because the institutional framework of collective bargaining may be altered by labour policies and laws (Mangel, DeLorme and Kamerschen 1994). For example, labour laws may stipulate whether disputes are resolved through bi-partite collective bargaining or through state intervention, conciliation, arbitration and adjudication, which may influence the incentives and opportunities for bargaining agents. Labour laws may also constrain the choices available to bargaining agents and thus influence their relative bargaining power. An example of this is the amendment of Chapter VB in the Industrial Dispute Act (IDA) of 1947 in India, which stipulated that firms employing more than 300 workers have to obtain permission from the government in order to layoff or retrench workers or close down establishments, although whether the law is effectively enforced is debatable as discussed in Chapter 1 (Mathur 1991; Singh 1995; Jenkins 1999; Bardhan 2002). Outside influence over collective bargaining might also take the form of direct state intervention in wage determination, as in the Pay Commission model in India, or participation by the state as one of the bargaining agents in the form of tri-partite collective bargaining (Rudolph and Rudolph 1987; Bhattacharjee 1999).

External agents might also become involved in collective bargaining as 'outside' trade union leaders, who do not come through the rank-and-file of the firm. These 'outside' leaders may be lawyers or professional administrators with specific skills to run the union effectively, politicians and party-affiliated activists with an interest in cultivating patron-client relations with workers, social and political entrepreneurs who may mobilise factions organised under caste, religious,

linguistic or regional identities, or in some cases all of above (Matthur and Matthur 1957; Vaid 1962; Fonseca 1964; Ramaswamy 1977; Karnik 1978; Acharji 1980; Singh 1980; Sinha 1984; Mashih 1985). Other actors in the wider social context, such as jobbers (*sardar*), freelance recruiters (*daffadars*), village-level recruiters (*arkatis*), and neighbourhood headmen (*dada*), just to name a few of the more common euphemisms that frequently appear in the Indian context, are also important external agents in LMIs in India, as we have discussed in Chapter 1 (Morris 1955: 294-5; Van Wersch 1992; Robb 1993: 19; Chandavarkar 1994; de Haan 1993; 1999; Sen 1999). These social actors can affect the labour process by controlling specific group of workers through their network of patron-client relations, and regulate in part the extent of surplus extraction.

Trade unionism led by political entrepreneurs, who not only are external to the firm, but also come from different social background to the workers, has invited frequent criticism in the literature that trade unions in India exploits the organisation power of workers for personal and political ends, as we have discussed in Chapter 1. Of course, the presence of outside trade union leaders does not necessarily signal that the bargaining agenda set by the unions is divorced from the interest of the rank-and-file workers. It is possible that the interests of external bargaining agents overlap with that of the internal agents, and especially where the incumbent employees can exercise sufficient bargaining power, it is also possible that internal agents may influence or constrain the strategy of external agents. In general, however, external bargaining agents may have interests and motivation of their own in the intervention. The state and political parties may intervene in LMIs in order to guide and control the process of collective bargaining, and possibly to achieve greater social and economic development, which may or may not conflict with the interest of internal bargaining agents (Rudolph and Rudolph 1987; Bhattacharjee 1999). Political entrepreneurs and 'outside' trade union leaders may seek personal gains and self-

promotion, for instance in the form of wage and non-wage payments, fringe benefits and access to political offices (Mathur and Mathur 1957; Vaid 1962; Fonseca 1967). They may also take interest in labour-management relations to strengthen the influence of their factional groups, which may be based on working class mobilisation, but may be organised under various other communal and cultural identities (Karnik 1978; Mashihhi 1985).

The ways in which external agents are involved in bargaining have implications for the types of rents in LMIs discussed above. We may observe that collective bargaining is mainly over within-firm rents when the involvement of external bargaining agents is limited to seeking changes in labour policies and laws that stipulate the institutional framework of collective bargaining. Similarly we may observe external agents more actively involved in LMIs in order to engineer resource transfers in the economy when the dominant income stream of bargaining agents may take the form of outside-firm rents, for example in the shape of subsidies and tax exemption to the firm. Outside-firm rents may also play a prominent role in collective bargaining when the external bargaining agents are political entrepreneurs engaged in rent-seeking over resources at the level of the macro political economy.

This last category of rent-seeking is particularly important in developing countries such as India where there is instability in property rights and the majority of resource transfer takes place through political processes outside the market (Khan 1996; Harriss-White 2003). As a result distributional conflicts over resources in the wider macro political economy impact upon the way in which bargaining takes place in LMIs. This also implies that where external bargaining agents critically influence the process and outcome of collective bargaining, the analysis of LMIs requires careful consideration of the social and political structure in which the rent-seeking takes place.

Again it is important to note that it is not our intention to argue that the distinction between internal and external bargaining agents is a legitimate general category for characterising the macro political economy. The concepts are introduced here to highlight differential rent-seeking processes assumed in conventional literature on LMIs surveyed in Section 2. On the one hand, neoclassical labour market analysis and collective voice models typically focus on internal agents alone. On the other hand, some models associate the presence of external agents to particular productivity or efficiency effects. For example, rent-seeking models tend to lead to a policy suggestion of removing the influence of external agencies to reduce rent-seeking costs and making the bargaining agenda reflect the ‘economic’ reality of the firm, while others such as neo-corporatists argue that better coordination with external agents lowers wage inflation.

However, in our view, the issue is not *whether* or not external agents are involved in bargaining at all, but *how* they are involved. More specifically, in developing countries such as India, where the ‘organised’ industrial sector is still relatively small and institutional and market ‘compulsions’ are weak (Khan 1996; Wood 2002), economic processes are almost inevitably subjected to social and political conditions for the process of economic development and accumulation. The objective of our political economic approach is therefore to explain and locate bargaining agents of different types involved in LMIs within the context of redistributive conflict at the macro political economic level, as we shall elaborate in Section 3.

Propositions for a political economic analysis of LMIs

We define ‘structure’ as the set of opportunities, incentives, constraints and capacities, which is determined by how political entrepreneurs of different types compete for resources at the level of the macro political economy, and which shapes the strategies of micro-level actors. The structure in turn reflects the

particular process of economic development or accumulation in general, and the mode of organising and managing the labour process more specifically. In other words, social structure is a summary expression for the whole nexus or system of social relations, constituent to the relations of production, but which takes different *forms* under different historical contexts (Marx 1973; Fine 1989). While the structure and social relations correspond to particular modes and processes of production, its specific political and legal *forms* differ socially and historically, in often dynamic and contradictory ways. The 'observed' relations and institutions must therefore be understood within the social and historical context, while being aware that such political and juridical forms are constituents of 'essential' processes underlying them. This definition allows us to analyse how different types of organisational and distributional conflicts at the level of macro political economy has implications for the rationales employed by micro bargaining agents.

It is beyond the objective of this thesis to present a fully developed political economic theory of LMIs, which would be a subject of future research. The objective of the present chapter is to outline some insights from political economic theories and discuss their implications, and to contrast the political economic framework for the analysis of LMIs to that of the conventional models, by emphasising structural determinations reflected in the way in which extra-economic processes and agents intervene in LMIs. Every society has political entrepreneurs or social interest groups of different types competing for resources by penetrating a wider terrain of accumulation and political conflicts. Where these political entrepreneurs exercise external influence to LMIs, this wider process of distributional conflict may constrain, as well as allow for, the choices of local bargaining actors such as trade unions and employers.

Our political economic analysis of LMIs starts from the following insights on the capitalist production or labour process. First, labour process refers to the qualitative transformation in production of the means of production (objects and instruments of work) to an exchangeable product (or creation of use value) by work, or the purposive and productive activity (Braverman 1974). Second, from a materialist perspective, the labour process is common to all human societies, but the capitalist labour process takes a particular *form*. The capitalist production process is understood as one of producing surplus value, but unlike the neoclassical labour market models, it is not merely a technical relationship between inputs and outputs, but rather work is supervised, directed and controlled by the capitalist to ensure that the capacity to work is realised (Fine 1998: 177). Third, however, the capitalist labour process is also determined by class struggle not only at the point of production but also as *system* of social relations, and the capitalist control may not be complete or fully exercised (Wood 1995; Mohun 1991). Fourth, class relations and class struggles are historical relations or 'phenomena', in the sense that while the structural basis of class relations is found in the antagonistic relations of production and exploitation, how this actually operates and is expressed is to be resolved empirically within particular social and historical contexts (Wood 1995; Bensaïd 2002).

The implication of these propositions is that the way in which the labour process is controlled and managed may differ under different historical conditions. The task is to identify a materialist explanation for the relation of exploitation to take the 'peculiar' politicised and 'involuting' *form* of LMIs in India's historical and social contexts, as we have seen in Chapter 1. In developing countries such as India, the industrial capital and organised labour are numerically small and less established, redistributive conflicts at the macro political economy are

dominated by patron-client networks³ organised by intermediate classes (Raj 1973; Jha 1980; Khan 1998; 2005b; McCarthey and Harris-White 2000), and also the labour processes are managed or under significant influence of, sometimes even directly controlled by, external social and political agents.

As we shall discuss below, conventional models of collective bargaining fail to make the social and political structure explicit. If social structures are not merely an aggregation of micro agents, but in fact decision making by micro agents is almost always subject to the macro political economic structure, many of the efficiency implications drawn from these conventional models cannot be generalised without a careful examination of the social context in which collective bargaining takes place. The purpose of the present thesis is not only to make the assumptions regarding political and social structure explicit, but refine political modelling in the sense of analysing the effect of different types of macro political conflict in shaping the opportunities, incentives, and constraints of micro bargaining agents, while also taking into account the bargaining power of various social actors.

2.2 Conventional models of collective bargaining

In the following sections, we will critically assess the conventional models of labour market institutions (LMIs) which appear to correspond to the 'stylised

³ It is at this point important for us to reiterate the point made in Chapter 1 and clarify that the use of the terms such as patron-client networks or rents and rent-seeking does not mean that we are adopting the neo-Weberian analysis of neo-patrimonialism (Bratton and van de Walle 1994; Erdmann and Engel 2006; 2007). Our intention is precisely the opposite. A political economic analysis needs to engage with concepts such as patron-client relations and network, which are real and dominate political conflicts in developing countries, but offer materialist explanation of them as particular forms of capitalist exploitation. In other words, we must problematise why it is that political organisation is formed along personalised patron-client relations, rather than class lines. Although a fully developed political economic analysis of patron-client politics is beyond the scope of this thesis, we can point to the emerging literature on this subject as in Khan (2005b). Also in Chapter 1, we discussed that the colonial arrangements was a significant factor in the emergence of patron-client politics in India.

image' of trade unions and labour laws in the current policy debates, as discussed in Chapter 1. Rather than to provide an exhaustive literature review, here the objective is to use the literature survey as a way of developing our political economic approach through critical and constructive engagement with the mainstream models. We argue that, while various insights can be drawn from different models, the existing approach to the analysis of LMIs in mainstream economics underestimate structural factors, and as a result cannot explain why certain types of LMIs that is apparently inefficient and productivity-reducing persist. In contrast, our political economic approach treats the existing types of LMIs as reflection of, and constituent to, the social structure and relations, which are in turn systematic consequences of the particular patterns of accumulation and economic development.

As discussed already, it is difficult to draw up simplistic efficiency or growth implications of rents and rent-seeking without reference to the context in which such activities take place. Nonetheless conventional models of collective bargaining and LMIs can be grouped into 4 types depending on the differential efficiency and growth effects of the two types of bargaining agents involved in rent-seeking, as summarised in table 2-1.

TABLE 2-1 FOUR TYPES OF EXISTING THEORETICAL APPROACHES TO COLLECTIVE BARGAINING

		Efficiency implications of labour-management relations	
		Negative	Potentially positive
Bargaining agents considered in the model	Internal bargaining agents	Neoclassical labour-market models (section 2.1)	Collective-voice models (section 2.3)
	Internal and external bargaining agents	Rent-seeking models (section 2.2)	Hump-shaped models (section 2.4)

Traditionally, conventional economic models of labour markets have tended to portray the existence of ‘rents’ and rent-seeking as necessarily harmful to economic efficiency. For example in Section 2.1 of this chapter, we will discuss the neoclassical analysis of labour markets in which it is assumed that the labour markets function perfectly, in the sense that there is perfect factor mobility and that labour demand and supply are elastic to price and technological changes. The implication of such an assumption is that labour is employed and maintained at no additional cost beyond paying wages as the opportunity costs for hiring labour, production or labour processes are managed without non-market interventions, and no coordination over bargaining is necessary. All that is required for production to take place is for the owners or producers of production factors to receive their opportunity costs, and therefore any excess payment above this amount signals inefficiency. Here, collective bargaining is modelled as a process of wage-employment determination between two internal agents, the firm or employer on one hand, and the union or workers on the other.

The existence of rents may also motivate unions and employers to engage in activities beyond the choice of wages and employment levels assumed under the neoclassical labour market models involving internal and external agents, for example in lobbying or bribing state officials to influence the institutional framework of collective bargaining in order to further create, maintain and redistribute these rents. These rent-seeking activities and the associated resource transfers typically take place outside the firm involving state officials and other external political actors, even if the bargaining outcome may influence the size and allocation of the surplus at the firm level. With such additional activities that ‘waste’ resources, the social costs due to collective bargaining can be greater than suggested in the neoclassical labour market models. We shall discuss some of these models in Section 2.2.

While the first two groups of literatures tended to focus on the negative efficiency impact of collective bargaining, and therefore broadly reflecting the traditional ‘distortionist’ perspective, the collective voice models discussed in Section 2.3 and the hump-shaped models covered in Section 2.4 highlight the potentially positive aspects of collective bargaining in enhancing productivity and efficiency, and hence represents the ‘institutionalist’ perspective. In recent years the two sets of literature seem to have almost blended into one synthesis as described in Boeri, Brugiavini and Calmfors (2001) and Aidt and Tzanattos (2002). We have nonetheless divided them into two groups for two reasons. The first is the difference in their intellectual roots, in which the focus of collective-voice models is primarily on micro level analysis with emphasis on information asymmetry between internal bargaining agents, workers and employers, whereas the hump-shaped models emerged from the debate on macroeconomic issues, such as the role of trade unions in causing wage inflation and unemployment, thereby focusing on coordination with extra-firm agents. Second, the consequence of this difference in their initial focus meant that the mechanism through which LMIs can improve efficiency is different. Collective-voice models emphasise the role of union’s ‘voice’ in reducing information asymmetry or transaction cost, whereas the hump-shaped models focus on conditions under which unions can create pressure on firms to improve technology and production organisation, without causing excessive wage inflation. Nonetheless, both collective voice models and the neo-corporatist theories recognise that rent outcome can be very diverse and attempts to identify conditions under which collective bargaining can lead to efficiency improving industrial relations.

2.2.1 Neoclassical labour market models

Most of the existing modern economic literatures on trade unions and collective bargaining have focused almost exclusively on within-firm rents. For example, in standard neo-classical labour market models, economic rent exists because of

some form of imperfection either in the product market or the labour market⁴. Product or labour market imperfection may stem from ‘natural’ monopoly or ‘artificial’ government interventions, the former typically referring to economies of scale in production in the absence of interventions, such as artificial entry barriers. The definition of natural and artificial rents is, however, ambiguous, once we take into account the fact that ‘natural’ rent also depends on various institutional frameworks, especially property rights, which is artificially created. Nonetheless, whether it pre-exists naturally or is artificially created politically, the social effect of rent-seeking by unions is similar. Wage rates and employment levels determined by collective bargaining are inefficient compared to the ‘market-clearing’ level, but the extent of allocative inefficiency is relatively small. This can be demonstrated by following a simple neo-classical labour market analysis.

Dunlop (1944: 4) famously argued that an “economic theory of a trade union requires that the organisation be assumed to maximise (or minimise) something”.⁵ In the case of conventional neo-classical labour market models, it is the maximisation of the share of profit or surplus, which are what we called ‘within-firm rents’, that drives the collective bargaining process. Of course, even in advanced industrialised countries, this is a gross simplification of the activities of bargaining agents such as trade unions. Most economists recognise that trade unions and other agents in collective bargaining often act from objectives not purely limited to maximising income and the utility of their constituents. Indeed

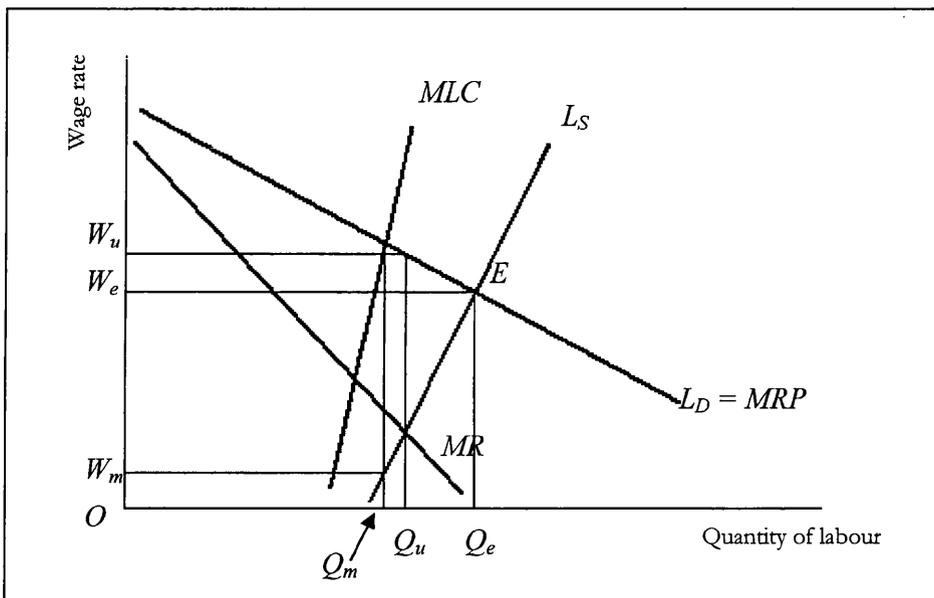
⁴ Tautologically it is sometimes the introduction of labour union itself and its associated organizational change that considered as the cause of market imperfection! (for example, Booth 1995: 260).

⁵ This statement explicates the conventional economics approach to collective bargaining as driven by agents’ desire to maximise income or utility. It is not difficult to imagine such a simplified behaviour model of trade unionism to be unpopular amongst political scientists and sociologists such as Ross (1948), who have analysed union policies as being formed through internal (by various factions within unions and within labour movement) and external (by employers, the state etc.) political processes, as opposed to assuming that there exists a simple utility maximising process.

we will see some examples of such models in the following sections of this chapter.

In one of the earliest neo-classical models to describe wage formation under trade unionism, Cartter (1959) applies the analogy of bilateral monopoly, where the employer is the monopoly purchaser of labour and the union is the monopoly seller (or agent) of labour. The diagrammatical presentation of wage determination under the bilateral model is shown in figure 2-1.

FIGURE 2-1 WAGE DETERMINATION UNDER BILATERAL MONOPOLY



Source: Sapsford and Tzannatos (1993), p.286.

Under perfect competition, the firm will seek the equilibrium wage rate W_e and employment level Q_e by equating the short-run labour demand curve (L_D) and labour supply curve (L_S). The negatively sloped labour demand curve is based on the standard microeconomic assumption of diminishing return to labour in production functions. The labour supply curve is upward sloping, again reflecting

the standard microeconomic assumption that more labour is supplied as the real wage increases⁶. Point E is the perfectly competitive equilibrium of the labour market, which is clearly where the labour demand and supply balances. According to neoclassical labour market analysis, it is also the point at which the economy is at the most efficient resource allocation.

To see this, let us compare the perfectly competitive labour market equilibrium with two extreme cases of market imperfection: the case where the employers is a monopsonist in labour demand; and the case where the union who represents workers act as a monopoly in labour supply.

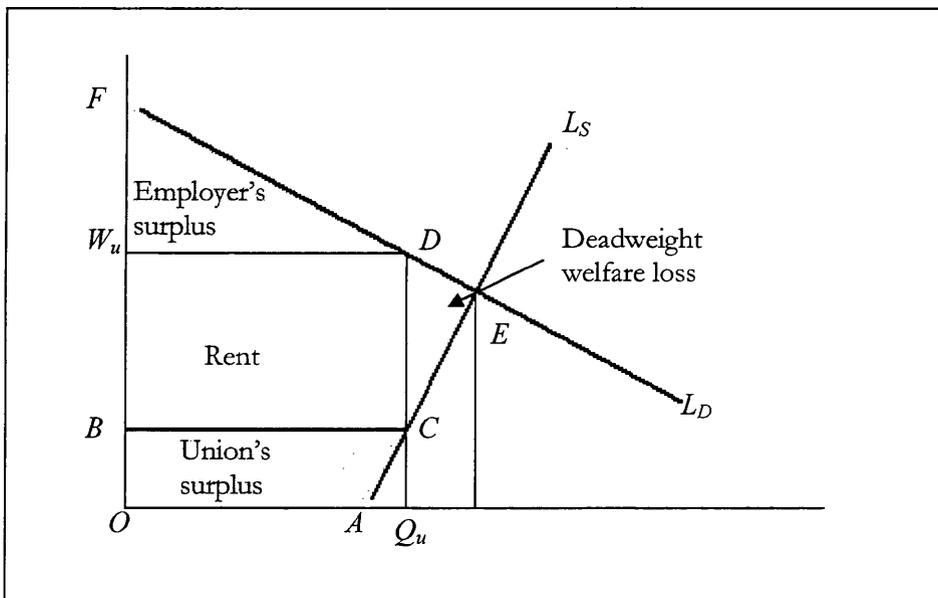
In traditional neo-classical analysis the monopsonist employer faces an upward sloping marginal labour cost curve (MLC). This curve indicates how much the employer needs to offer in addition, in terms of the wage rate, in order to attract additional units of labour. The employer's profit maximisation problem entails equating marginal labour costs to the marginal revenue product (MRP), which is the addition to the total revenue generated by the additional employment. So the employer sets the wage rate at W_m and this results in the employment of Q_m due to the labour supply curve. Similarly, the union as a monopoly provider of labour services seeks to equate the marginal revenue (MR), which is the total earnings of members by providing the service, and their supply price which is shown as the labour supply curve (L_S). The union aims to achieve the wage rate of W_u which leads to the employment of Q_u under the given labour demand curve. In the extreme case that the union successfully negotiates this target wage rate, the

⁶ To be precise, there are two ways in which labour supply can respond to real wage increase. The first, normally called the substitution effect, suggests that an increase in the real wage increases the relative return on working and this makes people want to work more. The second effect is the income effect, whereby increase in the real wage raises workers' real income, which increases the quantity of leisure demand (because it is a luxury goods) and hence makes people work less. Here it is assumed that the substitution effect exceeds the income effects, which is depicted in the upward sloping L_S curve.

additional wage increase associated with unionisation, measured by the difference between W_e and W_u , is called the union wage premium.

From the point of view of allocative efficiency the equilibrium point (Q_e, W_e) is better than either the manager's desired solution (Q_m, W_m) or the union's desired solution (Q_u, W_u) . This is because, at W_m there are still workers who are willing to supply their labour service under the given wage rate, and similarly, at W_u employers are willing to hire more labour under the going rate.

FIGURE 2-2 RENT AND WELFARE LOSS IN THE BILATERAL MONOPOLY MODEL



Source: Sapsford and Tzannatos (1993), p.286.

Figure 2-2 considers the case where the wage sought by the union is set and describes its efficiency implications. The area enclosed by the labour demand and supply curves, which indicates the net social surplus, is divided into employer's

surplus and union's (workers') surplus under the competitive wage level. Under the monopoly union wage, the surplus is now divided into employer's surplus (FDW_u), union's surplus ($OBCA$) and the rent ($BCDW_u$). The triangle area to the right of rent CDE indicates the deadweight welfare loss due to the monopoly rent, which indicates the degree of allocative inefficiency.

Note that the social cost associated with unionisation is not necessarily the same as the deadweight welfare loss indicated by the triangle CDE . In addition to the relatively small direct cost and welfare losses, there may be rent-seeking costs associated with the additional resources expended in organising and maintaining such reallocation of resources and rights. Also, traditionally the union wage premium has been seen in effect as a 'tax' in that it imposes higher labour costs in the unionised sector compared to the non-unionised sector and thus leads to factor market distortion and allocative inefficiency (Johnson and Mieszkowski 1970; DeFina 1983). Successful wage increases in the unionised sector lead to a decline of demand for labour in that sector, which results in displacement of labour from the unionised to the non-unionised sectors. If, as often assumed in conventional models, workers are employed where their marginal productivity is lower than before, there may be further social welfare loss associated with unionisation (Sapsford and Tzannatos 1993: 327). As discussed in Chapter 1 that this is precisely the 'distortionist' argument used in the on-going 'jobless growth' debate in India, whereby the slow employment growth in organised sector is attributed to trade union militancy and labour legislation constraining firms' ability to adjust (Goldar 1987; Seth and Seth 1991; Anant and Sundaram 1998; Debroy 2004).

To be fair, the modern analysis of labour market models is much more sophisticated than the exposition based on Cartter's model from half a century ago. Note, for example, that in this bi-lateral monopoly model of wage

determination, there is no analysis of bargaining. In order to derive a unique solution, additional information about the type of bargaining needs to be incorporated in the model. This is the area that economists have actively debated in the 1980s.⁷ Also in Cartter's model, the determination of wages and employment levels appears friction-less, which of course is not realistic, and the incorporation of imperfect information has been another area in which the basic model has been modified and extended. For example, in the Hicksian theory of industrial relations, frequency and duration of disputes manifested as strikes or lockouts occurs due to uncertainty of lack of information⁸ (Ashenfelter and Johnson 1969; Cohn and Eaton 1989). Nonetheless, the most important implication of the neo-classical labour market model is that labour market distortions, which give rise to 'within-firm rents', necessarily lead to loss of efficiency, as captured in figures 2-1 and 2-2.

⁷ The simplest model is the so-called monopoly union model where the wage is set unilaterally by the union, subject to the constraint that employment lie on the labour demand curve. In this model, the solution is the wage rate sought by the union in figure 2-1. Here the role of bargaining is ignored. A modified version of this is known as the 'right-to-manage' model, where bargaining takes place exclusively on the wage rate, and the employer is left to adjust employment level unilaterally. Both monopoly union model and 'right-to-manage' model was constraint so that the solution lies on the labour demand curve. However critiques of the model pointed out that the solution is not Pareto efficient because there can be a point off the labour demand curve which may Pareto improve at least one of the bargaining agent's utility. McDonald and Solow (1981) proposed an alternative model called the efficient-bargaining model, which considers bargaining over both wages and employment. Seniority model by Oswald (1987) considers the case where the union is indifferent about the level of member's employment because the seniority mechanism is such that lay-offs are done according to the 'last in, first out' principle.

Empirical studies offer mixed evidence on which model best describes the actual bargaining process, with Nickell and Wadhvani (1990) finding no evidence of union influence on employment in the UK manufacturing sector, while Hendricks and Kahn (1991) find support for efficient bargaining hypothesis in the employment of police in the US. Interestingly, according to Maloney and Ribeiro (1999) the data on labour demand and wage structure in Mexico are also in favour of the efficiency wage hypothesis.

⁸ In Hicks (1932) and his followers such as Ashenfelter and Johnson (1969), strike frequency is a function of the extent of imperfect information. Under perfect information, strikes and costs associated with it can be averted because the potential losing party will foresee the defeat and offer a pre-emptive concession. However under lack of information or uncertainty about the economic environment in which bargaining takes place, say due to instability in the economic system, the parties cannot correctly assess the net costs associated with the strike, which would lessen the possibility of industrial solution through negotiation.

The implicit assumption in the neo-classical labour market analysis is that the economy can operate in the absence of institutional or state interventions and produce the optimal level of output Q_e in figure 2-1. For the firm to be operating at this optimal point, perfectly competitive labour and product markets are required, but paradoxically in such a situation, there is no reason for LMIs to persist, because if there is no barrier to the entry and exit of firms there is no super-normal profits or surplus for the union to extract in the long-run (Booth 1995, p.54). This raises a fundamental theoretical question on the methodology of conventional economic analysis, whereby the benchmark of efficiency evaluation is empirically unrealistic, even in advanced industrialised economies, where rents as incentives for technical progress and dynamic X-efficiency gains (as opposed to the static allocative efficiency described in the above neo-classical models) may be more relevant in reality (Leibenstein 1966; Frantz 1990; Khan 2000). Even within the framework of neo-classical economics, if there is imperfect information or uncertainty, LMIs such as trade unions can be efficiency-enhancing by reducing turnover and transaction costs (Freeman and Medoff 1984; Booth 1995), as we will see in the collective voice models below. There may also be X-efficiency effects of LMIs by forcing firms to introduce innovative production technology, improve productivity and reduce costs, which was highlighted in the neo-corporatist literature (Calmfors et al. 2001). At a more fundamental level, the transfer of resources to unions and other third parties may be necessary in order for production to take place in an ordered manner at all. For example, in Lindbeck and Snower's (1988) insider-outsider model, 'insiders' who are incumbent employees have an advantage or 'market' power over the 'outsiders'⁹, the unemployed, in terms of firm-specific skills and turnover costs.

⁹ Although insider-outsider model is often cited as a model of trade union, as Booth (1995, p.251) points out, Lindbeck and Snower's insider-outsider model does not rely on the presence of trade unions, as long as the transaction costs associated with hiring, firing, and incorporating new entrants into the work organisation are sufficiently high.

This gives 'insiders' the ability and opportunity to capture part of the firm's surplus, thus extracting 'within-firm rents'. The assumption here is that wage bargaining takes place between insiders and employers, and outsiders cannot influence the outcome of this process. It is also assumed that insiders are only interested in their own jobs and indifferent to the fate of the unemployed. Under such circumstances, the evaluation of whether the existence of rent and the rent-seeking that takes place is necessary inefficient is difficult.

For our purpose of the analysis of trade unions in developing countries such as India, this implicit assumption of well-established markets is even more problematic. The process of development is typically associated with the emergence or creation of industries and industrial labour, and therefore by definition such well functioning markets, or the well-defined property rights that underlie them, are previously absent in developing countries. In the early stages of industrialisation, when property rights are unstable and industries and industrial capitalism do not have a long history and are relatively underdeveloped, change or transfer of these emerging property rights are likely to be contested, especially if the state is politically weak and political clients are well-organised (Khan 1996: 16-19). In the context of collective bargaining over within-firm rent, players outside the legally defined bargaining parties may be involved and could effectively demand share over the surplus. We have seen in Section 3 of Chapter 1 that labour laws in India have failed to provide mechanisms for selecting and recognising representative unions. This also overlapped with the politicisation of unionism and widespread involvement of 'outsider' leaders and external bargaining agents in giving rise to factionalism amongst multiple unions and political actors. Even if some process of recognition is legislated, this has sometimes resulted in contestation of the legitimacy of the recognised union, as in the case of the Mumbai textile strike in 1982-83.

Of course, any model is an abstraction from reality, and neo-classical economists would recognise that their labour market models do not address some aspects of LMIs in developing countries. But the tendency would be to treat these politicised LMIs as exceptions or deviations from the norm, or as social and political constraints on economic or market process (Mazumdar 1989). In other words, neo-classical models assume the independence or separation of economic and social/ political processes, and further examine the equilibrium in the labour markets in isolation from the wider macro political economy.

In contrast, from our political economic perspective, such separation of economic from the politics cannot be taken for granted (Wood 1981; 1995). Politicised forms of LMIs in developing countries are reflections of the ways in which labour processes are managed by reliance on extra-economic agents, and more generally the particular processes of development and accumulation. Interventions by social and political processes are not mere external constraints that can be analysed separately from the economic processes, but integral parts of the way in which society organises and controls production and labour processes.

To sum up, the context in which LMIs engage in bargaining in developing countries such as India suggests that the assumptions under the neo-classical labour market models are invalid. Firstly, the rent-seeking costs can be very large due to this secondary contestation to the settlement and bargaining parties (Khan 1996:16). But secondly, it also means that the net effect of within-firm rent on efficiency and growth may be less clear-cut, given the possible efficiency and growth enhancing effects of LMIs, even within the conventional economic framework under imperfection information, uncertainty and unstable property rights, and more fundamentally in the context of capitalist development where institutional take various *forms*, which are dynamic and unpredictable under different historical conditions. This further suggests that, thirdly, labour markets

cannot be analysed in isolation of the wider macro political economy, particularly where political intervention to organising and managing production and labour processes is the rule rather than exception.

2.2.2 Rent-seeking models/ By-product theory

The traditional neo-classical labour market models as described above has been criticised from within the orthodoxy on the grounds that it underestimates the social cost of rent-seeking. According to neo-classical economists, rent-seeking does not lead to any net increase in resources, and due to the deviation of wages from the marginal (revenue) product of labour, it creates allocative inefficiency in the form of the triangle of deadweight welfare loss (as shown in figure 2-2). Rent-seeking theory agrees that distributional conflict is a source of inefficiency, but argues that the inefficiency is greater than the deadweight welfare loss triangle. Rent seekers spend resources in lobbying and bribing people who can influence the allocation of the rent in order to increase the probability of capturing it, and this can be quite large, possibly exceeding the value of the rent itself. Moreover, rent seekers may spend resources not only to capture existing rents, but also to maintain them and even create new ones. In this sense, rent-seeking theory aims to 'endogenise' the process of rent creation and also focuses on diverse types of rent in addition to the monopoly rent derived from market imperfection considered in neo-classical models. For example, Lindbeck and Snower (1988) and Bronars and Lott (1989) argue that unionisation rent may be larger than the union/ non-union wage differentials because the union (or rent-seeking prospective members) may try to create entry barriers and as a result lower the implicit cost of union membership stemming from the long queue of applicants for unionised jobs. This is because once 'insiders' lose their jobs and become 'outsiders', they find it difficult, or even impossible, to get back into employment.

Rent-seeking can take place outside the businesses establishment as well as inside. Mangel, DeLorme and Kamerschen (1994) consider expenditures on labour union leaders bribing management, management bribing labour leaders, and both parties lobbying the government to influence labour legislation in their favour. Mangel, DeLorme and Kamerschen argue that if the rent-seeking over government legislation is taken into account, resources spent in rent-seeking is much higher than believed in standard collective bargaining models where only the rent-seeking over given monopoly rent is considered.

The reason rent-seeking costs can be higher than the monopoly union cost in neoclassical models is due to the mismatch between the private and social cost of rent-seeking, a situation similar to the public goods problem. According to the rent-seeking literatures or the by-product theory (Mangel, DeLorme and Kamerschen 1994), the outcome of rent-seeking, such as legislative changes in favour of labour, has a feature as a public good, because it has characteristics of non-excludable and non-rival goods. At the same time, provision of the public goods is typically not the objective of rent-seeking by agents. According to these models, trade unions' involvement in bargaining to seek changes in policies or channels of transfers are 'by-products' of union leaders' private motive to attain income, power and prestige. Bargaining agents seeks rent when they can increase their private benefits. This private benefit may include "large salaries, big office in large buildings, fancy cars, expensive clothes, and many other fringe benefits" (Mangel *et al. op cit.*: 409). These two aspects of rent-seeking imply that the rent outcome may not necessarily be socially desirable even if it is beneficial to the bargaining agents, since bargaining agents would seek rent not to maximise the rent (the public goods) but to maximise the private benefit they receive.

Note that rent-seeking models clearly consider continued union leader involvement in what we called 'outside-firm rent-seeking' to be 'political' and

typically 'corrupting'. The charge that union leaders involved in outside-firm rent-seeking become more 'political' implies that union activity focusing exclusively on within-firm rents is, in comparison, 'economic'. This dichotomous view of within- and outside-firm rents is superficial since it might be argued that rent-seeking is by definition political in nature wherever and whatever form it takes. More fundamentally, the political vs. economic dichotomy assumes that social and political processes can be treated as independent or operational variables 'chosen' by micro-level agents. This is in contrast to our political economic approach, whereby politicised bargaining or involvement of extra-economic agents is a reflection of the particular process of accumulation.

The argument that union leaders' involvement in outside-firm rent-seeking is 'corrupting' and leads to a decline in the welfare of workers is based on the assumption in neo-classical rent-seeking models such as Bhagwati (1982) that all expenditures and resources spent in rent-seeking are 'directly unproductive profit-seeking (DUP) activities'. This implicitly assumes a trade-off between union leaders' involvement in external rent-seeking and welfare improvement of its constituents. However if it is possible for rent-seeking to result in improving the welfare position of its members or of society as a whole, whatever the legitimacy or legality of such activity, it would be difficult to maintain that outside-rent-seeking by bargaining agents is necessarily welfare reducing. This assumption is all the more paradoxical when we look at the United States, which has a large transactional sector in its economy, where productive groups are engaged in rent-seeking as much as unproductive groups, if not more (Wallis and North 1986; Laband and Sophocleus 1988). In fact it is difficult to establish that productive investment would be made in the absence of rent-seeking. While it is common to argue that had it not been for rent-seeking the US economy would be more productive, this tends to be an assertion rather than a claim with hard evidence.

Once the potential for rent-seeking costs is acknowledged, the analysis in rent-seeking models turns to identifying factors that determines the extent of rent-seeking. Mangel, DeLorme and Kamerschen (1994) focus on the factors that motivate workers to take part in the collective action (or join the union), such as the private gains workers receive from joining a successful collective action¹⁰, the likelihood of union success in achieving its goal¹¹, and the penalty the workers who participated in the collective action would suffer if the rent-seeking were unsuccessful¹², amongst others¹³. Much of this analysis can be traced to Mancur Olson's (1971) theory of collective action¹⁴. For Olson, the union faces a fundamental problem of free riding in mobilising collective action under compulsory membership. This is because according to him, what is produced as a

¹⁰ The private gain workers receive from joining a successful collective action is separate from the value of rent captured, which is considered as public goods. Examples of private rewards are side payments received when union is successful or opportunity to become a union organizer. The amount of private rewards that can be transferred to individual workers depends on various factors, including union strategy and the nature of leadership, but most importantly the size of the rent sought.

¹¹ In a standard rent-seeking model the likelihood of success in capturing the rent depends on the expenditure or investment made for rent-seeking relative to expenditure made by other rent seekers (Mueller 2003). Thus, the likelihood of the i th bargaining party winning the rent can be expressed as: $L_i = \frac{E_i}{\sum E_i}$, where E_i is the expenditure of the i th bargaining party and $\sum E_i$ is the aggregated sum of rent-seeking expenditures. If there are only two bargaining parties, the employer and the union, the likelihood of union success depends on the rent-seeking expenditure of the union relative to that of the employer.

¹² Again this is the personal cost endured by the worker, not the social cost of rent-seeking. Examples of such personal penalty due to losing are dismissal, pay cut and demotion, which would depend on management strategy as well as the relative bargaining power of the management and the union.

¹³ Other remaining variables considered in Mangel, DeLorme and Kamerschen (1994) are: the likelihood of suffering disutility (for example injury) by participating in the collective action; the disutility suffered in the collective action; and the psychological gain from participating in the collective action.

¹⁴ Olson (1971) questions why large trade unions are often associated with closed shop policies, such as compulsory membership and coercive picket line. He declines the explanation that links union shop policies with workers' reaction to employment insecurity. Historically, the periods when unions gained job control in the United States are not "when workers had the most reason to be pessimistic about shortages of employment opportunities" (p.82). Olson instead explains it "primarily from their [the union's] desire for strength and survival" (p.85). For Olson, trade union's strength and survival lies in its capacity to mobilise workers.

result of labour movement is a public good in the sense that there is non-rivalry (once the good exists the consumption of it by one individual does not prevent its consumption by another) and non-excludability (nobody can be excluded from consuming the good). In other words, if it is made available to anybody it is necessarily made available to all, for example when the bargained wage increase takes the form of flat rate increments (Iversen 1999: 42). In such a case, it is rational for potential members to try to take a 'free-ride', that is, not to actively participate in the collective action because the gains from mobilisation, such as increase of wage and non-wage benefits, and improvement of work conditions tend to be available to all members regardless of whether they have participated in the action or not. Because of this free-riding problem, "unless the number of individuals in a group is quite small, or unless there is a coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interest" (Olson 1971: 2). Given that the union's basic function is to provide collective bargaining, the solution to the free riding problem is for trade unions to either try to enforce membership (McLean 2000: 4) or to provide sufficiently large amounts of selective incentives so that, for the cooperators who receive this selective incentive, cooperation is always a better strategy than to defect and thus the products becomes like private goods. Separate and 'selective' incentives are offered contingent on behaviour, which may take the form of rewards for cooperation or punishments for defection.

Hardin (1982) suggests that the union's or union leader's capacity to overcome the organisational problem of collective action in turn depends on their bargaining power which gives them access to resources. However note that conventional rent-seeking models implicitly assume that political power is ultimately proportional to the ability to mobilise economic resources. After all in models of collective action or the by-product hypothesis, union leaders or

political entrepreneurs are motivated by their own personal gains and career interests, which is different from the gains from collective bargaining itself. Further, the implication is that, if the potential payoff is sufficiently large, political entrepreneurs would take on the task of mobilising workers. Critically, conventional rent-seeking models assume that political power is proportional to the economic power of agents, i.e. their ability to raise resources to spend, which in turn is proportional to the net returns from rent-seeking. However, this is not always the case, particularly in developing countries, where the political power of groups does not always correspond to their economic gains and losses (Khan 2000b). In this sense, rent-seeking models offer interesting insights in the engagement of internal and external bargaining agents in rent-seeking activities, but because they are reduced to individual optimisation by bargaining agents, they fail to analyse bargaining power as social relations.

Similarly, rent-seeking models assume that the extent to which bargaining agents such as union leaders engage in private rent-seeking is ultimately determined by the collective action of the rank-and-file workers. In an extended model, Kamerschen, DeLorme, Mangel, and Morgan (2000) suggests a life cycle of unions and rent-seeking costs in three stages. In the first, union leaders are “dynamic and zealous” but once they gain workers’ support, in the second stage, union leaders become “skillful politically and more level-headed administrators” and “lose touch with the rank and file but continue to seek their own self-interest”. This leads to the third stage where “unions become ripe for corrupting influences such as racketeering [a US term for involvement in illegal or illegitimate business]” and start to decline. Workers, seeing that their wages and working conditions are affected, seek new leaders, and the first stage starts once more. Therefore the extent of rent-seeking costs depends on the rank-and-file workers’ ability to monitor and contest rent-seeking activities, which assumes some form of democratic accountability and transparency, but more

fundamentally, it depends on the balance of power between rent-seeking agents and rank-and-file workers. Once again, the relative balance of power between union leaders and rank-and-file workers is likely to depend on the wider social relations and their ability to organise or be accommodated in patron-client networks, not just on the voting or monitoring system.

These observations mean that a meaningful analysis of rent-seeking cannot be divorced from the wider macro political economic structure, which has important implications on how we use the insights from the literature. Conventional rent-seeking models offer possibilities of incorporating juridical and political forms of distributional conflicts into the analysis of LMIs, but ultimately do not make the assumptions regarding the social structure explicit. The problem is not merely that the structural assumptions are kept implicit, but that these juridical and political relations are assumed to be exogenous to or a deviation from the behavioural models of rent-seeking or their implications to LMIs. In contrast, our political economic analysis treats LMIs or labour relations as part of the particular form of distributional conflict, which is constituent to the wider process of accumulation and economic development.

Although it is not the objective of our political economic approach to derive efficiency or welfare criteria, we can argue that the evaluation of the social costs of rent-seeking is impossible without analysing the structure and social relations in which bargaining relations are embedded. For example, much of the insights on the extent of rent-seeking and the social costs associated with it are drawn from US experience and its specific social and political contexts on which much of the existing literature is based. In particular, conventional rent-seeking models implicitly assume a dominant and 'regulated' industrial capitalist sector, on which even interest groups who are not directly part of the sector are dependent, and that political power is ultimately based on the ability to mobilise economic

resources. In such case, although the rent-seeking costs associated with external bargaining agents involved in collective bargaining may be high, resource transfers that accommodate interest groups are more likely to be negotiated, which is less likely to be contested, as long as the capitalist sector can produce sufficient surplus (Khan 2000b). The outcome can even be potentially efficient and growth-enhancing if productive investment could not have taken place without the rent. In contrast, in many developing countries including India, political factions compete over public resources, organised around social and cultural symbols, rather than along economic class interests (Khan 1998). In such social conditions, the pattern of redistributive rents tend to correspond to the organisational power of groups, rather than their economic power, and more importantly the negotiated transfer is likely to be unstable and continuously contested. This not only has implications to the extent of rent-seeking and its social cost, but also on the possible outcomes of whether it leads to efficiency and growth enhancing investments at the firm level.

To summarise, rent-seeking models do incorporate macro political configurations such as constitutional, legal and regulatory frameworks in the analysis of collective bargaining to discuss different types of political activities. It successfully points out that rent-seeking coalitions competing for resources tend to dominate the redistribution process. However it does not go far enough to discuss different political contexts and their effect on micro decision making, which limits its ability to make meaningful conclusions about the net effect of rent-seeking in LMIs.

2.2.3 Collective-voice model

The intellectual roots of collective-voice models can be traced to series of studies done by Harvard University academics (particularly, Slichter, Healy and Livernash 1960). Slichter *et al.* put forward the argument that information sharing between

unions and management can be beneficial for the firm because it can remove “uncertainties in the minds of employees”, “evoke useful suggestions” (p.22) so that management can modify its plans, and also can potentially get union’s help in improving working conditions or reducing absenteeism. Richard Freeman and James Medoff’s book (1984) *What Do Unions Do*, followed in this tradition to focus on empirical research on the efficiency enhancing role of trade unionism, while also offering a theoretical explanation based on Albert O. Hirschman’s (1970) theory of exit/voice, originally developed as a discussion of consumer behaviour and product market¹⁵, but here applied to the analysis of labour-management relations.

In the context of industrial relations, ‘exit’ corresponds to workers’ action to quit and seek new job opportunities in the labour market when they are dissatisfied with the conditions at the workplace. On the other hand, workers who remain in the workplace can exercise ‘voice’ and try to influence employers to change the conditions. Thus according to Freeman and Medoff, unions have two faces. The first is the face of ‘monopoly’ unions we encountered in the neoclassical labour market models, which uses ‘exit’ as a threat to extract within-firm rents. The

¹⁵ In Hirschman’s original exit/voice theory when consumers are ‘dissatisfied’ with a product, they have two choices: ‘exit’ and ‘voice’. Consumers can stop consuming the product and switch to another good. This is called ‘exit’ which is an action based on market mechanism. Alternatively, consumers can complain to the producer and try to influence it. This second course of action is called ‘voice’. For Hirschman inefficiency arises when both fails to have an effect on producers. For example, Hirschman uses this exit/voice framework to explain the poor performance of public transport sector in Nigeria. According to him, “exit did not have its usual attention focusing effect because the loss or revenue was not a matter of the utmost gravity for management, while voice did not work as long as the most aroused and therefore the potentially most vocal customers were the first ones to abandon the railroads for the trucks” (p.45). Also Hirschman argued that whether exit is chosen or voice is used depends on the ‘loyalty’ of consumers to the particular product. Note that the situation considered in Hirschman is primarily non-conflict in nature. This is an implicit assumption shared in Freeman and Medoff’s version whereby labour-management relations is treated as a problem of a choice and exchange between two equal parties, and thus understates the issue of bargaining power.

second is precisely to provide a mechanism for 'voice' to be utilised, by remaining in the firm and trying to influence the management to improve the conditions.

But, how do unions do this? And why would this be beneficial for the employer? Following Addison and Belfield's (2003) summary we can divide the argument on collective-voice models into two types: the 'narrow' and 'broad' versions.

The narrow version of the collective voice model is similar to the public goods problem or the problem in contract theory. When the workforce is not unionised, there may be asymmetry of information in the sense that (a) employer has imperfect information about employees, and (b) workers may have little incentive to reveal their preference. Even if there is a difference in the actual working conditions and the level workers desire, because this preference is not revealed to the employer, the employer may not be able to deal with it, and hence lead to unnecessarily high employee quit rates, given the labour market conditions. Unions can collect the information about preferences and aggregate it, so that it can be used for negotiation with the employers.

The same argument can be made from the point of view of employers as well. If employers face problems in monitoring the 'effort level' of workers, and if technology is such that there are significant complementarities in workers' effort, collective organisation of workers, such as unionisation, can be beneficial if it can collectively decide on the effort level and monitor it. In an extreme scenario, unions can act as an agent to collect information about 'effort levels' and share this with the employers.¹⁶

¹⁶ In fact there are two ways in which the new institutional economics (NIE) suggests employers can deal with the monitoring problem due to the asymmetry of information between employer and employee. First, employers can improve productivity (through further exploitation of workers) by introducing work organisation that would allow better monitoring of employees' effort level (Alchian and Demsetz 1972). Alternatively, employer may share rent, which can be obtained by managing the work organization better,

As can be seen from the above two arguments, the 'narrow' version of collective-voice model emphasises the role of unions in solving or eliminating problems of information asymmetry. In contrast, the 'broad' version of collective voice highlights the governance function of unionism that enables the establishment of a long-term relationship between employer and employees, and as a result facilitates higher accumulation of 'firm-specific human capital', better employee cooperation, and participation in generating efficiency enhancing practices. For example, Buchele and Christiansen (1999) argue that the promotion of LMIs encourages cooperative labour-management relations, which enables coordination of work and organisation. This latter 'broad' version of the collective-voice model also overlaps with the theory of internal labour markets (Doeringer and Piore 1976; Piore and Sabel 1984) which highlighted the development of internal bureaucratic rules and the control structure within firms governing hiring and firing, promotion and wage determination, and its role in the development of firm-specific skills and on-the-job training.

Collective-voice model sparked a series of empirical studies mainly in North American and some in Western European countries on the efficiency implications of unionism and particularly the role of unions in reducing absenteeism and establishing employer-employee cooperation. As we have already discussed in Section 1.1, while the effect of unionism in increasing job satisfaction and reducing labour turnover is widely observed¹⁷, its overall effect on productivity is difficult to generalise. However, it seems that there is a tendency

with the employees and increase the opportunity cost of shirking. The rent in this second scenario is more commonly known as the efficiency wage (Shapiro and Stiglitz 1984). Rent due to unionisation can be seen as a special case of efficiency wage.

¹⁷ Even this assumed relations between union membership and job satisfaction is questioned by Bryson, Cappellari and Lucifora (2003) on the basis of selection bias.

towards a consensus at this moment that the direct and short-term effect of unionism on productivity is on average small and perhaps close to zero.

A more powerful challenge to the collective-voice model focuses on its theoretical weakness. Addison and Belfield (2003) have argued that the separation of voice from power is artificial, especially in the 'broad' version of the collective voice model. This is because the union's ability to impose and maintain a long-term employer-employee relationship hinges on its credible ability to punish the employer if the managers renege the commitment and capture the rents generated from the productivity-enhancing 'voice' effect. This also implies that, the 'monopoly' and 'voice' effects of unionism are no longer separable, contrary to assumption under the collective voice model that these are two contrasting faces of unionism, because a union that does not have sufficient bargaining power to extract within-firm rent cannot effectively deliver the governance effect either. This paradox was recognised by the proponents of the collective voice model as well. In their study on works councils in Western Europe, Freeman and Lazear (1994) pointed out that the very mechanism that creates efficiency-improving environment actually leads to lowering profit rates because workers are able to demand higher share of the joint surplus. This observation is very important, because it shows that the mechanism of 'voice' which encourages sharing of information and knowledge, and enhance workers involvement in decision making, are indeed associated with the strengthening bargaining power of unions.

The observation is also interesting considering that, just as in the rent-seeking model, the majority of the literature in the collective voice model is based on the experience of unionism and LMIs in the post-World War II United States, where there have been advanced capitalist sector dominating a growing economy, with weak class or group identity beyond narrow interests of craft workers (Freeman

and Medoff 1984; Friedman 1998). With limited capacity for broader union movement, let alone revolutionary aspirations, the strategic options available for the unions are to act as intermediary between workers and the employer in order to increase the productivity of the firm, and to negotiate a greater share of the surplus generated by occasional use of labour withdrawal as a threat. However the role of unionism is different in other countries with different social and political structure. Traditionally in many European countries, where the union movement was more united and inclusive, trade unions were accommodated as part of political coalitions, and therefore were able to lobby for workers' interest in policy negotiation and gain concessions from the state which would not have been possible from local employers, as we shall see in the next section. In India, trade union leaders may engage in rent-seeking as part of redistributive coalition over social resources, which may be ancillary to the collective goods it is supposed to seek. Hence the view that trade union merely acts as mediators for information exchange cannot be generalised, and the insights gained from the literature must be cautiously interpreted within the social and political context in which the LMIs operates.

The difference in social and political conditions is significant because the type of power that matters in labour-management relations may be different. In advanced capitalist countries such as the US, the bargaining power of interest groups, including unions and firms, derives from their ability to influence or control regulatory structure to their favour, but subject to the economic viability of the resulting redistribution of resources. This means that even if the resulting distribution is different from what would have been achieved through the market mechanism alone, it is the economic power of bargaining agents that ultimately justifies their redistributive activities. In contrast, as we have already commented, in developing countries such as India, where distributional conflict is dominated by popular movements which do not immediately depend on the economic

decline or underdevelopment, the bargaining power of agents may be based on their ability to mobilise organised muscle power to disrupt or impose political costs to others (Khan 1998; 2005b). Once again, the collective voice models open interesting questions on the role of power in determining the bargaining outcome, but fails to discuss the social and political conditions under which the stronger bargaining power leads to the combination of 'voice' and 'exit' optimal to society.

Some researchers who write under the influence of the collective voice theory have attempted to focus on the quality or effectiveness of collective voice. For example, in the recent study, Luchak (2003) distinguishes between 'direct voice' and 'representative voice'. Direct voice represents workers' effort to affect changes through more-or-less direct two-way communication (for example, through another member of workers, such as a team member). In contrast, representative voice refers to indirect mechanism of third-party intermediary process, such as union steward filing a grievance. Luchak then compares two types of labour-management relations: 'affective commitment' and 'continuous commitment'. Affective commitment refers to "an emotional bond between workers and the firm that, among other things, leads that workers to contribute meaningfully to the organization while at the same time seeking dispute resolution that does not threaten the relationship with the firm". Continuous commitment is "based on a calculation of the costs and benefits associated with staying with or leaving the organization, such as the sacrifice of material firm-specific training investments and non-portable benefits". Luchak argues that employees with affective bond to the organisation are more likely to use direct voice and less likely to rely on representative voice, and conversely for those with continuous commitment. Also, it is implied that employers may feel that it is not worth listening to collective voice if it coming from continuous committed employees. In other words, institutional response to collective voice is effective only if the voice is based on emotional bond to the organisation.

This highlights a very important implication of the collective voice models, which is that the effectiveness of collective voice ultimately comes down to the discussion on ‘commitment’ or ‘loyalty’. If this hypothesis is true, the efficiency-improving role of unionism depends on the attitude of workers to the firm. If we follow the logic of Hirschman’s (1970) ‘model of loyalist behaviour’, the reason why the apparently rigid, confrontational and interest-driven LMIs in India cannot effectively exercise the ‘collective voice effect’ is due to the particular types of LMIs that do not lead to “the combination of exit and voice which may be ideal from the point of view of society” (p.93). Loyalist behaviour is modelled as a function of subjective agreements or disagreements with the current and previous firm’s strategy and policy, but its effectiveness depends on the specific institutions that encourage or hinder ‘exit’ and ‘voice’. The issue is therefore one of institutional design, the policy implication of which is to promote small-scaled micro-level reforms to promote stable property rights, transparency and accountability (as we have seen in the example of labour market reforms in India in Chapter 1). Thus, just as in the neo-classical labour market models (discussed in Section 2.1) and rent-seeking models (Section 2.2), the collective voice models assume that the outcome of collective bargaining can be reduced to cognitive problems of individuals, rather than on social relations and structure. This is consistent with the increasing influence of the new institutional economics (NIE) as the analytical framework for “the economics of everything” (Milonakis and Fine 2009), and the broader trend of post-Washington consensus in the development literature.

But we can take a different view about this issue. Is it not the case that ‘commitment’ or ‘loyalty’ is more likely to be the outcome of a particular bargaining relations rather than a cause of it? Workers’ emotional attitude or satisfaction/ dissatisfaction with the firm may be reflecting the choice that is given to them. If workers are provided with choices for better pay or work

conditions that the existing ones, they are likely to be dissatisfied with the firm. But if there are no alternative choices that improve pay or work conditions, they may express loyalty and satisfaction to the firm. In fact, it may be the role of union with strong bargaining power to cultivate alternative options¹⁸. If this alternative view is correct, emotional commitment or loyalty can be seen as a reflection of the relative power of bargaining agents.

Again the insights gained here must be examined within the context of the experience of the United States on which the model is based. The result of the model that when workers' bargaining power is weak workers are tied to firms has to be understood within the specific conditions of the US industrial relations, and therefore cannot be generalised without considering the particular social and political context that determines opportunities, incentives, and constraints for micro level decision making. For example, in India in which the dominant form of macro political economic conflicts are between factions comprised of various classes and groups (Khan 1998), the relatively weak bargaining power of the working class does not prevent the unions to engage in this distributional politics. This of course does not mean that the 'collective voice effect' cannot be realised in countries such as India, but rather that 'what unions do' depends on the opportunity, incentives, constraints and capacities determined by the social structure and relations of which LMIs are part of. Once again, this highlights the fundamental methodological difference between the conventional models of LMIs and our political economic alternative. For the political economic approach, whether unions follow the 'voice' or the 'exit' strategies, or the extent to which workers express perceived 'loyalty' or 'commitment' to the firm, are not only reflexes, but constituent of production and labour processes.

¹⁸ This was in fact an aspect noted in the original Freeman and Medoff's (1984) work. They found that dissatisfaction tend to be expressed more in unionised labour, and they take the 'voiced dissatisfaction' as an indication of democracy rather than reflecting the 'true dissatisfaction'.

2.2.4 Neo-corporatist models/ hump-shaped hypothesis

Neo-corporatism or democratic corporatism refers to a political system in which interest groups are incorporated in the process of policy formation and implementation within a non-authoritarian regime (Schmitter 1981, Von Beyme 1983, Lijphart and Crepaz 1991; Siaroff 1999). The corporatist character is typically identified in the institutional structure of trade unions or the structure of industrial relations system whereby conflicts of interests are resolved by recourse to corporatism, as opposed to pluralism or majoritarian democracy.

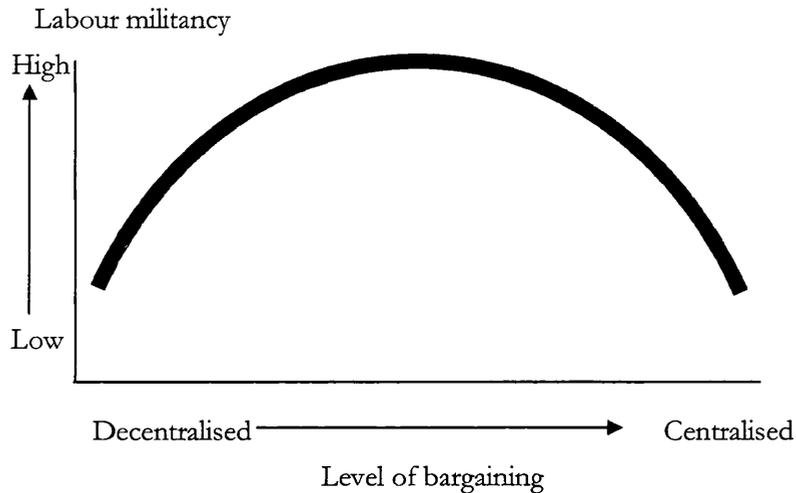
Literatures on the neo-corporatist model of LMIs and industrial relations have a different intellectual origin from the collective voice literatures, but recent development of both literatures have been under significant influence of New Institutional Economics (NIE). Neo-corporatist writers, inspired by the experience of Nordic countries and Austria where until recently there was a close relationship between social democratic governments and centralised trade unions, as well as the experience of countries like Japan, where bargaining relations was not centralised but real wage flexibility through cooperative union-management relations was achieved, emphasises the conditions under which unions can exercise wage restraint and help create efficiency enhancing working conditions. Neo-corporatist writers argue that trade unionism can increase efficiency through reducing information and transaction cost, as postulated in collective voice models. But they also emphasise that minimisation of transaction cost is not the only way in which unionism can influence efficiency. Particularly important is the *Produktivitätspeitsche* ('productivity whip') in Germany or Rehn-Meidner model in Sweden as discussed in section 1.1, whereby regulation and 'rigid' wage determination through centralised trade unions and employers association have "forced, induced and enabled management to embark on more demanding high-value added, diversified quality production strategies". Streeck (1991: 51) go further to argue that "some form of *institutionalised* conflict would [...] be an indispensable

condition of supply-side restructuring towards advanced forms of demand” (italics in the above two quotes as in the original). Thus, the neo-corporatist theory emphasises the close association between changes in labour-management relations and changes in production organisation and technology. This idea that the production of surplus value can be influenced by trade union pressures is an idea that can be traced back at least to Marx (1976) and has been applied to a variety of economic theories such as Leibenstein’s (1966) X-efficiency hypothesis.

Neo-corporatist writers argue that the efficiency improving effect of collective bargaining can exceed the social cost (negative externalities) of unionism as highlighted in the rent-seeking models. In the neo-corporatist literatures, different institutional framework of bargaining provides various mechanisms through which the externalities of collective bargaining can be internalised. Externalities from bargaining can be positive as well as negative. Positive externality of organised labour is that once a particular union sets a higher pay standard or improved working conditions, those tend to positively influence the level at other unionised and non-unionised sectors. Another positive externality is that the pressure from collective bargaining leading to faster technological progress. Negative externalities of collective bargaining includes inflation and unemployment

The theory of neo-corporatist literatures is closely associated with the analysis in the NIE, particularly that of Olson (1971). In Section 2.2, we saw that the unions’ dilemma in face of free-riding problem is to devise institutional structure to deal with the agency cost of collective action. One such solution would be to change the organisational size. For example, Olson argues that the larger the number of members in the group the greater the organisation costs because observation and punishment of free-riders may be more difficult in large groups.

FIGURE 2-3 CALMFORS-DRIFFILL HUMP-SHAPED HYPOTHESIS



Neo-corporatist literatures reverses Olson’s question and asks under what conditions unionism may be less harmful for the society. On the basis of Olsonian theory, unionism is most harmful when it can mobilise enough workers to cause disruption and not face the cost of collective action. Just like Olson, neo-corporatists focus on institutional size and structure as the key explanatory variable. The most influential model of the relationships between institutional structure and bargaining outcome is Calmfors and Driffill (1988), who argued that wage militancy and unemployment tend to be lower in highly centralized and decentralised bargaining relations, but higher in intermediate systems.

In highly centralized bargaining relations, such as in Sweden, Norway and Austria, even if unions have strong bargaining power, they are more likely to taking into account the negative externalities of wage militancy, such as inflation and unemployment, because it becomes more difficult to pass on the price of real wage increase (Calmfors and Driffill 1988; Nelson 1991; Calmfors *et al.* 2001). Similarly, it is argued that centralised unions tend to focus more on reducing wage

dispersion, which also contributes in keeping wage inflation under control (Hibbs and Locking 1996; Davis and Henrekson 2000).

In highly decentralized system, such as in Japan and Switzerland, unions have little market power (Nelson 1991; Calmfors *et al.* 2001) because the business establishment or firm where wage was raised may not be able to pass on the cost by raising the prices, and this is likely to be reflected in decline in employment. As a result, Marginson and Sisson (1998) suggest that decentralised bargaining enables firm management to have greater control over their costs, including labour costs, and revenue.

As a result, Calmfors and Driffill argue that there is hump- or inverted U-shaped relationships between centralisation of bargaining level and wage militancy, as sketched in figure 2-3, whereby low militancy is associated with moderate wage inflation and higher rate of employment. A similar hump-shaped relationship is also suggested for the degree of centralisation of bargaining level and firm incentives to invest, with highly centralised and decentralised modes of unionisation offering better incentive to increase productivity (Haucap and Wey 2003).

How much the hump-shaped hypothesis of Calmfors and Driffill is useful in understanding the relations between institutional framework of bargaining and its outcome is a matter of debate. Even amongst neo-corporatist writers, there is disagreement about Calmfors and Driffill's conclusion. Especially, regarding the effect of decentralisation, many authors have argued that it may not necessarily lead to moderation and low unemployment (Alvarez, Garrett and Lange 1991; Fitzenberger and Franz 1999; Iversen 1999; Strachan and Burgess 2000). Nonetheless the idea that the efficiency enhancing effect of LMIs is associated with specific system of bargaining coordination, and in particular the degree of

workers inclusion in the policy making process has become influential in recent years.

In a recent World Bank publication, Aidt and Tzannatos (2002) explained the efficiency implications of LMIs by focusing on the compatibility of types of unions and government. Surveying 125 analyses in 25 papers, since the pioneering work by Calmfors and Driffill, Aidt and Tzannatos find that about 60% of the empirical results support the view that bargaining coordination is associated with better economic outcomes, although the result is sensitive to the statistical techniques used and the definition of coordination. Trade unions sometimes accelerate introduction of new practices and reforms, while at other times trade unions can impede economic growth and efficiency and generate political opposition to reform.

TABLE 2-2 ALVAREZ-GARRETT-LANGE MODEL ON COMPATIBILITY OF UNION AND GOVERNMENT TYPES

		Government	
		Left-wing (interventionist)	Right-wing (market oriented)
Unionism	Powerful (encompassing)	“Good” economic performance	“Bad” economic performance
	Weak (fragmented)	“Bad” economic performance	“Good” economic performance

Source: Aidt and Tzannatos (2002), p.117.

In explaining what institutional characteristics allows collective bargaining to play a positive role in economic efficiency and growth, Aidt and Tzannatos present a model of coordination between union bargaining power and government’s labour policies, based on Alvarez, Garrett and Lange (1991). In this model positive or negative economic outcomes are explained by the “interaction between the strength of labor, party control, and economic outcomes”. For example

according to this model, the combination of a powerful or all-encompassing unionism and the government which takes a left-wing stance by committing to provision of welfare goods results in voluntary wage moderation because “if unions organize the majority of workers, they are less likely to engage in wasteful rent-seeking”. This is an argument consistent with the models by Olson (1982) and Calmfors and Driffill (1988). Also the combination of a politically weak unionism and a right-wing government which does not actively regulate the labour market also leads to positive outcome because as in the hump-shaped model, the market effect over-takes limiting the market power of unions to make radical demands. In Albarez, Garrett and Lange model adopted by Aidt and Tzannatos, “bad” economic performance is a result of “a mismatch between the power of the labour movement and the political orientation of the government” (p.16).

We should note that, especially in early literatures of neo-corporatist theory, the logic to connect unionism to performance is slightly different from that of the collective voice theory. While collective voice models focus on information and transaction cost in organisations, neo-corporatist models emerged from a macroeconomic debate between new classical economics and new Keynesian economics on wage restraint¹⁹, and therefore focuses on union’s ability to ‘discipline’ industries. In other words, the efficiency-improving effect of trade unionism crucially depends on the ability of unions to inflict cost to firms.

But at the same time, the neo-corporatist models seem to suggest that the efficiency enhancing union-employer or union-state relations is possible because of unions’ inability to exercise their power in the form of militant wage demand,

¹⁹ The close association between the neo-corporatist literature and macroeconomic interest opens up debates on change in production organisation in manufacturing (Streeck and Matzner 1991), or trade openness and monetary regimes (Iversen 1999), amongst others.

implying that the positive effect is unlikely to materialise if the union's bargaining power is strong (McHugh 2002). This paradox is similar to the one we encountered in the collective voice model. For corporatist regime to function society needs strong labour unionism, but at the same time for it to function in an efficiency-enhancing manner without wage militancy, an institutional structure that constrains the exercise of union power has to be in place.

Neo-corporatist models and hump-shaped hypothesis thus deals with the degree of inclusion of the working class movement in the centralised redistributive politics, but fails to discuss under what condition this is possible or whether the inclusion leads to efficiency and growth enhancing outcomes. While it is perhaps correct that inclusion of trade unions in macro decision making means that unions have an incentive to increase the size of surplus for the society as a whole, inclusion of organised labour also means that workers have more options available to them, including rent-seeking activities and, in the extreme case, working class revolution. For neo-corporatist solution to work, there must be a guarantee that workers do not use the option of class conflict and militancy.

At this point, it is important to note that the neo-corporatist models assumes a particular type of social structure which is associated with Northern and Western European economies on one side and Japan on the other in the post-World War II period. The social costs of trade unionism was kept low because of a class compromise that is relevant in the context of a booming economy, population averse to conflict after the destruction of the World Wars, and ideology of industrial or social democracy. As Iversen (1999: 29) points out centralised bargaining is based on "coalition of diverse and conflicting interest" and hence how the centralised system works depend on whether political reconciliation of these interests can be achieved. For example, in many West European and Scandinavian countries, the centralisation of the union movement which took

place after the First World War, which coincided with increased participation of union representatives in political parties and government, and with the establishment and expansion of state intervention mechanisms such as social insurance administration, unemployment benefits and pension schemes, allowed unions to take active part in the welfare state (Amadeo 1992). The end of the Second World War dramatically increased union membership, which further enhanced their political status (Calmfors et al. 2001: 12-13). Therefore the social democratic politics in Northern and Western European countries may have opened up redistributive activities by trade unions and other social actors to engineer particular income and consumption patterns, such activities were ultimately legitimate only as long as it did not seriously impair the economic viability of the industries and the survival of capitalism more generally, to which the welfare of most people in the society depends. It is at the backdrop of such socio-economic conditions that enabled corporatist solution to work in restraining wage militancy.

A close look at the experience of Japan is equally illuminating. Calmfors and Driffill (1988: 16) categorised Japan as an example of decentralised bargaining structure based on the observation that “there are several national confederations of labour but their coordinating rules are minor, and the actual negotiations take place exclusively at the enterprise level”. However, it is difficult to characterise the Japanese system purely in terms of a pluralist model. Although the formal wage bargaining takes place at the level of firm and enterprise, the bargaining coordination through informal negotiations and pattern setting cannot be underestimated (Sako 1997). In particular *Shunto* or the Spring Offensive system, which was introduced in 1955, became an established system for an informal ‘synchronisation’ of wage bargaining during the 1960s. But again it is important to note that decade prior to 1955 was “the period of painfully forged modernization in the Japanese system of industrial relations” (Nakayama 1975, p.182)

characterised by violent strikes, motivated by radical ideologies of anti-establishment class struggle. This revolutionary labour orientation antagonised a large section of the population, as well as many politicians and business enterprises, and led to organisational split and conflict between radical and moderate groups. However a unified shift in union strategy as agent for pragmatic reformist agenda, accepting the market-based economic model and supporting parliamentary democracy, was only achieved in the mid to late-1960s, after the Japanese economy started to show a high rate of growth, and improving the welfare of membership through interest politics became a realistic strategy (Shinoda 1997). To put differently, it was only once the class compromise was achieved that the organised system of collective bargaining and wage coordination that does not undermine the prospects of economic development and capitalist accumulation was able to function. Again the 'corporatist' solution based on decentralised enterprise unions actively participating in the production of surplus must be understood within the particular social and economic context of post-World War II Japan.

These social contexts are often implicit in the discussion of conventional literature, and even if they are explicitly mentioned, much of the focus is on the difference in the nature of political institutions. For example, when they apply Alvarez, Garrett and Lange's model, Aidt and Tzannatos (2002) have OECD countries in mind. For Aidt and Tzannatos the main difference between the developed and developing countries is the well established liberal democracy and law in the former. They argue that "[m]ost industrial countries have stable, liberal democracies" but "[t]his is not the case in many developing and middle-income countries". They argue further that the "economic impact of unions in an environment of ill-designed labor [*sic.*] and product market in which rent-seeking is profitable is very different from the economic impact of unions in a well designed environment" (all quotes from p.15) implying that positive economic

effect of collective bargaining may apply to advanced industrialised countries but may not be the case for developing countries.

In the absence of these social conditions, the institutional structure or the degree of inclusion is not sufficient to keep labour movement from becoming militant or anti-capitalist, let alone to establish wage coordination or cooperative labour-management relations that are productivity and growth enhancing. This is particularly important when analysing LMIs in developing countries such as India, where social and economic conditions are very different. Developing countries are by definition characterised by an underdeveloped capitalist sector, on which the majority of the population is, at best, indirectly dependent, even if activities such as petty commodity production, trade and subsistence agriculture take place within the wider process of capitalist development. In contrast to the experience of corporatism in Northern and Western Europe, industrial capital and labour are a relatively small section of the society in developing countries and because property rights are not well established, much of the transfer of resources happens by political process outside the market, which makes political rent-seeking more profitable than economic appropriation by industrial entrepreneurship. This means that redistributive activities that are economically unviable or might be harmful for economic development are less likely to be constrained, and state intervention in developing countries to coordinate labour-management relations does not always lead to enhancing the prospects of productivity growth. Indeed, we have seen in Chapter 1 that it is precisely the 'clientelist' accommodation of labour and the politics of redistribution that are seen to be hindering further industrial development and employment growth in India (Pencavel 1995; Banerji, Campos and Sabot 1995). In reality, it is difficult to find an example of a developing country with a comparable corporatist political structure (Nelson 1991), but even if we look at countries such as Argentina and Venezuela in the 1980s, where centralised unionism led to strong labour unions

with broad social support, while there are some evidence of wage concession (Nelson *op cit.*: 52), overall rent-seeking by political entrepreneurs resulted in imposing cost to informal and agricultural sector, rather than leading to efficiency and growth-enhancing outcomes.

In contrast to the NIE-inspired literature on LMIs, such as Aidt and Tzannatos, we do not view the persistence of failed LMIs in developing countries as an issue of institutional design or degree of inclusion, let alone as one of democratic accountability and well established property rights. From our political economic/ dialectical perspective, explaining the outcomes of bargaining by the types or forms of LMIs alone is limited. This is because the types and forms of LMIs are reflections of the way in which production and labour processes are managed and controlled, which may be through market and regulatory means or using extra-economic processes. Thus the same centralisation/ decentralisation of LMIs or their transparency and accountability may be associated with vastly different outcomes, both economically and politically, depending on their social and historical conditions. The implications of differential types of LMIs can only be fully analysed by focusing on the mutually determining interrelations between LMIs, the mode of managing the labour process, and the redistributive conflicts at the macro political economy, within the specific historical and social formations. Again this indicates that a careful analysis of the social context that determines opportunities, incentives and constraints for micro decision making is important.

2.3 Discussion and hypotheses

The objective of this chapter was to develop the framework for our political economic/ structural analysis of LMIs in Indian industry. In Section 1, we discussed concepts of rent and rent-seeking, types of bargaining agents and some insights and propositions for the structural analysis of LMIs. The political

economic approach was then contrasted with the conventional models in the literature review in Section 2, in particular the increasing influence of the NIE as the analytical framework of mainstream theories.

In order to bring together the discussion, and as a way of conclusion, in this final section of the present chapter we shall consider some hypotheses that we will examine in the remainder of this thesis.

2.3.1 Relationships between LMIs and growth

We have seen in section 2.1.1 of this chapter that the traditional debate on labour market institutions (LMIs) in mainstream economics was between what Freeman (1993) termed ‘distortionists’ and ‘institutionalists’, which focused on the possible social costs and benefits of LMIs. To put it differently what is common in the mainstream models we discussed in this chapter is their tendency to focus predominantly on the effects of LMIs on efficiency and productivity growth. We also have pointed out that, over the past two decades, there are indications to suggest that the mainstream debate has moved on from the traditional ‘distortionalist’-‘institutionalist’ dichotomy to identifying the determinants of types of LMIs. This is not surprising given that the empirical evidence suggesting that LMIs are neither universally harmful nor efficiency and growth-enhancing, and that the net effect is associated with their differential types. The net effect of collective bargaining is positive if the institutional intervention results in efficiency and growth enhancing effects that exceed the social costs incurred by rent-seeking activities, but negative if the monopoly effect does not produce a socially positive impact that is sufficiently large. For this emerging NIE-based literature on the “appropriate mix” of institutions, the important question is to identify when bargaining agents in LMIs engage in socially productive activities and when they engage in unproductive activities. However, once again the interpretation of many models, particularly those that inform policy, is that LMIs

cause or precede efficiency or productivity growth. The tendency of mainstream theories to underestimate, if not ignore entirely, the socio-political and historical contexts of the model, another aspect of conventional models we have consistently highlighted throughout this chapter, is consistent with this implied causality which in effect treats LMIs as ‘exogenous’ variables²⁰. In policy-oriented literature, such as Booth (1989) which presents a model of the ‘choice’ of bargaining structure by the employer and trade union, causality is assumed in the interpretation of statistical correlation, such as described in Calmfors and Driffill’s (1988) hump-shaped curve (Figure 2-3).

In contrast, we have argued that a political economic analysis of LMIs treats them as a systematic consequence of the patterns of accumulation and economic development in the specific historical and social context. In other words, LMIs are ‘endogenous’ variables in the sense that existing LMIs are understood as a reflection of how society organises the process of development and accumulation, and how labour processes are managed and controlled. Of course, this is not to argue that the types of LMIs do not have efficiency implications, since there are many layers of potential causes and effects. Rather, our argument is that LMIs reflect the balance of power and social relations, within which they are embedded, and which in turn affect the historically specific ways in which economic development proceeds. Thus, for a political economic analysis, causality cannot be imposed on empirically observed correlation without careful interpretation of the social and historical context from which it is drawn.

²⁰ To be fair, there are examples of mainstream literature with focus on the transformation of LMIs in response to changes in industrial structure, technology and distributive politics, such as Iversen (1999). However, even in such subtle treatment, the emphasis is placed on the implications of LMIs on efficiency and productivity. More importantly, for the purpose of the present argument, the policy prescriptions that tend to be extracted from these theories predominantly focuses on the causality from the type of LMIs to growth, as we discussed in Chapter 1.

2.3.2 Determinants of LMIs

Transaction costs, policy failure and cognitive determinants

Given the assumption in the conventional models that in effect treats LMIs as 'exogenous' variables, some mainstream theories focus on a combination of (i) informational and transactions costs, and (ii) policy failure as the main determinants of LMIs. For example, according to collective voice models, such as Freeman and Medoff (1984), with imperfect information, different types of LMIs (understood as 'voice institutions') can contribute to efficiency gains by acting as intermediaries and brokers of information. Similarly, some models in the neo-corporatist literature such as Booth (1989) describe the 'choice' of 'optimal' bargaining structure in terms of both the employers and trade unions minimising transaction costs involved in wage regulation. In a competitive industry with many small firms, it is thought that employers choose a more centralised bargaining structure because it is easier to regulate the wages (Booth *op cit.* 226). Similarly, firms with higher labour costs would choose centralised bargaining because of the concern to maintain wage regulation. On the other hand, weak trade union organisations, for example due to low union density or multiple unions, are thought to prefer centralised bargaining to maximise the economy of scale.

Information and transaction costs as the source of specifying the types of LMIs is not sufficient in explaining why apparently inefficient LMIs persist, as generally perceived in the policy debates on India's labour market reforms. We have seen in Chapter 1 that the existing types of LMIs in India are seen as a result of a particular policy of industrial relations management, whereby the collective bargaining institutions are highly politicised and trade unions affiliated to the ruling political party are deliberately promoted by the state, a situation characterised by Pencavel (1995) as a "patronage regime".

According to the logic of new institutional economics (NIE), both transaction costs and policy failures as determinants of LMIs can be traced to the cognitive beliefs and ideologies of bargaining agents. NIE focuses on how the macro structure comes to equilibrium or evolves. Political and economic institutions, technology, demography, property rights, and the ideology of a society, which act as constraints to micro agents' optimisation behaviour and interactions, are difficult to change partly because structure can be thought of as a complex and 'nested' hierarchy of rules, the renegotiation of these rules and contracts is costly, partly because of the free-riding problem (Olson 1971). However, there are moments in history in which even this structure is altered, often when the existing institutions are no longer efficient, for example, as a result of technological change. North (1981; 1990; 1999) focuses on the role of economic and political entrepreneurs who stand to improve their bargaining position and therefore attempt to devote resources to the restructuring of these rules at the higher level, combined with changes in ideas, ideologies and beliefs, in overcoming the free-riding problem. He claims that "long-run economic change is the cumulative consequence of innumerable short-run decisions by political and economic entrepreneurs that both directly and indirectly (via external effects) shape performance" (1990: 104).

Given the framework of institutions as a 'choice' by micro-level agents, the following question naturally occurs: If the type of unionism is the problem, why don't workers collectively try to change them?

We have seen that according to transaction cost models, the constraint to institutional change is what North calls legislative or political transaction costs, and that prevailing perceptions, ideas and preferences play important roles in overcoming it. For example, even if union involvement in rent-seeking is hindering efficient resource allocation and growth, which may increase the

surplus of the economy as a whole, because micro-level agents form incomplete subjective perceptions based on local experiences and problems and not on information about complex macro political economy. Douglass North (1990: 51) calls this ‘rational ignorance’ and Oliver Williamson (1985) ‘bounded rationality’; the assumption is that economic agents are rational in their intentions but limited in their ability to decide the best strategy partly because information cannot be fully obtained and partly because the computation required to derive such a strategy is too complex. North (1990; 1999) explains that failed institutions often persist because (i) in a world of uncertainty people often cannot grasp reality accurately; (ii) people rely on belief systems (religion, ideology, economic models); and, (iii) there are informal rules in society which take more time to change than formal ones. This leads to seeking explanation in cognitive problems. Even if rules and norms are path-dependent and therefore constrain the choices of micro-level agents, as perceptions of reality change, and with this new beliefs and ideology are formed, this can incrementally change policy and eventually the higher-level institutional structure itself. Therefore the persistence of failed institutions is explained by imperfect information, belief systems and ideology, which hinders the ‘evolution’ of institutions. This conclusion is not particularly surprising since an important source of transaction costs is the cognitive limitations of economic agents.

This hypothesis that perceptions and belief is important in explaining the persistence of inefficient institutions is reflected in recent analysis of LMIs by researchers linked with the World Bank, which traditionally were associated with the distortionist position. For example, in the Bank’s working paper, Banerji, Campos and Sabot (1995) contrast the economic performances of East and South-East Asia with that of South Asia, in particular India, and suggest that the ‘elites’ in India at least initially adopted a “distributional” strategy in dealing with the demands from wage labour because of the Nehruvian ideology of state-led

development combined with controlled industrial relations guided by the state, while the organised labour followed “confrontational” strategy which followed from their own leftist stance.

Given the focus on the problem of cognitive psychology, the policy debate under the emerging consensus is centred on small-scaled micro-level reforms to improve economic incentives for productive activities; a set of policy agendas that can be broadly called ‘good governance’, which includes issues such as stable property rights, transparency and accountability²¹. For example, in another recent World Bank publication, Aidt and Tzannatos (2002) explain the efficiency implications of LMIs by focusing on the compatibility of types of unions and government, and yet argue that the potential positive effects of LMIs may not be realised in developing countries which lack well designed labour and product markets as well as a stable, liberal democracy.

Freeman (1993) goes further to argue that effective LMIs may offer “social feedback to policy makers by forcing social intervention to buffer the costs of reform programmes, while enlisting popular support for the reforms”. Accepting that such a neo-corporatist model has not been found in developing countries, he argues that for such all-encompassing LMIs to work, it is necessary to have “a strong labor movement, with leaders able to assess the economic scene and convince workers to accept current consumption losses for future gains; a

²¹ A popular debate topic in the ‘good governance’ policy agenda is how to interpret the experience of China. The economic growth in China is difficult to explain within the traditional Washington consensus policy framework because economic growth does not accompany liberalisation, privatisation or democratisation. The largest non-state investment took place in the township and village enterprises (TVEs) which is neither private nor public in its ownership, and the legal framework for private property protection is underdeveloped. However the new policy consensus still sees China as a success case in which institutional reform was successful in improving economic incentives by ensuring informal property protection for existing and potential investors (North 1999; Qian 2003; Rodrik 2004). Even though formal property protections is lacking, investors and owners of TVEs can feel assured that their land will not be taken away by the government as long as they share their profits with the local government and the Communist Party.

business community that accepts labor as a social partner; and a government willing to share some prerogatives with its social partners” (p.138). Not surprisingly this argument is simply an extension of the collective voice model of trade unionism (Freeman and Medoff 1984). Again the implicit assumption here is that if there are social and political conditions that enable unions to use their ‘voice’ and thus act as mediators of information, then LMIs can contribute positively to economic development.

Scope for an alternative political economic framework

While there are clearly interesting insights to be found in the NIE approaches and cognitive hypotheses and while it is arithmetically correct that the sum of micro activities aggregates to form the macro structure, it is not only simplistic but also an analytical *cul de sac* to assume that, at any point of time, structural problems can be explained by the decision or action of micro agents. Instead for a political economic analysis, whatever the subsequent efficiency implications of the LMIs, in practice it is often political factors, most importantly class struggle over distribution of (total) surplus value, which give rise to and bring about changes in LMIs. Therefore the reproduction and transformation of different types of LMIs may have nothing to do with the reduction of transaction costs or increasing efficiency and productivity of society as a whole.

We have already highlighted some peculiarities of LMIs in developing countries. Developing countries can be characterised by unstable property rights and a lack of well established procedure of dispute resolution over them. Much of the transfer of rights and resources are therefore determined by distributional conflicts between political entrepreneurs who organise factions and coalitions of various interests, rather than organised along classes. In India these distributional politics is dominated by conflicts between patron-client networks organised by the so-called ‘intermediate’ or ‘middle’ classes (Kalecki 1972; Jha 1980; Khan

1996; 1998; McCartney and Harriss-White 2000), who are often themselves fragmented but could be politically powerful due to their ability to organise and mobilise the masses and contest political settlements which fail to accommodate them. LMIs and labour-management relations in India are formed within this context with other actors in the wider social context operate and compete for politically created incomes or resources – what we have termed ‘outside-firm rents’. The implication is that the types of LMIs and action of bargaining agents depend on the political constraints and settlements, under which LMIs are created and operate.

The importance of ‘outside-firm rents’ as exogenous constraints to institutional change can be explained even within the framework of NIE, especially using the conventional literature on collective action problem. Because of the “public goods” nature of the outcome of structural change, the rational response for micro-level agents is to free-ride (Olson 1971). Bhattacharjee (1999: 18) argues that this is particularly so when the “costs of collective goods” are substantially different across different sectors and it is difficult for the trade union movement to act as an “all-encompassing” organisation.

In addition, exogenous rents constrain micro-level choices because in this social context in which distributional conflicts are dominated by patron-client networks, management and labour in the organised industrial sector, who are a small minority in society, are more likely to benefit by seeking accommodation and changing their location within the patron-client networks, or even influencing the factional organisation, rather than by fundamentally challenging the power structure itself. In other words, the political and economic calculations of bargaining agents would be to get the ‘insider’ out and get inside. This is not to say that power structure cannot be changed, but ultimately the only way in which this social organisation is changed is through coalition formation in order to

challenge the legitimacy of factional mobilisation by insiders, as we shall illustrate in our case studies of Mumbai and Kolkata in Chapters 5 and 6. This may happen through historical and political processes, but it is simplistic to assume that this is achieved by economic and political calculations of micro-level actors at a particular point in time.

2.3.3 Analytical and policy implications

The contrasting hypotheses outlined above have important implications for the analysis of LMIs. The point can be illustrated with reference to the comparison of LMIs in Mumbai (Bombay) and Kolkata (Calcutta), the site of our field research, on which basis we analyse the reproduction and transformation of different types of LMIs in the remaining chapters of this thesis.

Mumbai and Kolkata are two of the oldest industrial centres of India and until the 1960s shared similar patterns of industrial development and labour movement. However, since the 1980s Mumbai has been associated with relatively rapid economic growth accompanied by changes in industrial structure led by sectors such as textile garment, chemicals metal processing industries, as well as the vast expansion of financial and other services. In contrast, economic performance in Kolkata was comparable to the all India average during the 1980s and 90s and, despite the recent industrial resurgence in the mid-2000s, its long term growth prospects remain unclear.

It is common to argue that industrial performance in Mumbai has been better because it enjoyed industry-friendly policies of the Maharashtra state government as well as a 'good investment climate', including the 'rationalisation' of labour law and promotion of professional company-based unions, compared to the 'poor investment climate' characterised by rigid regulation imposed by the communist state government of West Bengal and unions organised at industry-level and

affiliated to political parties in Kolkata. This popular argument is consistent with some of the mainstream NIE-based theories we have outlined above, which emphasise the efficiency implications of LMIs, and seeks the “appropriate mix” of LMIs compatible with or giving rise to economic growth.

As we argue in Chapter 5, for a political economic approach, the causality is at least partially in the opposite direction. LMIs are understood as institutional forms of capitalist social relations, which reflect the particular patterns of economic development and accumulation. In the context of India, the types and *forms* of LMIs are explained in terms of their location within changing patron-client politics. Therefore, LMIs in some modern sectors of Mumbai represent cases in which the dynamic growth and changes in the industrial sector providing strong incentives for unions and other bargaining agents to organise to seek company based ‘within-firm rents’. In contrast, Kolkata represents a case in which ‘outside-firm rents’ are more attractive in a less industrially dynamic context. This does not mean that the LMIs in Mumbai are less influenced by redistributive conflicts within the macro political economy compared to those in Kolkata. Rather our argument is that the patterns of patron-client networks, and the locations of bargaining agents within it, differs reflecting the different ways in which industrial development proceeded in the two regions.

Clearly the two hypotheses on the determinants of LMIs would lead to different analytical approaches. If we follow some of the mainstream models inspired by the NIE, given the technological and market conditions, differential types of LMIs in Mumbai and Kolkata are explained partly by the policy failure to address the extent of rent-seeking behaviour of bargaining agents, and partly by cognitive beliefs and ideologies of such agents, who play key roles in influencing policies and institutions. In contrast, our alternative political economic approach requires us to examine the relationship between different types of macro political

economic conflicts and the types and *forms* of LMIs at the micro-level, by categorising different coalitions of redistributive conflicts. Thus our analysis of micro-level observations on labour-management bargaining in Mumbai and Kolkata is complemented by secondary evidence on the wider social and historical context in which the relationship takes place.

The two hypotheses also have important policy implications. The NIE approach to institutional change suggests the need for micro-level reforms, such as well established property rights, transparency and accountability, to allow agents to mobilise and collectively change inefficient and failed institutions. From this perspective, what is hindering the potential efficiency enhancing 'voice' effects of LMIs to function are the informality and lack of clarity in the roles of bargaining agents in the labour process, which provides scope for rent-seeking by political entrepreneurs of various types, and the lack of transparency and accountability in the bargaining process and activities of bargaining agents, as we saw in Freeman (1993) or Aidt and Tzannatos (2002). In contrast, for our political economic analysis, civil society may not be the solution; it may actually be the problem. While democracy, accountability and transparency are all positive social goals of their own, micro-level reforms based on such a 'good governance' agenda are not only ineffective but also counter-productive as a means to change the behaviour of bargaining agents. If opportunities, incentives, constraints and capacities of bargaining agents are significantly influenced by social and political structures, micro-level reforms can only reinforce existing structural problems rather than to eliminate them.

Chapter 3

METHODOLOGICAL ISSUES IN AN EMPIRICAL RESEARCH ON
POLITICAL ECONOMIC ANALYSIS OF LABOUR MARKET
INSTITUTIONS IN INDIA

3.1 Introduction

In this chapter we will address some methodological issues related to our political economic analysis of labour market institutions (LMIs) in Indian industries. Conducting an empirical research within the political economic framework poses a number of challenges, in terms of research design, interpretation and use of data collected.

First, as discussed in Chapters 1 and 2, the political economic or dialectical approach requires us to analyse observed phenomena by focusing on the *structural totalities*. In Marx's (1973: 101) widely-cited phrase, it is "the method of rising from the abstract to the concrete". The abstract or "the essence is [...] a logical category that supplies the basic mediations for the reconstruction of the concrete in thought" and they are "actual" and historically contingent (Saad-Filho 2002: 9). The essential relations in capitalism is "integral and whole, and this organic system of mutually conditioning things or phenomena is determining with regard to its parts, or moments" (Saad-Filho *op cit.*: 8). However, the appearance or "concrete is concrete because it is the concentration of many determinations, hence unity of the diverse" (Marx *op cit.*: 101) and therefore the essential relations are not immediately evident in the observed phenomena and social *forms* we investigate. The task for an empirical research is therefore to analytically reveal the essence "*in and through* the phenomena" (Saad-Filho *op cit.*: 10). In the context of the thesis, the objective of our empirical analysis is to identify the *essential* capitalist relations and problematise the observed types of LMIs as identified or

categorised *forms*, rather than simply to take the identified and categorised typology of LMIs for granted as objective facts or seek explanation in concepts external to the objects.

Given this analytical framework, the methodology we employed is to combine the micro-level data collected from field research with secondary evidence on the wider social and historical contexts. However, the social and historical processes are not treated as separate macro-level phenomena external to the micro-level observations, and instead social relations are seen to be embodied in the micro-level forms observed from the fieldwork. Therefore, the objective is to provide a dialectical analysis of the ways in which types of LMIs are organised by bargaining agents at the micro-level in response to structural opportunities and constraints determined in the wider process of accumulation and redistributive conflicts. This requires a data collection strategy that places emphasis on the social and political contexts. It also calls for a data analytical approach that focuses on the interdependence amongst constellation of variables and provides a systemic analysis of LMIs.

Second, just like the observed labour relations must be understood as a systematic consequence of the wider process of accumulation and the labour process, the data collection on LMIs must also be recognised as a social and political process, rather than as an impersonal and neutral process of collecting ‘facts’, and therefore the interpretation and analysis of data must take into account the conditions under which data were collected (Lockwood 1993). More profoundly, the data collection through fieldwork is constantly subjected to ethical and political questions, and requires “commitment and openness to others” (Armbruster 2008: 12). This forces the researcher to engage with and contextualise their ethics in the particular political and social conditions. However, these dilemmas and challenges are also important reflections of the social relations and the political

economic conditions under which LMIs are organised that provide important insights for our research.

A number of methodological issues can be raised from these analytical reflections. The objective of the first half of the present chapter is therefore to contextualise the data collection process and outline “the politics of fieldwork”. Section 3.2 outlines the procedure of the field research conducted by the author in Kolkata (Calcutta) and Mumbai (Bombay) in 2001¹, and the problems and dilemma encountered in the data collection. With the context of the data collection described in mind, Section 3.3 discusses statistical and other techniques employed when analysing the data in the remaining chapters of the thesis.

3.2 Political Economy of LMIs and Politics of Field Research

3.2.1 Aims and Motivations of the Empirical Research

As developed in the previous two chapters, our political economic approach treats the existing types of LMIs as systematic consequences of the patterns of economic development and accumulation, rather than being ‘chosen’ by individual bargaining agents. We have also argued that redistributive conflicts in developing countries such as India are typically dominated by patron-client networks organised by political entrepreneurs of different types, and that bargaining agents in LMIs operate within this context. The objective of the empirical research in the present thesis is therefore to identify differential types of LMIs, problematise them as particular juridical-political *forms* of capitalist social relations, identify the social and political conditions that mediate them, and examine how the labour process is managed under them.

¹ The author received financial support for the fieldwork by the Central Research Fund (CRF) grant, University of London and the Postgraduate Additional Fieldwork Award, SOAS.

As discussed in Chapter 1, the on-going policy debates on LMIs in Indian industry are often based on stylised images and popular perceptions about trade unions and organised labour. Much of the evidence on the apparently rigid and politicised LMIs draws on problematic macro-level statistics on unionisation² and industrial disputes, media reports on labour unrests, and business perceptions about protective labour laws³, rather than on detailed empirical studies on what unions and other bargaining agents do, which is relatively lacking especially in economics⁴. While we do not pretend that our present research offers resolution to this gap in research, at least it is a contribution to the emerging list of micro-level studies that highlight the diverse and complex modalities of trade unionism and organised industrial labour, such as those collected in Davala (1992) or Parry, Breman and Kapadia (1999), which challenge the perceived notion of LMIs in India. More importantly, the objective of this thesis is not only to provide detailed empirical observations about the diversity of LMIs, but also to explain the

² For example, official statistics on trade unions and union memberships, as presented in Figure A1-5 and A1-6 in Chapter 1, are known to be frustratingly unreliable. Official statistics on trade unions and union memberships in India, published in *Indian Labour Year Book* and *Indian Labour Statistics* by the Labour Bureau, rely on voluntary annual return by trade unions. It is known that trade unions often ignore the requirement to submit returns (Rudolph and Rudolph 1987). Therefore there are three categories of unions: unions that do not register; unions registering but do not report their membership size; and unions that register and submit returns. The first group of unions are invisible in official statistics. Rudolph and Rudolph (*op cit.*: 280-1) estimate that the number unregistered union is as significant as one-third to on-half of the number of officially recognised union. The second group of unions is accounted for in terms of the number of registered unions but not in terms of union memberships, while the third group is reflected in both. From figure A1-5, it is evident that increasingly large proportion of unions does not submit annual returns. Moreover it is often pointed out that even if unions did submit returns, the submitted membership claims tend to be inflated. Therefore the number of unionised workers available from official statistics in figure A1-6 is the claimed number of memberships of unions that are registered with and submit returns to the government. The reason for not registering or submitting returns may be due to administrative inability to collect basic information about membership, but it may also be due to various social and political reasons.

³ We shall discuss some examples of these perception-based indices that are frequently cited as evidence of market distortions and poor 'governance' in Chapter 5.

⁴ Compared to studies on rural labour or unorganised labour, where the majority of the research is based on detailed empirical work, the research on industrial labour in India seems to be concentrated around sociological/ psychological issues of union leadership or histories of trade unions and labour movements.

different types of LMIs across sectors and regions by specifying the structural opportunities and constraints for bargaining agents, and thereby offer alternative analysis of labour market reform priorities.

Given these aims of our thesis, it was necessary for us to carry out fieldwork in multiple sites, both geographically and sector-wise, interview managers and unionists, not only at the top of their organisations but also those closer to the point of production, and collect information on the ways in which bargaining agents and other social actors are involved in the process of controlling and managing the labour process. Also the collected data are used to evaluate, if not 'test' in a strictly statistical sense, the hypothesis prevalent in the mainstream NIE-inspired theoretical literature as well as in the policy debates that the existing types of LMIs are explained by the preferences or 'choices' of micro-level optimisation behaviour, as discussed in Chapter 2.

3.2.2 Research design: theory, practice and politics

Sampling frame and area

The fieldwork took place between 4 February and 12 June 2001; the first two months in Kolkata (Calcutta) and the last two and half months in Mumbai (Bombay). Within the 60 days in Kolkata, data on 11 establishments were collected. For these units, 66 interviews in total were conducted; amongst which 35 were structured interview to unionists, 22 were structured interview to managers, and 9 to workers. In Mumbai, 27 individuals in total were interviewed, 18 trade unionists and 9 managers, in 12 units. Table 3-1 lists the establishments covered in our fieldwork project.

Any field research involves two stages of sampling in the selection of respondents: identifying a sampling frame and choosing the sample (Devereux and Hoddinott 1993). Given the objective of identifying and examining different

types of LMIs in Indian industries, the fieldwork could not be confined to one single factory or even a particular location. The strategy employed by the author was to study a number of mills and factories in two cities, Kolkata and Mumbai, and in a variety of sectors that ranges from 'traditional' industries such as jute and cotton textile to more 'modern' light engineering and processing industries. Therefore the units in our sample can be broadly categorised into 4 'strata' or 'clusters': Kolkata 'traditional', Kolkata 'modern', Mumbai 'traditional' and Mumbai 'modern'.

The selection of Kolkata and Mumbai as locations of fieldwork was motivated by three factors. First, both Kolkata and Mumbai are amongst the oldest industrial centres where industrial capital and organised labour emerged during the colonial period, to the extent that the two regions were considered to have "dual dominance" (Singha 2005:44) in the early industrial development in India. Second, however, since the late 1970s or early 1980s there seems to have been a divergence in the patterns of economic development in the two regions, with dynamic and 'uneven' process of growth led to structural change in the economy, whereas Kolkata is characterised by industrial stagnation. This divergence in economic performance is generally perceived to have been a result of differing 'investment climate' and 'governance' structure, with LMIs considered to be one of the key elements of them. In contrast, our hypothesis is that the causality is at least partially in the opposite direction, with types of LMIs reflecting the differing patterns of accumulation and types of redistributive conflicts. This last point takes leads us to the third factor in selecting these two regions as the site of fieldwork, which is the contrasting macro political economy in the two regions, within which labour-management bargaining takes place. We shall discuss these hypothesis further in Chapter 5.

TABLE 3-1 ESTABLISHMENTS COVERED IN THE FIELDWORK

Name of establishment	Category	Type of industry	Type of ownership	Number of structured interviews with			
				Union leaders	Managers	Workers	Total
Orient Fans (K1)	Kolkata modern	Engineering (eclectic fan manufacturing)	Domestic private	3	2	0	5
State Bank of India (K2)	Kolkata modern	Banking	Public	2	1	0	3
Wellington Jute Mill (K3)	Kolkata traditional	Jute manufacturing	Domestic private	2	0	0	2
Alliance Jute Mill (K4)	Kolkata traditional	Jute manufacturing	Domestic private	1	2	0	3
Hastings Jute Mill (K5)	Kolkata traditional	Jute manufacturing	Domestic private	17	8	0	25
Vesuvius India Ltd. (K6)	Kolkata modern	Engineering (steel refractory manufacturing)	Multinational	0	2	8	10
BOC (K7)	Kolkata modern	Engineering (oxygen processing?)	Multinational	2	1	0	3
Saregama India, HMV (K8)	Kolkata modern	Engineering (music tape processing, dubbing)	Domestic private (previously multinational)	1	2	0	3
INDAL Belur (K9)	Kolkata modern	Engineering (aluminium processing)	Domestic private (multinational until 2000)	4	4	1	9
Philips Taratolla luminaire unit (K10)	Kolkata modern	Engineering (lamp manufacturing)	Multinational	2	1	0	3
Lagan Jute Machinery (K11)	Kolkata modern (?)	Engineering (jute machinery manufacturing)	Domestic private (pubic until 2000)	0	0	0	0
INDAL Taloja (M1)	Mumbai modern	Engineering (aluminium processing)	Domestic private (multinational until 2000)	2	4	0	6
INDAL Kalwa (M2)	Mumbai modern	Engineering (aluminium processing)	Domestic private (multinational until 2000)	2	1	0	3
NTC - Podar Mill (M3)	Mumbai traditional	Cotton textile manufacturing	Public	5	1	0	6
NTC - India United Mill Nos. 3 and 4 (M4)	Mumbai traditional	Cotton textile manufacturing	Public	2	1	0	3
NTC - Sitram Mill (M5)	Mumbai traditional	Cotton textile manufacturing	Public	2	0	0	2
Modern Mills (M6)	Mumbai traditional	Cotton textile manufacturing	Domestic private	1	0	0	1
Philips Kalwa light factory (M7)	Mumbai modern	Engineering (lamp/light bulb manufacturing)	Multinational	1	1	0	2
Cipla (M8)	Mumbai modern	Pharmaceutical	Domestic private	1	0	0	1
Century Textiles and Industries Ltd. (M9)	Mumbai traditional	Cotton textile manufacturing	Domestic private	1	1	0	2
Hindustan Lever (M10)	Mumbai modern	Soap manufacturing	Multinational	1	0	0	1
Fiat/ Preimer Automobil Ltd. (M11)	Mumbai modern	Engineering (Car assembly)	Multinational	0	0	0	0
Kamani Tubes Ltd. (M12)	Mumbai modern	Tube production	Workers self-management	0	0	0	0
Total				52	32	9	93

Note: The unit code is given in the parenthesis, which denotes the location and the order in which the fieldwork was conducted amongst the surveyed units.

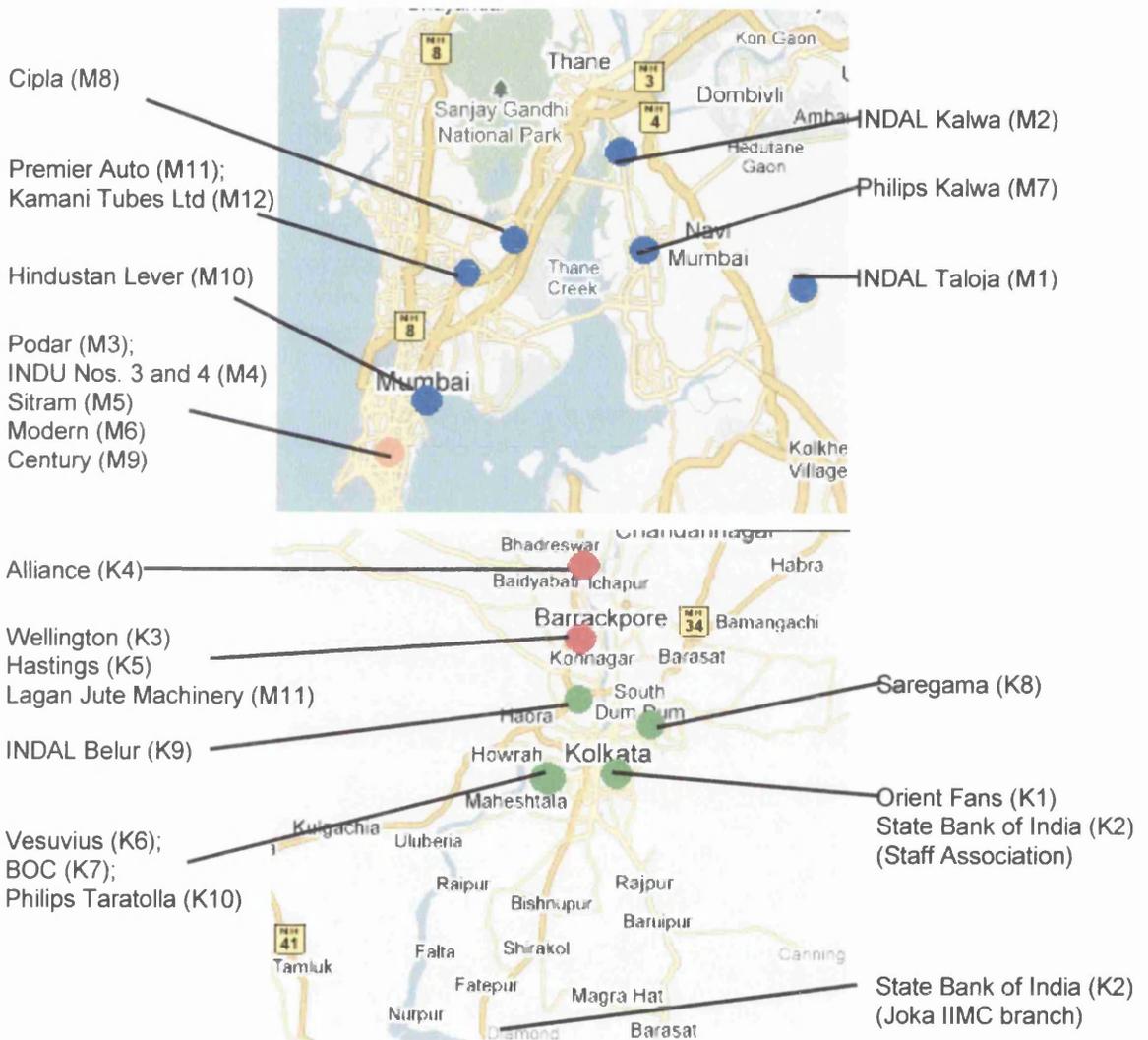
Note that in this thesis we use the term Mumbai and Kolkata to include its surrounding districts in the outskirts of the city. The geographical patterns of the site of our fieldwork can be illustrated by the map below, which has significance in their patterns of accumulation. On the one hand, in contrast to the jute mills that were located along both sides of the Hooghly River, mostly outside the city of Kolkata, the cotton textile industry was mainly set up in Girangaon, at the heart of today's Mumbai's commercial area, which as we discuss in Chapter 4, has led to an increased focus on land speculation and commercial investments in recent decades. On the other hand, many of our 'modern' sector units are located closer to the centre of Kolkata, whereas in Mumbai increasing number of units have moved out of the city into the industrial belt in Navi (New) Mumbai. We cannot claim to have a 'representative' sample that allows us to make statistically robust inferences about the industrial structure of the two regions, as we discuss below. However, it does illustrate the greater success of Navi Mumbai not only in providing middle-class housings but also in attracting industrial investments (Shaw 1999), compared to say the Salt Lake district in suburban Kolkata, which once again reflects the contrasting patterns of accumulation in the two cities, as we discuss in Chapter 5.

Since one of the key purposes of the research was to investigate the role LMIs play in 'mediating' the labour process by influencing work organisation and establishing labour discipline, we decided to focus on manufacturing industries of different types with factory production system⁵, although recognising that

⁵ Under the Factories Act 1948, a "factory" is any premises including its precincts (i) where ten or more workers work, or worked in the preceding twelve months, and where any manufacturing process is carried on with the aid of power; or (ii) where twenty or more workers work, or worked in the preceding twelve months, and where any manufacturing process is carried on without the aid of power; but does not include a mine under the Mines Act, 1952, or a mobile unit belonging to the armed forces of the Union, a railway running shed or a hotel, restaurant or eating place.

services and financial sectors are increasingly becoming important, as we comment below.

MAP 3-1 ESTABLISHMENTS COVERED IN THE FIELDWORK



Note: Representational map; not to scale.
 Source: Google Map (<http://www.google.co.uk/>).

The category of 'traditional' and 'modern' (for want of a better term) was used as a measure to select units with comparable technological and production organisational conditions as well as industrial history. The jute manufacturing in Kolkata and the cotton textile industry in Mumbai provide interesting comparison in that both have their historical roots in the 1850s with significant influence of the British colonial rule, and were sites for the emergence of industrial capital and organised labour, even if the subsequent development in the two industries are different as we discuss in Chapters 4 and 6. The term 'traditional' can be used to characterise the labour-intensive nature of production, with obsolete and 'backward' technology used in the majority in the units of these sectors, although as we shall see, there are a small number of 'progressive' units in Mumbai who have adopted new labour-replacing technology. More importantly for our purpose, the term can also refer to the perceived type of labour-management bargaining and unionism, which is characterised by 'traditional' state-dominated politicised LMIs. In our fieldwork, 3 units were covered for jute manufacturing: Wellington Jute Mill (K3) and Hastings Jute Mill (K5) located in the Hooghly district, and Alliance Jute Mill (K4) based in the Kalyani area, both in the northern outskirts of Kolkata; whereas for the textile industry, we interviewed managers and union leaders from 5 units: Podar Mill (M3), India United (INDU) Mill numbers 3 and 4 (M4), Sitram Mill (M5), Modern Mills (M6) and Century Textiles (M9), all of which located in the Girangaun area in central Mumbai.

These two industrial sectors are contrasted with our 'modern' sector, which includes a range of different types of manufacturing firms that are characterised by being new (in relative terms, some of these companies were established as

early as the 1920s and 30s⁶), and being more capital-intensive: although none of these factories are ‘hi-tech’ in the sense of operating at the production frontier, many of the production processes require much higher-level of technology and skills than in jute and textile industries. Once again, however, the term ‘modern’ is also used with reference to the so-called “new unionism” that emerged in these firms, especially in Mumbai, which is characterised by decentralised company-based bargaining and employees’ unionism, as we discuss in Chapter 4.

Given the diverse nature of our ‘modern’ sector category, we have tried to select companies that have production units in both Kolkata and Mumbai, with comparable production process. We studied 3 production units of Indian Aluminium (INDAL), recently renamed as Hicalco Industries Ltd.: the Belur (K9) factory located in the Howrah district of Greater Kolkata, and the Taloja (M1) and Kalwa (M2) factories located in Navi (New) Mumbai. The Belur and Taloja units’ main operation is aluminium re-melting and rolling, whereas the Kalwa factory specialises in foil production, and the two production operations have differing technological-level and face different market conditions. Therefore comparison of these three units offer interesting insights into the complex ways in which technological and market factors and political economic conditions interact in the determination of the types of LMIs, as analysed in Chapters 4 and 5. Similarly, two units of Philips India were covered in our survey, Taratolla (also spelled Taratala) luminaire unit in Kolkata and Kalwa light factory in Mumbai, with both involved in lamp production, although with slightly different specialisation. Philips is particularly interesting as a case study of changes in LMIs

⁶ As possible reasons for the emergence of these ‘modern’ firms in the 1920s and 30s, Gooptu (2000) argues that during World War I there were disruptions in the import of commodity goods from Britain and overseas which led to high commodity prices, and gave incentive for investment in manufacturing goods. Goswami (1992: 256) suggests that the 1920s was also the period when the urban middle class “had become fairly prosperous and constituted a large market for consumer goods”.

and managerial strategies that took place in the 1990s following the collapse of the union federation, as we examine in Chapter 6.

Other 'modern' units in Kolkata included in our sample was Oriental Fans (K1), an electric fan manufacturing factory located close to the Salt Lake City area of the outskirts of Kolkata; BOC (K7), which produces compressed medical oxygen and located in Taratolla area; and Saregama India (K8), a music cassette 'dubbing' factory, located in South Dum Dum area at the suburban area of Kolkata. In Mumbai, we also studied Cipla (M8), a pharmaceutical plant; a soap manufacturing factory of Hindustan Lever (M10); and Premier Automobile (M11), all located in the northern suburbs of the city. While it is clearly simplistic to categorise such diverse economic activities into a single sector, the grouping of these units as the 'modern' sector is once again meaningful in comparison with the jute and cotton textile industries in the two regions.

The inclusion of several units requires some comment. Visiting and studying Lagan Jute Machinery (K11), a jute machinery manufacturing company in Kolkata, was useful to get a sense of the technological conditions of machinery used in jute mills, but more importantly it provided our sample's only public sector unit in the engineering industry. While the intention was to include both public and private sector units in our sample, this proved to be unfeasible for a number of reasons, not least due to the fact that most operational public sector units had been privatised or 'disinvested'. In fact, Lagan was also purchased by the owner of Hastings Jute Mill in 2000, just prior to our visit, but because the labour relations and managerial practices that studied were a continuation of those established under state ownership, we have categorised and treated the unit as a public sector. Another public sector unit in our survey was the State Bank of India (K2) located in the Indian Institute of Management Calcutta (IIMC) branch, where the author was based. In this case the inclusion was edifying, not

so much of its public sector status, but as a glimpse into the labour-management bargaining in the banking sector, which is increasingly becoming important for the Indian economy. While the focus of our analysis is on the labour-management bargaining in the manufacturing industries, the observation on the banking union offered a useful point of reference to contextualise our analysis in the wider industrial relations scene in India, as we discuss in Chapter 4.

Vesuvius India (K6), a multinational industrial ceramics producing factory located on Taratolla road in Kolkata had no union representing the workers and staffs at the firm, and for this reason was not included in subsequent analysis of LMIs, but once again offered a point of contrast in contextualising our findings. An extreme opposite of Vesuvius was the visit to Kamani Tubes Ltd. (K12), a brass and copper tube manufacturer based in Mumbai, which has been managed by the workers' cooperative since 1988 under the leadership of D. Thankappan. However, since 1997 the company has effectively been closed down, with the Kamani Employees Union (KEU) mainly acting to seek unpaid dues to workers. For this reason, again the unit has not been used in subsequent analysis for the types of LMIs, but the case offered important insights into the wider context of labour movements in India.

Selection of samples and respondents

Given that the 'object' of our research is defined by our 4 'strata' characterised by their regions and sectors, in theory we can take a census or large scale surveys such as the Annual Survey of Industries (ASI) as the sampling frame and draw probability samples, for example by random, stratified, or clustering sampling methods, which has obvious advantage of being able to rely on statistical theory of sampling distribution, standard errors and confidence intervals in our analysis. In practice, however, field research of this type relies heavily on the cooperation and goodwill of key individuals in firms and organisations. The structured

interview with managers and unionists take at least 30 minutes to conduct, and therefore it inevitably cause disruptions to their activities. The issue of confidentiality and privacy may also be a concern for many, and therefore finding respondents who are prepared to put up with such research process is in itself the greatest challenge of conducting a fieldwork (Kiyokawa 2003: 49). Therefore, the selection of the sample often depends heavily on recommendations by local personal contacts, and the feasibility of conducting the data collection.

At the same time, as already pointed out, the objective of our field work was to include a wide variety of industrial activities, mainly in manufacturing, that are comparable in the two regions. Therefore, jute manufacturing in Kolkata was analysed with the comparison with cotton textile industry in Mumbai in mind, and companies such as INDAL and Philips were studied more closely than some of the other units because of the possibility to compare their plants located in the two cities. Also within a particular sector, we tried to survey units that reflect the range of technological and market conditions. For example in Kolkata jute, we attempted to study “performing” mills such as Alliance and Hastings, as well as less performing, if not “sick”, mills such as Wellington (categories according to the Indian Jute Mills Association or IJMA). Similarly, in Mumbai’s cotton textile industry, we surveyed a number of public sector National Textile Corporation (NTC) mills as well as privately owned mills such as Century and Modern, which have contrasting patterns of development. In this sense, our sampling method can be termed ‘judgemental’ or ‘purposive’ in the sense that the researcher selects the sample based on predetermined criteria.

Like any non-probability sampling methods, the sample selected in the purposive method may not provide ‘representation’ of the population. Therefore the conclusions reached on the basis of our sample must be carefully evaluated through comparison with other existing studies and interpreted within its social

and political contexts. It is therefore important for us to clarify the character of the sample and the analytical implications of our sampling method.

Politics of 'gate keeping'

It is our observation that the character of our sample significantly depended on the politics of access or 'gate keeping'. In addition to our sampling method being dictated by feasibility, a further dilemma faced in a research on labour-management bargaining is the general atmosphere of (mutual) distrust between union members and management. For example, in an early period of the fieldwork, having successfully obtained agreement to select the units by random sampling from the list of jute mills under the IJMA, once the sample was drawn the author encountered difficulty in gaining access to those chosen units on the ground that they were 'trouble' mills. This is just one episode that illustrates the difficulty of conducting research on industrial relations in an environment of intense, sometimes violent, labour-management conflicts, as illustrated by the murder of mill workers and executive at the Baranagar jute mill (an incident discussed in Chapter 6) which happened a month before the start of our fieldwork.

Breman (1985: 28) points out the difficulty of sustaining the 'fiction' of researcher as a neutral 'outsider' in fieldwork on labour relations where there are "very unequal social distribution and sharp conflicts of interests", and concludes that "a reflection of social reality based on an image presented from above is inadequate if this is not at the same time supplemented and amended by illumination from below". In our case, establishing contacts with employers and firm managers were vital for us to gain access to the firm or the factory in order to get a glimpse of the production and labour processes we were aiming to examine. However, gaining access through contacts with employers tended to lead to selection of units with less intense industrial conflicts, as illustrated by the above mentioned

episode of the employers association's refusal to permit access to 'trouble' jute mills in favour of 'performing' mills, such as Alliance and Hastings. Similarly, the recommendation by the NTC that enabled us to gain access to public sector mills in Mumbai textile industry was vital, but also our access was heavily controlled and monitored by their officers. On the other hand, the comparative studies of Philips and INDAL units in Mumbai and Kolkata, used extensively in Chapters 4 and 6, would not have been possible without gaining contacts through recommendations by managers in other firms, and the trust developed through these relationships.

In some instances, having gained access to the firm or the factory, the author was offered to have the questionnaires intended for trade union leaders or workers to be filled in by the management, and a significant time at the field was often spent on explaining the importance of interviewing the unionists or workers outside the influence of the employers. The close connection with the employers and managers of different ranks that was necessary to gain trust and access for our research, thus often implied a vested interest on the side of the hosts to impose their viewpoint which obscure the antagonistic relations and inequality of power that underpin the labour-management relations. The vested interest in preventing access is not confined to the relationship between the employer and unions, but also applies to access to middle and lower-ranked managers and supervisors, perhaps to a less serious extent. In some industries, the middle and lower-level management may take significant initiative in labour management issues, and the extent to which these decisions are subjected to management politics at the top-level differs across sectors. Especially in 'traditional' sectors as jute and cotton textile we observed a tendency for the middle and lower-level management to make decisions on labour management issues with relative independence from the top-level management, as we analyse in Chapter 6. This implies important conflicts of interests and perceptions even within employers and the

management. Another aspect of management vested interest that we came across was on issues in which employers were involved in lobbying governments to influence policy in their favour, such as the debate in Kolkata jute industry over Jute Packaging Materials Act of 1987 that imposes compulsory use of jute in selected packaging commodities, or the 'modernisation proposals' in Mumbai's textile industry that permits mills to raise funds by diversifying their land use.

Once access was obtained, interview was conducted mostly in factory or company premise but effort was made to conduct interviews, especially with union organisers and workers, in private setting, such as meeting rooms or reception rooms within the factory. While in most cases, such facilities were generously provided, sometimes this led to aggressive questioning about our intentions of the research, and in rare occasions to downright refusal to interview unionists and workers in the manner we requested. In some cases, we had to resort to group interviews or interviews outside the factory premise as solutions.

In response to this 'gate keeping' for external communication by employers and other actors in socially powerful positions, the strategy followed in this fieldwork was to establish separate contacts through unions and other social actors, sometimes to the same units, but more often to units to which access was restricted by employers, in order to study "both sides of each relationship" (Olsen 1993: 58). The recommendations through unions and social activist were especially critical to gain access to units and organisations in intense industrial conflicts. The additional value of establishing close connections with unions and other social actors was gaining access to living quarters and other working class areas, which was extremely informative to form a sense of the living and working conditions of workers. However, establishing contacts through unions often meant that it was difficult to gain access to the factory premise, let alone to the employers and managers, because of the (clearly not unjustified, given the

contacts through unions) suspicion about the intent of our research. Moreover, it is clear that unions and activists who give recommendations also have their own social and political horizons and vested interests, and as a result the units and organisations that led from these contacts often represented cases where the firm or factory have either closed down or operating with difficulty and lower capacity due to persisting disputes. Thus units selected through union or activist contacts, such as Wellington Mill in Kolkata jute, Modern Mill in Mumbai textile, Cipla, Hindustan Lever and Kamani Tubes, represented cases where labour-management relations have seriously deteriorated.

It is however also important to recognise that union leaders and activities in key positions themselves can act as 'gate keepers' of information flow as well. While all of the unionists interviewed are courageous dedicated individuals, they may still have interest in preventing access to lower ranked unionists and rank-and-file workers. In particular, we observed different perceptions and views at different level of union ranks on contentious issues, such as the use for the voluntary retirement scheme (VRS) and the role unions play in implementing it for restructuring the work organisation, the use of casual labour and subcontracting, and the land selling in Mumbai textile to raise funds for 'modernisation'. Given the challenge of overcoming a multilayer of 'gate keepers', we had to abandon our initial ambition to systematically interviewing workers who are not key union officers, but we tried very hard to interview both top-level and middle to lower-ranked unionists to draw out these subtle difference in their perceptions.

Given the lack of information on the relationship between our sample and the sampling frame, it is difficult to evaluate the extent of 'representativeness' of the data, but for the reasons discussed above, it is likely that our sample includes the two extremes of the industrial relations scene, with the access through the management providing data for relatively stable industrial relations in units with

reasonably successful industrial performance, and in contrast, the units we gained access through union and political activists offering insights into cases of intense industrial conflicts, and some overlap of the two. In this sense, we may argue that our sample captures the diversity of labour-management relations in Indian industry, while we still have to be cautious about over-extrapolating the findings from our observations. Therefore, our empirical analysis combines the case study approach with survey data analysis.

The differential patterns of access have meant that our sample is somewhat uneven in terms of the coverage of the number of managers and union leaders, as shown in Table 3-1. From an exploratory analytical viewpoint, this unevenness itself is a manifestation of the patterns of accumulation and modes of managing the labour process.

Types of data collected

Three types of data were collected for the purpose of this thesis. The first was the data from questionnaire-based structured interviews with the unionists, managers and workers. The second type of data was the collective bargaining settlements between the employer and the unions. The third was background information about industries, firms and unions, such as financial accounting data, court rulings, reports and policy documents by governments and industry associations.

The questionnaire for the structured interview was prepared in London before departing for the fieldwork. Three versions of the questionnaire were prepared, for unionists, managers and workers, although as discussed in the previous section, the interview to workers was not systematically conducted. The template of the questionnaire was based on a previous survey in 1998 conducted in Delhi (Kiyokawa 2003), for which the author was involved as a research assistant, with

questions drawn from or inspired by several previous fieldworks such as Jaspal Singh's (1980) study on trade union leadership in Punjab in 1967, Tulpule and Dutta's (1995) study of computer numerically controlled (CNC) machines in Mumbai manufacturing, Romijn's (1999) study on technological capacity of firms in Pakistan Punjab in 1994, Wilkinson and White's (1994) questionnaire in the Social Change and Economic Life Initiative (SCELI) survey in the UK, and Reid's (1993) survey of small business enterprises in Scotland, amongst others. However, since the intention of the fieldwork was not primarily to replicate or compare our findings with those from previous studies, the questions have been modified to reflect the particular focus of the present thesis.

The questionnaires were prepared in English, with Hindi and Bengali versions prepared for a section of the questionnaires which lists attributes of union leadership (question 4.4.2 of the questionnaire for trade union leaders; see Appendix A3.1)⁷. Information collected during the structured interview was useful to understand the social background of managers and union leaders, their activities, the nature of labour-management bargaining, and the conditions of the industry. However, we often combined it with unstructured open-ended discussions about the history of industrial relations and general social and political conditions within which the relations take place. While all the data collected were used to form our analysis and narrative of LMIs in these units, some questions were included with particular analysis in mind. Specifically, the data collected from questions on the unionists' self-perception on leadership (aforementioned question 4.4.2) is used in Chapter 6 Section 6.2 is used as part of our analysis of types of union leadership, which was inspired by Singh's (1980) work. Questions on union activities and their role in labour management (questions 4.16 and 4.17)

⁷ Research assistance from Nilanjan Ghosh who translated the questionnaire in Hindi and Bengali is gratefully acknowledged.

are used in Chapter 6 Section 3 for the analysis of the role trade unions and other social actors play in controlling and managing the labour process.

TABLE 3-2 SETTLEMENTS AND COURT AWARDS ANALYSED

Name of Establishment	Duration of negotiation (in months)	Duration of settlement
Orient Fans (1999)	17	2-3
National Confederation of Bank Employees (2000)	4	5
State Bank of India (2000)	4?	5
IJMA (from Wellington)	9	3-5
Alliance Jute Mill	6	?
Hastings Jute Mill	5	?
BOC	17	4
Saregama India	12	4-4.5
Philips Taratolla	6	3
INDAL Belur	24	3
Engineering industry in WB Public sector	16	3
Lagan Jute Machinery	35	3
INDAL Taloja (1999, Ninth)	21	2
INDAL Taloja (1995, Eighth)	15	2
INDAL Kalwa (1998, Tenth)	21	4
INDAL Kalwa (1994, Ninth)	16	4
National Textile Corporation (Maharashtra North, 1992)	12	?
National Textile Corporation (Maharashtra North, 1990)	64	?
Podar Mills	21	?
Philips India, Kalwa (1993)	24	5?
Philips India, Kalwa (1998)	15	5?
Cipla (1979)	6	3
Cipla (1983)	6	3
Cipla (1987)	11	3
Cipla (1990)	4	3
Cipla (1994)	12	3
Cipla (1999, Award by Industrial Tribunal, Mumbai)	15	NAP
Fiat/ Preimer Automobil Ltd. (1998)	20	3-4
Fiat/ Preimer Automobil Ltd. (1999)	14	3-4

In the course of our interaction with firms and unions we have collected 31 bargaining settlements or court awards that provided the framework for the labour-management relations, which can be interpreted as the legal *form* of the capitalist social relations. For the majority of the units covered in our survey we have been able to obtain the collective bargaining settlements, and this information was analysed extensively in Chapter 4 for our analysis of the typology of LMIs, as well as in our analysis of pay-scales in Chapter 6 Section 6.3. However, there are several units, for which the collective bargaining settlements were not available, most notably in the Mumbai textile industry, where the 'traditional' industry-wide collective bargaining collapsed in the 1980s and the pay is increasingly determined in 'personalised' and 'ad hoc' manner, as we discuss in Chapter 6. It should be noted that the content of the bargaining settlements are extremely diverse reflecting the particular issues at the industry or unit.

For example, the majority of settlements publish the pay-scale agreed by managers and unions to reflect the different pay progression policies. However, in sectors such as the Mumbai textile, where the pay determination based on scale and grade is disappearing in practice, settlements are used to provide lump-sum pay or enforce changes in pay compositions. There are also settlements that primarily focus on reorganisation of work or employment, over which disputes ensued and led to the collective bargaining. In fact, we have come across many cases in which the employers have used lockouts to create conditions to instigate the process to renegotiate settlements or as pretexts for restructuring the work organisation. In Chapter 6, we shall focus on this role of industrial conflicts in renegotiating bargaining relations and initiating institutional transformations. The different backgrounds that led to the negotiations of settlements and the diversity in bargaining issues are in part reflected in the varying duration of negotiation reported in Table 3-2. Once again our interpretation is that the diverse patterns of

bargaining settlements are reflections of differential types of bargaining relations and the process of accumulation that underpins them.

Financial accounting data of units surveyed was also collected as part of our fieldwork, especially in the course of our interaction with the management, with the intention of analysing the financial state of the units. This, however, proved to be difficult, with firms unable or refusing to provide relevant information. In some large 'modern' companies, financial accounting information for public purpose was only provided at company-level, and managers were unable to share financial data at the plant-level. On the other hand, in many of the jute and cotton textile industries, where there is relative independence of mill-level middle-ranked management from the top has meant that financial accounting data was in some cases easier to obtain, as long as sufficient trust was established. We also found difficulty in obtaining comparable data across units and sectors, due to different definition of accounting periods and methods. Therefore whatever financial accounting data collected was used to gain background information to the bargaining relations we analysed, apart from a couple of case studies in Chapter 6 in which we used financial accounting data to examine the implications of institutional transformations and changes in managerial strategies.

We have also collected reports, policy documents and court rulings to gain understanding of issues in the industries and the wider economy. In addition to visiting employers association, union offices, factories and mills, we have also visited labour courts and industrial tribunals where court cases related to some of our surveyed units were discussed, and attended meetings and rallies in which workers and unionists participated. Newspaper cuttings on the industries and units before, during and after the fieldwork were also collected. Some of these materials are cited in our discussion, but much of these materials were important

background information to contextualise our observations from the relatively limited sample size within the wider economic and political processes.

Being an 'outsider'

In the context of studying traders, Barbara Harriss (1993: 142) comments on “a positive advantage to be strange”, and in a similar way being an ‘outsider’ may have helped in getting access to firms and unions who were sometimes in volatile labour relations, but our experience was that this also sometimes worked ‘negatively’ as well. On the one hand, being an ‘outsider’ enabled the author to be seen as a ‘neutral’ observer without a direct stake in industrial relations, which sometimes allowed respondents to talk more freely about their strategies and thinking behind their actions. Being a Japanese researcher based in a UK university studying labour-management relations in Indian industry allowed perceived distance with the object of the research, and also seems to have attracted interest in broader comparison between India and Japan (as well as sometimes with the UK), which allowed the author to use other historical examples to open up conversations on sensitive issues. On the other hand, the relative ease with which the author was able to meet and talk not only to managers and unions, as well as other social and political actors involved in labour relations, sometimes drew suspicions from respondents, especially where the industrial relations were precarious.

Being an ‘outsider’ also means that a researcher must overcome the inevitable linguistic and cultural hurdles to engage with the respondents. Fortunately, interviews and interactions with the majority of managers and senior-level union leaders were conducted in English, but the use of local languages was sometimes required for interview with unionists at the shop floor level and workers. Although the author received introductory Hindi language sessions prior to the fieldwork, not only this was an inadequate level required for interviewing

purpose, but also the native language spoken by unionists and workers were typically not Hindi. In some cases, where required, local university students acted as research assistants or translators. However, in some cases we encountered hesitation or in extreme case complete refusal to bringing our own research assistants or translators to the site of interview, in which case we had to ask fellow unionists to act as translators on the site. Such practice is known to encourage untruthful or distorted responses (and translations), and while repeating questions and probing were used as interview techniques to verify the answers, these conditions created additional layers of challenge in interpreting the responses in the context of the interview settings.

We have already discussed the vested interest our respondents may have in projecting a particular image and viewpoint to the 'outsider' researcher. This was particularly important in question 4.4.2 of the questionnaire for trade union leaders (see Appendix A3.1), which we used for the analysis of types of union leadership, where our interpretation is that what was captured from the question was not necessarily the actual attributes of the leaders but their self-perception about their style of leadership or the image of leadership they wanted to project to others.

Also, in a climate of intense antagonism and mistrust between bargaining agents, we came across some respondents acting as informants for employers. The implication of this was that we had to be careful with our comments and conducts during interviews even in private settings, and showing active allegiance or solidarity with one or more groups could potentially lead to misleading impression, and worse make the research unfeasible. More importantly it meant that the data collected from interviews had to be constantly scrutinised within its specific social and political conditions.

To sum up, researching labour-management bargaining relations has presented us with a number of challenging issues on the way in which we interpret and use the data for our analysis. However, rather than to perceive these sampling and non-sampling errors as ‘problems’, our approach has been to treat the resulting ‘unevenness’ of the data as a reflection of the differential bargaining relations and the underlying economic, social and political processes. Therefore we argue that our data offer important information and insights into the types of LMIs and can be used to provide interventions in the theoretical and policy debates on labour-management relations in Indian industry.

3.3 Strategies of data analysis

3.3.1 Multivariate analysis in political economic approach

As discussed in the introduction of this chapter, the analytical methodology of political economic approach requires examination of the type or form of LMIs in the totality of capitalist development in India. This means that observed variables (for example, different aspects of LMIs, the nature of patron-client networks, or the mode of controlling and managing labour discipline) must be treated as interrelated factors in the relational totality of the patterns of accumulation. More specifically, a number of concepts we are interested in, such as the type of labour market institutions (LMIs) and the type of union leadership, cannot be directly observed, but are reflections of particular forms of social relations and the location of bargaining agents within them. These concepts are by their nature multidimensional determined by a number of consisting factors.

For this reason, dependence methods, such as multiple regression analysis, in which the dependent variable is predicted or explained by independent variables, are generally not appropriate for our purpose of political economic analysis, especially where causal relationship cannot be pre-determined theoretically. Interdependence techniques, which involve the simultaneous analysis of all

variables in the set, without distinction between dependent variables and independent variables, offer better alternatives for our purpose (Hair, Black, Babin, Anderson, and Tatham 2006). Amongst interdependence techniques, factor or principle component analysis is used in Chapters 4 and 6 as exploratory statistical method to describe the general characteristics of the interdependence between variables, as is multidimensional scaling (MDS) in Chapter 4.

3.3.2 Factor and principle component analysis

In the literature, the term factor analysis can be used as a family of dimension reduction procedures, or as a specific procedure that imposes a model of distinguishing different types of variance. Thus, in the first usage, factor analysis can be broadly described as a statistical method used to simplify complex and diverse relationships between variables, as captured in a correlation matrix, and identify ‘structure’ within a set of observed variables (Dillon and Goldstein 1984: 23). In the second more ‘narrow’ usage, (common) factor analysis refers to a particular technique that reduces dimensions in the correlation matrix of the original variables “by uncovering common dimensions or factors that link together the seemingly unrelated variables, and consequently provides insight into the underlying structure of the data” (*op cit.*: 53). We shall use the term ‘factor analysis’ to refer to its first ‘broader’ usage, and use the term ‘*common* factor analysis’ to refer to its second more ‘narrow’ meaning.

Principal component analysis is one of the statistical techniques within factor analysis⁸ (in the first ‘broader’ sense of referring to a family of dimension reduction procedures), which “linearly transforms an original set of variables into

⁸ This usage is consistent with some textbooks such as Klein (1994) as well as computer packages such as SPSS treat principle component analysis as a special case of or one option for factor analysis. However, Jolliffe (2002: 150) argues that this is misguided as principle component analysis and factor analysis are distinct techniques. However as discuss below, for large matrices the principle factor analysis is identical to principle component analysis.

a substantially smaller set of uncorrelated variables that represents most of the information in the original set of variables” (Dunteman 1994: 157). An important characteristic of the principle component analysis is that no underlying statistical model of the observed variables is imposed in its dimension reduction technique. To put differently, principle component analysis focuses on explaining the *total* variation in the observed variables on the basis of maximum variance properties of principal components. In contrast, the common factor analysis imposes an underlying statistical model that partitions the total variance into common and unique variance, and focuses on explaining the *common* variance, rather than the total variance, in the observed variables on the basis of a relatively few underlying factors.

The difference of the two techniques can be illustrated as below. Suppose that \mathbf{x} is a vector of p random variables. Although covariances and correlations are not ignored, the main focus of the principle component analysis is the variances of the original variables. The vector of principle components, \mathbf{z} , is obtained as an orthogonal (i.e. uncorrelated) linear combination of the observed variables \mathbf{x} of denoted by the vector:⁹

$$\mathbf{z} = \mathbf{A}'\mathbf{x} \quad (3-1)$$

where \mathbf{A} is the orthogonal matrix that have been chosen to maximise the ratio of the variance of each principle components to the total variations in the covariance matrix Σ . In theory, up to p principle components can be found, but from the viewpoint of dimension reduction, the objective is to account for most of the variation in \mathbf{x} by $m (< p)$ principle components.

⁹ The notation of the exposition of the principle component model follows Jolliffe (2002: 2 and 11).

In contrast, the (common) factor-analytic model expresses each of the p observable variable \mathbf{x} as linear functions of $m (< p)$ hypothetical or unobservable common factors, denoted by \mathbf{f} , and error terms, or some times called unique or specific factors (because e_j is unique or specific to x_j , whereas f_k are common to several x_j), denoted by \mathbf{e} :¹⁰

$$\mathbf{x} = \boldsymbol{\mu} + \Lambda \mathbf{f} + \mathbf{e} \quad (3-2)$$

where $E(\mathbf{x}) = \boldsymbol{\mu}$ and Λ are constant called the factor loadings.

Therefore, technically the two dimension reduction procedures follow very different logics. In equation (3-1) the principle component analysis treats the inherently unobservable variable as a function of its indicators (observable variables), where as in equation (3-2), the common factor analysis treats the indicators as a function of the unobservables. Principle components are thus “real factors” which are based on actual combinations of observed variables, whereas common factors are estimated from observed variables by using a presupposed mathematical model that distinguishes between common and unique variance (Klein 1994: 44). In principle component analysis, there is no error term, which implies that the observable variables are measured without error and that the unobservable latent principle component is a perfect linear combination of its measures (Dillon & Goldstein 1984: 57). In practice, however, it is known that the two dimension reduction techniques yield very similar results.

The choice of whether to use the principle component or the common factor analysis therefore depends on our theoretical assumptions about the relationships

¹⁰ For the exposition of the factor model see Mardia, Kent and Bibby (1979: 256); Dillon and Goldstein (1984: 57); and Jolliffe (2002:151).

between the original variables and the extracted factors. If a model such as equation (3-2) seems a reasonable assumption for the data set, then the common factor analysis rather than the principle component analysis is appropriate. However, if no such model can be assumed, Jolliffe (2002: 165) argues that common factor analysis should not really be used. In general, the principle component model is most appropriate when data reduction is used for exploratory purposes rather than to be used in subsequent analysis or testing hypothesis, whereas the common factor analysis model is best in well-specified theoretical applications. On the other hand, given the possible measurement errors highlighted in Section 3.2, the assumption implicit in the principle component analysis that observable variables are measured without error may be too restrictive for our purpose.

The approach we followed was in the end to attempt both types of data reduction techniques. In all of our applications in this thesis, the resulting factors obtained from different extraction models were reasonably similar. On the ground that we do not have a well specified model about the relationships about the variables and factors, and therefore the purpose of our analysis is exploratory in nature, we have presented the results of principle component analysis as the factor extraction method.

The issue of which factor extraction method to choose aside, an important methodological advantage of the principle component and factor analysis is that they are statistical methods that examine and ‘map’ the systematic characteristics that exists *within* the observed variables, rather than identifying an underlying relationship with a separate external variable. Thus in our analysis of the typology of LMIs in Chapter 4, we are able to examine how different units surveyed are ‘clustered’ together according to structural characteristics of LMIs according to our fieldwork data. Similarly in Chapter 6, we use the factor analysis to examine

the patterns in the perceptions about leadership using our data from interviews with unionists. In this sense, factor analysis is more consistent with our methodological approach and offers a better alternative to more conventionally used regression analysis and other dependence models that imposes a presupposed functional relationship between regressors (i.e. independent or explanatory variables) and regressand (dependent or explained variables), and in which regressors are implicitly assumed to be independent to each other.

Several additional data considerations should be noted at this point. Factor analysis is typically performed using metric variables, although specialised methods exist for a small number of dummy variables to be included in a set of metric variables (Hair, Black, Babin, Anderson, and Tatham 2006). Another issue of factor analysis design is that a large sample size is required to ensure the robustness of the solution. Hair et al. recommend the minimum absolute sample size of 50 observations, whereas others such as Klein (1994: 180) argue that “[s]amples of less than 100 could produce misleading results”. These two data considerations are important in our applications. For example the variables used in identifying the typology of LMIs in our surveyed units in Chapter 4 are dichotomous and therefore a non-metric multidimensional scaling (MDS) is used as the main technique, with factor analysis used to confirm the result. In Chapter 6, we analyse the data on the self-perceptions of union leaders and part of our analysis of the type of leadership, using a sample size of $n = 46$, which is not a small sample, but still falls short of the criteria set in the literature. We shall discuss these data considerations further in the appendices of each chapter.

Whether we use the principle component or the common factor analysis as the factor extraction model, further solutions are found by the rotation of the variance-covariance matrix, typically (but not necessarily) by multiplying it by an orthogonal matrix, and the ‘best’ solution is obtained according to certain

rotation criteria. Different rotation methods are used according to different theoretical assumptions about the data. However, once again, given the exploratory nature of our analysis, we have attempted the factor analysis with a range of rotation methods, including varimax, direct oblimin, quartimax, equamax, and promax. As before, having confirmed that our results are similar across different rotation methods, we have adopted the most widely used varimax method, which assumes that the factors are orthogonal or uncorrelated.

Regardless of the method or model, the objective of the analysis is to find a smaller number of factors than the original variables that account for most of the variation. This raises the question of how many factors or components to extract. A widely used rule-of-thumb known as the Kaiser's rule proposes an eigenvalue or variance of 1 as the criteria of selection. This is based on the idea that if all elements of \mathbf{x} are independent, then the factors or components are the same as the original variables, and thus have unit variance in a correlation matrix. Therefore for the factor or component to be useful for the analysis it should explain at least as much variance contained in a single variable in the original matrix (Jolliffe *op cit.*: 114). An equally popular method is to use a 'scree diagram' which plots the factor or component against its eigenvalue, and decide on the number of factors to extract on the basis of the 'steepness' of the function. Both data-driven criteria are considered in the factor analysis applied in this thesis, but we have also complemented these with judgements based on whether the factor or components are meaningful from our analytical perspective. These considerations on the selection of factors are once again discussed in detail in the appendices of Chapters 4 and 6.

Our approach to the exploratory data analytical method such as factor analysis is therefore interactive in the sense that the insights obtained from empirical observations are interpreted carefully within the wider contexts of our political

economic analysis, which again is consistent with our methodological approach and contrasts with conventional regression analysis which imposes a particular presupposed functional relationship on variables.

3.3.3 (Non-metric) Multidimensional scaling

Multidimensional scaling (MDS) is, together with factor analysis in the previous section, another of data reduction techniques, in the sense that it aims to represent p dimensional set of data in q ($< p$) dimensional space, and uncover the ‘hidden structure’ of a set of data (Dillon and Goldstein 1984:107). The technique is used for data that measures proximities, i.e. similarity or difference between pairs of objects, which is ‘mapped’ in a multidimensional space defined by unknown underlying dimensions, so that their relative positions in the space reflect the rank order of proximities between the objects.

In Chapter 4 we have employed the MDS to identify the typology of LMIs. As discussed in the previous section, dummy variables were used for this analysis, which do not conform to the assumption of factory analysis that is mainly used for metric variables. The non-metric MDS on the other hand assumes that the level of measurement is at the nominal or ordinal scale, and for this reason is more appropriate for the type of variables analysed.

The MDS is widely used in psychology, sociology and political science, but underused in economics, partly because the technique is generally used to ‘map’ similarities or difference of perceptions, and partly because unlike more conventional statistical tools, the technique is “purely data analytical” (Mardia, Kent and Bibby 1979: 396) in the sense that no probabilistic framework is assumed. However, the fact that it is an explicitly data exploratory methods that is based on the relative ‘proximities’ of the observations and does not impose probabilistic models in its procedure made the MDS an appropriate technique for

our analysis of the typology of LMIs in Chapter 4, given that we are interested only to examine the broad patterns of similarities and differences in unionism and bargaining relations amongst units in our fieldwork that are not obtained through probabilistic sampling. In this sense, once again our analytical methodology is exploratory in nature.

The data used in Chapter 4 contains information on different aspects of LMIs in our surveyed units, such as whether the collective bargaining takes place at centralised-level or at local-level, whether unions are politically affiliated, whether union leaders are external to the unit, etc. These variables measured at nominal level are then generates the distance matrix \mathbf{D} , which is seen as a matrix of ‘similarity’ or ‘dissimilarity’. The elements of matrix \mathbf{D} is ordered, and then monotonically transformed by preset algorithm, and through numerous trials and iterations, arrive at the terminal solution \mathbf{B} which improves the match of the points in space to the original proximity values (Dillon and Goldstein 1984: 111). The final solution is obtained according to several indices of ‘fit’, including Kruskals’s STRESS index:

$$S = \left[\frac{\sum_{i \neq j}^n (d_{ij} - \hat{d}_{ij})^2}{\sum_{i \neq j}^n d_{ij}^2} \right]$$

where d_{ij} are the distances between the units i and j computed from the coordinates in the derived space at a particular iteration, and \hat{d}_{ij} are the ‘fitted’ distances, and the process continues until another iteration fails to improve the value by a preset amount (Dillon and Goldstein op cit.: 127-130).

Once the matrix \mathbf{B} is obtained, the coordinates are derived from the eigenvalue-eigenvector of \mathbf{B} , so that for a two-dimensional solution, the first two eigenvalues of \mathbf{B} , λ_1 and λ_2 , are used to find the coordinates of objects in the derived two-dimensional space. The extent to which the k -dimensional MDS solution explains the proportion of the original distance matrix \mathbf{D} is evaluated by fit or agreement measures, the most widely used are Mardia's fit measures 1 and 2 (Mardia, Kent and Bibby 1979:408):

$$\alpha_{1,k} = \frac{\sum_i^k \lambda_i}{\sum_i |\lambda_i|} \quad \text{and} \quad \alpha_{2,k} = \frac{\sum_i^k \lambda_i^2}{\sum_i \lambda_i^2}$$

These statistics are used and interpreted in Appendix 4A.1 of Chapter 4.

In the same appendix to Chapter 4, we show that the resulting dimensions that characterise the typology of LMIs and the 'clusters' of surveyed units in the coordinates obtained from the MDS is very similar to that from the factory analysis. In fact, the two methods are similar in that both are concerned with dimensions in a Euclidean space, even though the procedures and techniques are very different, most importantly, that the MDS is based on distances between points, whereas the factor analysis is based on the correlations between variables. That two methods based on different techniques both yields similar results implies that the typology of LMIs and the general patterns of institutional difference between sectors and regions are not sensitive to the statistical techniques employed.

More importantly, the use of the MDS, together with the factor analysis, is consistent with our methodological approach of trying to seek patterns of social relations and political economic processes *within* the observed variables. Also

these techniques are used to explore systematic tendencies within the data that is then problematised and analysed within the context of the wider political economy. In this sense, statistical tools in this thesis are used to raise questions rather than to ‘fit’ a presupposed model or to confirm a hypothesis, which once again contrasts to conventional statistical analysis in economics.

3.3.4 Notes on other statistical techniques

While dimension reduction techniques such as factor analysis and multidimensional scaling are the main *exploratory* statistical tools used in this thesis, the analysis is complemented by other statistical tests to evaluate the association between variables. In Chapter 4 Section 4.2.1, a number of contingency or cross tables is examined using Pearson’s chi-squared test of independence, Kendall’s tau-C, and Spearman’s rank correlation coefficient. Pearson’s chi-squared test is also used in Chapter 6 Section 6.2.

The procedure of Pearson’s chi-squared test of independence is applied in a standard manner, except that we have not followed the common practice of requiring that all expected frequency in the table to be at least 5, which is considered to be too conservative in practice (Howell 2002: 158-9; Kiyokawa 2003: 197). Given the relatively small sample size ($n = 21$), most of our tables have small expected frequencies. We have followed Everitt’s (1977: 40) rule-of-thumb that “in the majority of cases the chi-square criterion may be used for tables with expectations in excess of 0.5 in the smallest cell” and only pooled categories when this rule was violated. However, given that the chi-square test is likely to have low power to reject a false null hypothesis with small expected frequencies or small sample sizes (Overall 1980) we have complemented the analysis with other standard statistical procedures for symmetric measures such as Kendall’s tau and Spearman’s rank correlation coefficient to evaluate the static association between the variables.

In Chapter 6 Section 6.4, we have used a standard regression analysis of wage or employment cost function using the ordinary least square (OLS) method. The regression model in this context is used to examine the changing relationship between economic variables, and therefore the analysis is used for an exploratory purpose to see how the relationships between, say, employment costs and capital investment have changed before and after the process of transformation in LMIs and the subsequent shift in managerial strategies. Therefore the use of the wage function is not an uncritical acceptance of such model and the objective of the analysis is not to test the 'fit' of the presupposed linear wage function. Estimated coefficients are used to 'simulation' of employment costs in the absence of institutional change, which again is used to examine the implications of the transformation of LMIs.

APPENDIX FOR CHAPTER 3

Appendix 3A.1 Questionnaire for TU leaders/core TU members

Name of interviewer []
 Date and time of interview []
 Serial number []

The purpose of this survey is purely academic. It will never be used for other purposes. The strictest confidentiality will be upheld regarding the information you provide. Therefore, please feel free to answer the questions as you really think. If there are questions you do not want to answer, please say so.

0. Union background

0.1. Name of the Union []

0.2. Office address []

0.3. Registered/ Unregistered

- 1. Registered
- 2. Unregistered

0.3.1 Does your Union submit information about the membership size to the government?

- 1. Yes
- 2. No

0.4. Affiliation []

0.5. Year of establishment []

0.6. Who took initiative in establishing it?

- Insider
 - 1. Employer
 - 2. One of the employees
 - 3. A group of employees
- Outsider
 - 4. A political party
 - 5. Another trade union
 - 6. An individual outsider []

0.7. Eligibility of membership []

0.8. Actual enrolment []
 0.8.1 Possible enrolment []

0.8.1 What proportion of the members is from the local town? []

0.9. Any rival trade unions? 0/1/2/3/4+
 0.9.1 Their total membership

0.10 Annual subscription

0.10.1 When do members usually pay their annual subscription fee?

0.11 Number of active members

	Insider		Outsider	
	Full timer	Part timer	Full timer	Part timer
Paid				
Unpaid				

0.12 How would you describe the attitude of the following to TU movement in India on the whole? Are you (5) highly satisfied, (4) satisfied, (3) no response, (2) dissatisfied, (1) highly dissatisfied?

Party	Response	Please give reasons	What specific measures would you suggest to create more favourable climate for TUs?
Central government			
State government			
Top management			
Middle management (include supervisors)			
Workers			
Intelligentsia			
General Public			

0.13.1 Is this TU recognised by the management? Yes/No

0.13.2 Are TU notices allowed to be put upon the notice board? Yes/No

0.13.3 Are replies to the TU letters regular and prompt? Yes/No

0.13.4 Are TU representatives received by the management for negotiations? Yes/No

0.13.5 Are you allowed to collect subscriptions within the premises? Yes/No

1. Personal and Social Background

1.1 Name

1.2 Office held

1.3 Sex: [Male/Female]

1.4 Marital status: Married/Unmarried/Any other

1.5 Age []
Year of birth []

1.6 Where are you living? []

1.6.1 Type of the dwelling

1. Own house
2. Company house
3. Rental room
4. Dormitory

1.7 Where is your home/native community []

1.7.1 Which is the nearest town to your home community?

1.7.2 Give distance from this town []

1.8 How long have you been living in this town? []

1.9 What is your religion?

1. Hindu
2. Muslim
3. Buddhism
4. Christianity
5. Others []

1.10 What is your caste? []

1.11 Language known

1. Hindi
2. Bengali
3. Marati
4. Gujarati
5. Urdu
6. English
7. Any other []

1.12 What was your highest level of schooling? (i) passed, (ii) incomplete, dropout

1. Primary school
2. Middle school
3. High school
4. Higher secondary
5. Graduate
6. Postgraduate
7. Technical or vocational school
8. None

1.13 At what age were you first employed?

1.14 Please give details of your last five jobs.

	Job	Name of organisation	Salary	Period employed	Reasons for leaving
1					
2					
3					
4					
5					

1.15 At present, any source of income other than the primary job? Yes/No

1.15.1 If yes, what is the source?

1. Job []
2. Land []
3. Business []
4. Political office []
5. Others []

1.15.2 Amount []

1.16 How would you rate the present economic condition of your family?

- (5) Very well off
- (4) Well off
- (3) Average
- (2) Poor
- (1) Very poor

1.17 To which social class, in this town, do you think you belong?

- (3) Upper
- (2) Middle
- (1) Lower

1.18 Please give the following information about your family

	Relation with you	Education	Occupation	Income	Marital status	Living with you? (y/n)	Economically dependent on you? (y/n)
1	Father (alive/not alive)						
2	Mother (alive/ not alive)						
3							
4							
5							
6							
7							
8							
9							
10							

1.19 Has any relative of yours ever held a TU or political office?

Yes/No

If yes, please state

	Relation with you	Position attained	Organisation	Dates	Sacrifices done
1					
2					
3					

2. *Functioning*

2.1 Approximately how many hours per week do you devote to TU work?

2.2 If you are a member of any committees, please state.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.

2.3 Which of the TU activities make the greatest demand on your time?

1. Attending courts or offices
2. Meetings
3. Collecting subscriptions
4. Negotiations
5. Paper work
6. Helping members with individual problems

2.4 Of the persons/officials whom you have to contact in the course of your work, in which order do you spend more of your time?

1. Members
2. Top management
3. Middle management
4. Government officers
5. Other leaders

2.5 During the last one year, how many of the following activities did you engage in?

- | | |
|-------------|---------------------------|
| Court cases | 1. Tribunals |
| | 2. Conciliation |
| | 3. Argued without lawyer |
| Meetings | 4. Executive meeting |
| | 5. General body meeting |
| | 6. Speeches delivered |
| | 7. Seminars/ conferences |
| | 8. Articles written |
| | 9. Rallies etc. organised |

2.6 When was the last election held in your union?

2.7 How many general body meetings of your TU were held during the last year?

2.8 How many of the members usually attend the general body meetings?

1. All or most
2. Three fourth
3. One half
4. A quarter or lesser

2.9 Apart from formal membership, are you satisfied with the actual participation of the workers in the activities organised by your TU?

- (4) Highly satisfied
- (3) Satisfied
- (2) Dissatisfied
- (1) Highly dissatisfied

2.10 Did your TU participate in any strike or agitation during the last three years?

0. No
1. Once
2. Twice
3. Three times or more

2.11 What was the proportion of membership participating on the last such occasion?

1. All or most
2. Three fourth
3. One half
4. A quarter or lesser

2.12 What measures do you suggest for increasing existing members participating in TUs?

2.13 What considerations should you keep foremost in taking a strike decision?

2.14 Do you consider cooperation with the managers as a relatively costless method of settling conflict inside an organisation (compare to, say, strike procedure)?

1. Yes
2. No

2.7.1 What about in the past? Do you think it was costless to settle conflict through unions in the past compared to today?

1. Yes
2. No

3. Recruitment and succession

3.1 At what age did you first become associated with a TU? []

3.1.1 How did you come to be associated with that TU?

3.1.2 At what age did you first hold an office in a TU? []

3.2 Please give an account of your association with various TUs.

	Name of the TU	Office held	Period	Insider/outsider	If outsider, were you ex-worker in this line? y/n	If left, why?
1						
2						
3						
4						
5						

4 Leadership and trend of unionsim

4.1 Are you satisfied in general with your present and past services to the TU movement?

- 4. Highly satisfied
- 3. Satisfied
- 2. Dissatisfied
- 1. Highly dissatisfied

4.2 Which of the following have contributed to your success?

- 1. I am an outsider so I am not afraid of management
- 2. I belong to a political party, therefore I have more influence with management
- 3. I am an ex-worker, so I have first hand knowledge about worker's problem
- 4. I have devoted full time to unionism

4.3 Which of the following difficulty do you encounter as a leader?

- 1. I am an outsider so I do not know worker's problem well.
- 2. Being an employee I cannot be free from management influence.
- 3. Workers expect too much from me.
- 4. I have not been able to devote full time because I have other occupations.
- 5. I have no political backing.
- 6. Because it is a small union not affiliated to any federation, has not much influence.

4.4.1 Please think of an ideal union leader. Amongst the listed attributes, please give a ranking in order of importance. If there is an attribute you think is *not* important, mark ×.

4.4.2 Please give yourself marks on the following attributes. You can have a maximum of five and a minimum of one on each count.¹¹

- (5) Highly satisfied, (4) Satisfied, (3) In between, (2) Dissatisfied, (1) Highly dissatisfied

¹¹ Singh (1980).

Attribute	Order of importance for an ideal unionist	Marks for yourself
Ability to exercise control		
Ability to make decisions		
Ability to make speeches		
Ability to negotiate with managers		
Ability to organise agitations and demonstrations		
Ability to take initiatives		
Communication skill		
Connections/negotiations with other trade unions		
Connections with members of the union		
Connections with politicians, political party or state officials		
Dedication to the cause		
Honesty		
Educational (schooling) attainment		
Intelligence		
Leadership skill		
Persistence		
Persuasiveness		
Resourcefulness		
Self-confidence		
Skill in court work		
Skill in negotiation with managers		

4.5 Do you think you can serve the TU movement better in any other capacity, apart from being a Union leader? (e.g. being elected as an MLA or MP)? Yes/No

4.6 Do you find if there is any change in the type of people who are coming forward as trade union leaders (age, education, political affiliation etc.)?

4.7 Do you think there has been any particular change in the general strategies of trade unions with regards to management?

4.8 When somebody says “there is a need to upgrade worker’s skill in India”, which aspect of ‘skill’ is important? Please give an order.

1. Ability to produce more with the existing machinery
2. Knowledge on new machinery
3. Formal education and attainment
4. Consciousness of productivity
5. Perception on technology
6. Capacity to control and maintain the work place

4.9 As far as you are aware, what is the most important recent advancement, say in the past 5 years, in terms of improving technology or productivity?

1. Introduction of new machinery or equipment
2. Better product or quality control
3. Improvement in the ability and attitude of workers
4. Improvement in the ability of managers and engineers
5. Others []

4.10 What do you think was the reason for the advancement? Please rank the following.¹²

1. Need to improve quality
2. In order to increase output
3. To acquire higher technological capacity
4. To reduce labour input
5. To lower the unit cost of production
6. To cope with competition

4.11 If advanced machinery or new technology is available, should it be introduced even if older machinery or equipment would have to be scrapped (replaced)?¹³

1. Machinery with advanced technology should be introduced even if older machinery must be scrapped
2. Should not be introduced if older machinery is still in operation
3. Should be introduced only after the old machinery becomes totally obsolescent

4.12 Do you think that introducing the imported machinery is effective for increasing productivity?¹⁴

1. Yes, it is effective if it is better or more advanced machinery
2. No, it is not effective because there will be more problems if it is introduced

4.13 When the new machinery is introduced, or new technological advancement takes place, then what do you think is the most important assets to cope with it?¹⁵

1. Experience
2. Formal technical education
3. On-the-job training (OJT)

¹² Tulpule and Dutta (1995: 270)

¹³ Kiyokawa (2003), question IV-D.

¹⁴ Kiyokawa (2003), question IV-J.

¹⁵ Kiyokawa (2003)

4.14 What do you think is the general perception of the workers when new machinery or equipment were introduced somewhere in their factory? (Assuming no wage or salary increases)¹⁶

1. They would want to undergo formal training and operate the new machinery
2. They would not want to change the present work, because satisfied with it
3. They would want to learn to operate the new machinery through informal training (for example, on-the-job training)

4.15 Thinking now of all section of employees, have any of the following steps been taken over the past two years?¹⁷

4.15.1 An increase in shift working [Yes/No]

4.15.2 Training of employees to cover jobs other than their own [Yes/No]

4.15.3 Increased use of group or collective pay incentives [Yes/No]

4.15.4 Increased use of work measurement or method study [Yes/No]

4.15.5 Replacement of some full-time employees with part-timers [Yes/No]

4.15.6 Replacement of some employees with contract or agency staff of casual or temporary workers [Yes/No]

4.15.7 Reduction in the number employed surplus to requirements [Yes/No]

4.16 When you have difficulties in the workplace, whom do you consult?¹⁸

1. Supervisor/ middle manager
2. Higher ranked officers of the trade unions (president, vice president, secretary etc.)
3. Colleague union members
4. Colleague workmates
5. Politician/ political leaders
6. My family
7. Do not consult anybody

Why not consult any of the above? []

¹⁶ Kiyokawa (2003), question IV-E

¹⁷ Wilkinson and White (1994: 129).

¹⁸ Acharji (1980)

4.17 In the following items please mark ○ for persons who actually make the decision, and ● for the ranks which are entitled to participate in decision-making process. Also please mark ⊙ for the person you think should make the decision.

	Politicians/ state officials	Managing directors/ chairman	Factory (top) manager	Middle managers	Engineers	Supervisors	Trade union leaders	Workshop leaders
Deciding and changing job allocations								
Hiring workers								
Disposing workers								
Promoting workers								
Training workers								
Training engineers								
Introducing new technology								
Improving technology and equipment								
Distribution of profits								
Deciding wage increases (for workers)								
Assessing bonus (for workers)								

4.18 If you have any further comments and suggestions kindly state them.

THANK YOU FOR YOUR COOPERATION!

Appendix 3A.2 Questionnaire for Top/middle/personnel managers

Name of interviewer []
 Date and time of interview []
 Serial number []

The purpose of this survey is purely academic. It will never be used for other purposes. The strictest confidentiality will be upheld regarding the information you provide. Therefore, please feel free to answer the questions as you really think. If there are questions you do not want to answer, please say so.

0. Establishment/factory background

0.1 In which category is your business? []

0.2 How many people are working full time? []

0.2.1 Do you have part time workers? [Yes/No]

0.2.1.1 If yes, how many during the peak season? []
 how many during the slack season? []

0.2.2 Do you have trainees? [Yes/No]

0.2.2.1 If yes, how many? []

0.2.3 What percentage of the workers is originally from this town?
 Amongst full time workers? []
 Amongst part time workers during the peak season? []
 during the slack season? []
 Amongst trainees? []

0.3 When did your establishment start operating? []

1. Personal and social background

1.1 Name []

1.3 Sex [Male/Female]

1.4 Marital status: Married/ Unmarried/ Any other

1.5 Age []
 Year of birth []

- 1.6 Where are you living? []
- 1.6.1 Type of the dwelling
1. Own house
 2. Company house
 3. Rental room
 4. Dormitory
- 1.7 Where are your home / native community? []
- 1.7.1 Which is the nearest town to your home community? []
- 1.7.2 Give distance from this town []
- 1.8 How long have you been living in this town? []
- 1.9 What is your religion?
1. Hindu
 2. Muslim
 3. Buddhism
 4. Christianity
 5. Others []
- 1.10 What is your caste? []
- 1.11 Language known
1. Hindi
 2. Bengali
 3. Marathi
 4. Gujarati
 5. Urdu
 6. English
 7. Any other []
- 1.12 What was your highest level of schooling? (i) passed, (ii) incomplete, dropout
1. Primary school
 2. Middle school
 3. High school
 4. Higher secondary
 5. Graduate
 6. Postgraduate
 7. Technical or vocational school
 8. None
- 1.13 At what age were you first employed?
- 1.14 How many years have you worked at this factory? _____ years
Or from when did you start to work? From _____

1.15 What sort of job do you do at this factory?

Dept. _____
 Sect. _____
 Status: _____

1.16 What is your employment status?

- 1. Permanent employee
- 2. Casual employee [] months per year
- 3. Part-timer [] hours per week

1.17 How much are your monthly earnings (including all allowance)?

[] Rs. per month

1.18 At present, any source of income other than the primary job? Yes/ No

1.18.1 If yes, what is the source?

- 1. Job []
- 2. Land []
- 3. Business []
- 4. Political office []
- 5. Others []

1.18.2 Amount []

1.19 How would you rate the present economic condition of your family?

- (5) Very well off
- (4) Well off
- (3) Average
- (2) Poor
- (1) Very poor

1.20 Please give details of your last five jobs.

	Job	Name of organisation	Salary	Period employed	Reasons for leaving
1					
2					
3					
4					
5					

1.21 To which social class, in this town, do you think you belong?

- (3) Upper
- (2) Middle
- (1) Lower

1.22 Please give the following information about your family

	Relation with you	Education	Occupation	Income	Marital status	Living with you? (y/n)	Economically dependent on you? (y/n)
1	Father (alive/not alive)						
2	Mother (alive/ not alive)						
3							
4							
5							
6							
7							
8							
9							
10							

2. Conditions of production, technology and market competition

2.1 Please give the following information regarding the performance of your factory in the past five years.

	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Gross fixed assets					
Plant and machinery (book value)					
Annual sales					
Profit before tax					
Imports					
Export					
Employment					

2.2 Suppose you sold different kinds of hats and also different kinds of gloves. 'Hats' and 'gloves' are what we call a product group. How many product groups do you produce/sell?

1. 1
2. 2-5
3. 6-10
4. 11-20
5. 21-50
6. More than 50

2.2.1 What would you say was your main product group in terms of sales?

[]

- 2.10 What do you think about the product or quality inspections of your factory?²¹
1. I do not know much
 2. Satisfied with it
 3. It should be more strict
- 2.11 Who supervises the work in your enterprise?²²
1. Self
 2. Partner
 3. Hired supervisor
- 2.12 Does your factory provide workers with training on new machinery installed in the factory?
[Yes/No]²³
- If yes, please describe the type of training you provide.
[]
- Is it limited to certain type of workers?
1. Yes please specify []
2. No

3. Perception on technology and skill

- 3.1 As far as you are aware, what is the most important recent advancement in your factory, say in the past 5 years, in terms of improving technology or productivity?
1. Introduction of new machinery or equipment
 2. Better product or quality control
 3. Improvement in the ability and attitude of workers
 4. Improvement in the ability of managers and engineers
 5. Others []
- 3.2 What do you think was the reason for the advancement? Please rank the following in the order of importance.²⁴
1. Need to improve quality
 2. In order to increase output
 3. To acquire higher technological capacity
 4. To reduce labour input
 5. To lower the unit cost of production
 6. To cope with competition
- 4.11 If advanced machinery or new technology is available, should it be introduced even if older machinery or equipment would have to be scrapped (replaced)?²⁵
1. Machinery with advanced technology should be introduced even if older machinery must be scrapped
 2. Should not be introduced if older machinery is still in operation

²¹ Kiyokawa (2003), question IV-F.

²² Romijn (1999: 309)

²³ Bhattacharjee (1989)

²⁴ Tulpule and Dutta (1995: 270)

²⁵ Kiyokawa (2003), question IV-D.

3. Should be introduced only after the old machinery becomes totally obsolescent

4.12 Do you think that introducing the imported machinery is effective for increasing productivity?²⁶

1. Yes, it is effective if it is better or more advanced machinery
2. No, it is not effective because there will be more problems if it is introduced

4.13 When the new machinery is introduced, or new technological advancement takes place, then what do you think is the most important assets to cope with it?²⁷

1. Experience
2. Formal technical education
3. On-the-job training (OJT)

4. Perception on work conditions, welfare and trade union

4.1 Thinking now of all section of employees, have any of the following steps been taken over the past two years?²⁸

- | | |
|--|----------|
| 4.1.1 An increase in shift working | [Yes/No] |
| 4.1.2 Training of employees to cover jobs other than their own | [Yes/No] |
| 4.1.3 Increased use of group or collective pay incentives | [Yes/No] |
| 4.1.4 Increased use of work measurement or method study | [Yes/No] |
| 4.1.5 Replacement of some full-time employees with part-timers | [Yes/No] |
| 4.1.6 Replacement of some employees with contract or agency staff of casual or temporary workers | [Yes/No] |
| 4.1.7 Reduction in the number employed surplus to requirements | [Yes/No] |

4.2 When you have difficulties in the workplace, whom do you consult?²⁹

1. Supervisor/ middle manager
2. Higher ranked officers of the trade unions (president, vice president, secretary etc.)
3. Colleague union members
4. Colleague workmates
5. Politician/ political leaders
6. My family
7. Do not consult anybody

Why not consult any of the above? []

²⁶ Kiyokawa (2003), question IV-J.

²⁷ Kiyokawa (2003)

²⁸ Wilkinson and White (1994: 129).

²⁹ Acharji (1980)

4.3 In the following items please mark ○ for persons who actually make the decision, and ● for the ranks which are entitled to participate in decision-making process. Also please mark ⊙ for the person you think should make the decision.

	Politicians/ state officials	Managing directors/ chairman	Factory (top) manager	Middle managers	Engineers	Supervisors	Trade union leaders	Workshop leaders
Deciding and changing job allocations								
Hiring workers								
Disposing workers								
Promoting workers								
Training workers								
Training engineers								
Introducing new technology								
Improving technology and equipment								
Distribution of profits								
Deciding wage increases (for workers)								
Assessing bonus (for workers)								

4.4 Are you satisfied in general with your present and past relations with the trade union movement?

4. Highly satisfied
3. Satisfied
2. Dissatisfied
1. Highly dissatisfied

4.5 Do you think workers benefit from trade union activities? [Yes/No]

Apart from the workers, do any of the following benefit from trade union activities?

1. Politicians/ government officials
2. Trade union leaders
3. Top managers
4. Middle managers

4.6 Do you consider cooperation with the trade unions as a relatively costless method of settling conflict inside an organisation (compare to, say, strike procedure)?

1. Yes
2. No

4.7 What about in the past? Do you think it was costless to settle conflict through unions in the past compared to today?

1. Yes
2. No

4.8 Please think of an ideal union leader. Amongst the listed attributes, please give a ranking in order of importance. If there is an attribute you think is *not* important, mark ×.

Attribute	Order of importance for an ideal unionist	Marks for yourself
Ability to exercise control		
Ability to make decisions		
Ability to make speeches		
Ability to negotiate with managers		
Ability to organise agitations and demonstrations		
Ability to take initiatives		
Communication skill		
Connections/negotiations with other trade unions		
Connections with members of the union		
Connections with politicians, political party or state officials		
Dedication to the cause		
Honesty		
Educational (schooling) attainment		
Intelligence		
Leadership skill		
Persistence		
Persuasiveness		
Resourcefulness		
Self-confidence		
Skill in court work		
Skill in negotiation with managers		

4.9 If you have any further comments and suggestions kindly state them.

THANK YOU FOR YOUR COOPERATION!

Appendix 3A.3 Questionnaire for workers (trade union members/non-members)

Name of interviewer []
Date and time of interview []
Serial number []

The purpose of this survey is purely academic. It will never be used for other purposes. The strictest confidentiality will be upheld regarding the information you provide. Therefore, please feel free to answer the questions as you really think. If there are questions you do not want to answer, please say so.

1. Personal and social background

1.1 Name []

1.3 Sex [Male/Female]

1.4 Marital status: Married/ Unmarried/ Any other

1.5 Age []
Year of birth []

1.6 Where are you living? []

1.6.1 Type of the dwelling

1. Own house
2. Company house
3. Rental room
4. Dormitory

1.7 Where are your home / native community? []

1.7.1 Which is the nearest town to your home community?

[]

1.7.2 Give distance from this town []

1.8 How long have you been living in this town? []

1.9 What is your religion?

1. Hindu
2. Muslim
3. Buddhism
4. Christianity
5. Others

[]

1.10 What is your caste? []

1.11 Language known

1. Hindi
2. Bengali
3. Marathi
4. Gujarati
5. Urdu
6. English
7. Any other []

1.12 What was your highest level of schooling? (i) passed, (ii) incomplete, dropout

1. Primary school
2. Middle school
3. High school
4. Higher secondary
5. Graduate
6. Postgraduate
7. Technical or vocational school
8. None

1.13 At what age were you first employed?

1.14 How many years have you worked at this factory? _____ years

Or from when did you start to work? From _____

1.15 What sort of job do you do at this factory?

Dept. _____
Sect. _____
Status: _____

1.16 What is your employment status?

1. Permanent employee
2. Casual employee [] months per year
3. Part-timer [] hours per week

1.17 How much are your monthly earnings (including all allowance)?

[] Rs. per month

1.18 At present, any source of income other than the primary job? Yes/ No

1.18.1 If yes, what is the source?

1. Job []
2. Land []
3. Business []
4. Political office []
5. Others []

1.18.2 Amount []

1.19 How would you rate the present economic condition of your family?

- (5) Very well off
- (4) Well off
- (3) Average
- (2) Poor
- (1) Very poor

1.20 Please give details of your last five jobs.

	Job	Name of organisation	Salary	Period employed	Reasons for leaving
1					
2					
3					
4					
5					

1.22 Please give the following information about your family

	Relation with you	Education	Occupation	Income	Marital status	Living with you? (y/n)	Economically dependent on you? (y/n)
1	Father (alive/not alive)						
2	Mother (alive/ not alive)						
3							
4							
5							
6							
7							
8							
9							
10							

1.22 Are you a member of a trade union?

1.22.1 If yes, please specify the name of the union []

2. *Perception on technology and skill*

2.1 When somebody says “there is a need to upgrade worker’s skill in India”, which aspect of ‘skill’ is important? Please give an order.

1. Ability to produce more with the existing machinery
2. Knowledge on new machinery
3. Formal education and attainment
4. Consciousness of productivity
5. Perception on technology
6. Capacity to control and maintain the work place

2.2 As far as you are aware, what is the most important recent advancement in your factory, say in the past 5 years, in terms of improving technology or productivity?

1. Introduction of new machinery or equipment
2. Better product or quality control
3. Improvement in the ability and attitude of workers
4. Improvement in the ability of managers and engineers
5. Others []

2.3 What do you think was the reason for the advancement? Please rank the following in the order of importance.³⁰

1. Need to improve quality
2. In order to increase output
3. To acquire higher technological capacity
4. To reduce labour input
5. To lower the unit cost of production
6. To cope with competition

2.4 If advanced machinery or new technology is available, should it be introduced even if older machinery or equipment would have to be scrapped (replaced)?³¹

1. Machinery with advanced technology should be introduced even if older machinery must be scrapped
2. Should not be introduced if older machinery is still in operation
3. Should be introduced only after the old machinery becomes totally obsolescent

2.5 Do you think that introducing the imported machinery is effective for increasing productivity?³²

1. Yes, it is effective if it is better or more advanced machinery
2. No, it is not effective because there will be more problems if it is introduced

2.6 When the new machinery is introduced, or new technological advancement takes place, then what do you think is the most important assets to cope with it?³³

1. Experience
2. Formal technical education

³⁰ Tulpule and Dutta (1995: 270).

³¹ Kiyokawa (2003), question IV-D.

³² Kiyokawa (2003) question IV-].

³³ Kiyokawa (2003)

3. On-the-job training (OJT)

2.7 What would you prefer to do if new machinery or equipment were introduced somewhere in your factory? (Assuming no wage or salary increases) ³⁴

1. I want to undergo formal training and operate the new machinery
2. Don't want to change the present work, because I am satisfied with it
3. I want to learn to operate the new machinery through informal training (for example On-the-Job Training)

2.8 What do you think about the product or quality inspections of your factory?³⁵

1. I do not know much
2. Satisfied with it
3. It should be more strict

2.9 Who supervises the work in your enterprise?³⁶

1. Self
2. Partner
3. Hired supervisor

2.10 Have you received training on new machinery installed in the factory during your tenure?
[Yes/No]³⁷

3. Perception on work conditions, welfare and trade union

3.1 Thinking now of all section of employees, have any of the following steps been taken over the past two years? ³⁸

- | | |
|--|----------|
| 3.1.1 An increase in shift working | [Yes/No] |
| 3.1.2 Training of employees to cover jobs other than their own | [Yes/No] |
| 3.1.3 Increased use of group or collective pay incentives | [Yes/No] |
| 3.1.4 Increased use of work measurement or method study | [Yes/No] |
| 3.1.5 Replacement of some full-time employees with part-timers | [Yes/No] |
| 3.1.6 Replacement of some employees with contract or agency staff of casual or temporary workers | [Yes/No] |
| 3.1.7 Reduction in the number employed surplus to requirements | [Yes/No] |

³⁴ Kiyokawa Project, IV-E

³⁵ Kiyokawa (2003), IV-F.

³⁶ Romijn (1999: 309)

³⁷ Bhattacharjee (1989)

³⁸ Wilkinson and White (1994: 129).

3.5 Do you think workers benefit from trade union activities? [Yes/No]
 Apart from the workers, do any of the following benefit from trade union activities?

1. Politicians/ government officials
2. Trade union leaders
3. Top managers
4. Middle managers

3.6 Please think of an ideal union leader. Amongst the listed attributes, please give a ranking in order of importance. If there is an attribute you think is *not* important, mark ×.

Attribute	Order of importance for an ideal unionist	Marks for yourself
Ability to exercise control		
Ability to make decisions		
Ability to make speeches		
Ability to negotiate with managers		
Ability to organise agitations and demonstrations		
Ability to take initiatives		
Communication skill		
Connections/negotiations with other trade unions		
Connections with members of the union		
Connections with politicians, political party or state officials		
Dedication to the cause		
Honesty		
Educational (schooling) attainment		
Intelligence		
Leadership skill		
Persistence		
Persuasiveness		
Resourcefulness		
Self-confidence		
Skill in court work		
Skill in negotiation with managers		

3.7 If you have any further comments and suggestions kindly state them.

THANK YOU FOR YOUR COOPERATION

TYPES OF LABOUR MARKET INSTITUTIONS IN MUMBAI AND
KOLKATA

4.1 Introduction

In this chapter, we will identify and analyse the different types of LMIs in Kolkata (Calcutta) and Mumbai (Bombay) using data obtained during field research in 2001. The comparison between two of the oldest industrial centres in India offers interesting case studies for our analysis of the reproduction and transformation of LMIs in terms of their location within different types of macro political conflicts. Despite the relatively similar experience of industrial development and the labour movement until about the mid-1960s or early 1970s, Mumbai and Kolkata are often portrayed as contrasting examples of LMIs positively or negatively affecting the process of economic development since then.

Categorising differential types of LMIs itself may be interesting in its own right as an indication of the institutional diversity within India, which is often neglected in the on-going debates. However from the context of this thesis, the typology of LMIs and bargaining is of particular interest because of the widely held view in the debates, which relates LMIs to the efficiency and growth rates of an economy. In Chapter 1, we reviewed the debates on labour market reforms in India, in which some mainstream theories that inform policy have attributed the extent of the politicisation of LMIs as one of the alleged causes of the persistently low productivity in the industrial sector and the relatively slow rate of formal employment growth over the past few decades. In contrast, we have outlined an alternative political economic/dialectical approach, which argues that the LMIs reflect the forms of macro

political conflicts, which in turn affect the historically specific ways in which industrial development proceeds. Of course, the relationship between LMIs and the patterns of accumulation is dialectical, but also an asymmetrical one, in the sense that micro-level agents are caught up in the historical process, which they may help to shape, but the outcome need not be 'chosen' consciously by any micro-level agents (Callinicos 1988). Our argument is therefore that the causality is at least partially in the opposite direction to the one implied in the mainstream literature.

In Sections 2 and 3 of this chapter, we will use observations from our survey to illustrate differential types of LMIs in traditional and modern industrial sectors in Mumbai and Kolkata, which are 'mapped' in Figure 4-1. The types of LMIs are identified by focusing on three interrelated aspects of bargaining institutions: the level of bargaining, the types of agents who participate in the bargaining process, and the ownership of firms. The three factors selected are by no means exhaustive, but cover aspects of bargaining institutions that have been the focus of debates on LMIs. We find that the bargaining structure is generally associated with the technological aspects of the industry, whereas the extent of politicisation of LMIs is related more with the specific social and political contexts within which labour-management bargaining take place. These findings from our empirical analysis are summarised, and further analytical issues are identified and discussed in Section 4.

4.2 Bargaining structure, bargaining agents and ownership

The objective of this section is to identify the typology of LMIs that best represents the diverse forms of labour-management relations observed in India. In Chapter 1, we have critically examined the 'stylised' image of 'state-dominated' and 'politicised' LMIs in Indian industries, which is widely held in the on-going policy debates on labour market reforms. Within India, there are further stereotypes about LMIs and their relations to economic performance, for example that industrial areas in western India, such as Mumbai, have

performed better because they have had more 'professional' company-based unions compared to unions organised at industrial-level and based on political parties in eastern India, such as Kolkata. These perceived types of LMIs are seen to feed directly into the governance capacity and investment climate of different regions in India, as we discuss in Chapter 5 Section 5.2. Such perceptions are contrary to our political economic approach outlined in Chapter 2, in which LMIs are to be understood as a reflection of how society organises the process of development and accumulation, and how labour processes are managed and controlled.

While these 'stylised' images and perceptions do capture some aspects of LMIs, they are generally unhelpful as a starting point for a systemic analysis of existing LMIs, because they underestimate the considerable diversity in bargaining relations and unionism within India. This is partly due to the lamentable lack of detailed micro-level studies on LMIs in India. With some pioneering work such as those collected in Davala (1992), we are only starting to understand the diverse and complex ways in which bargaining relations and unionism are organised differently across regions and industrial sectors. The aim of this section is to address this gap in the literature by empirically identifying diverse types of LMIs in the sampled units from our field-work. Of course we do not claim to provide a comprehensive picture of LMIs in Indian industries with this single study alone. Given that we do not have a representative sample of the industry in India, or in Mumbai and Kolkata, we must naturally be cautious about over-generalisation, although as we discussed regarding the field-work methodology in Chapter 3, attempts were made to ensure that a wide range of industrial relations are captured to reflect the diverse types of LMIs in the two cities.

The variables that characterise our typology are drawn from the existing economic literature on LMIs. As we have seen in Chapter 2, in the simple neo-classical labour market models, the type of bargaining institutions is not a

major concern, since any institutional intervention in the labour market is treated as 'distortion'. But once it is recognised that different institutional characteristics of collective bargaining are associated with different incentives and payoff structures for bargaining agents, we find that institutions become a key variable in analysing the implications of collective bargaining.

The first aspect of LMIs we focus on is the level of collective bargaining or bargaining structure, which is directly related to the concern of the neo-corporatist literature, such as Calmfors and Driffill (1988), that focuses on the relations between the centralisation of bargaining and the wage militancy of unionism. It is also related to rent-seeking theory, for instance Mangel, DeLorme and Kamerschen (1994), which look at the distinction between rent-seeking that takes place at micro firm-level and rent-seeking at macro policy-level. The second aspect of LMIs is the nature of agents that participate in the bargaining process, particularly the involvement of the state in collective bargaining, which is also an important issue for both collective-voice models, such as Freeman and Medoff (1984), as well as rent-seeking theories. The third aspect we focus on is the ownership of firms, which is another variable related to the debate in the neo-corporatist literature, where the nature of unionism is thought to be related to the stability of employment and employer opposition (or absence of) to unionism (for example, Calmfors et al. 2001: 25-26).

Which factors or aspects of the LMIs best characterise the general pattern of bargaining relations and unionism is ultimately an empirical question and cannot be pre-determined theoretically. From our analytical approach, LMIs are organised differently reflecting the balance of power and the historically specific ways in which industrial development proceeded in different regions, and therefore the identification of the typology of LMIs is in part socially and empirically contingent. Table A4-1 lists the 21 surveyed units together with the bargaining structure, the type of bargaining agents, and the ownership of

the firm, which will be used to empirically identify the typology of LMIs in Section 4.3 and is summarised in Figure 4-1. However, before proceeding to our ‘mapping’ of the typology of LMIs, let us first examine each of these aspects of LMIs in turn.

4.2.1 Centralisation of bargaining level and structure

The first aspect of bargaining relations we consider here is the bargaining structure or the level/ locus where collective bargaining takes place. The level of bargaining is directly related to the concern of the hump-shaped hypothesis or the neo-corporatist literature (Calmfors and Driffills 1988), which focuses on the extent of centralisation of collective bargaining and the degree to which labour in different firms and sectors coordinate their demands, and thereby control wage militancy and influence the wage-employment trade-off at the level of the macro-economy. In the rent-seeking models, a distinction was made between bargaining within the business unit, which focuses on economic ‘rents’ (or using our terminology from Chapter 2, ‘within-firm rents’), and rent-seeking that takes place over resources outside the unit, such as the legal framework, public finance, and political power (i.e. ‘outside-firm rents’). We have also seen in Chapter 1 that the on-going policy debate on LMIs in India is strongly influenced by a stylised image of heavily centralised and politicised unionism, as discussed in the Second National Commission on Labour (SNCL) (GOI Ministry of Labour 2002), although collective bargaining at the national level only occurs in selected public sector firms. Indeed, we came across only one case of national level bargaining, in the public sector State Bank of India (K2), and in all other cases the level of bargaining was either at the industry-cum-state level or at the firm or establishment-level, or a combination of the two. Difference in the level of bargaining is thought to influence the incentives, opportunity and constraints for bargaining agents, and thus is seen to be associated with different types of bargaining behaviour. Generally, the more centralised the bargaining structure, it is thought that the collective bargaining is more likely to be

influenced by the political agenda, and in turn make bargaining agents less concerned with enterprise-level issues (Pencavel 1995; Bardhan 1984; Hossain, Islam and Kibria 1999).

TABLE 4-1 LEVEL OF BARGAINING AND POLITICAL AFFILIATION OF UNION LEADERSHIP IN SURVEYED ESTABLISHMENTS

Type of union leadership	Level of bargaining			Total
	Industry-level	Mixed	Plant-level	
Independent (internal)	0	1	2	3
Independent (external)	0	0	4	4
Politically affiliated	3	4	7	14
Total	3	5	13	21

Note: Pooling the “type of union leadership” into a dichotomous category (political affiliated vs. independent), Pearson’s chi-square test was computed as $\chi^2 = 1.325 < \chi_{0.05}^2(2)$, with the minimum expected count of 0.71, failing to reject the null hypothesis that the variables are statistically independent¹. In addition, Kendall’s tau-C was calculated as $\tau = -0.200 < \tau_{0.05}$, and Spearman’s rank correlation coefficient as $r_s = -0.235$, indicating that the statistical association between the two variables is weak at best.

Source: Author’s fieldwork.

From table 4-1 we can see that the level of bargaining in our surveyed units is diverse. In our field survey, we collected data from 21 units (factories or business establishments), 10 from Kolkata (Calcutta) and 11 from Mumbai (Bombay)². In terms of the level of collective bargaining, only 3 out of 21 had exclusively centralised settlements negotiated and signed at national, regional, or even industry levels. Even if we included units that had a mixed policy, that is they had two separate settlements, one negotiated at a centralised level and one at the plant-level, only 8 units participated in industry-wide settlements. The remaining 13 units had a settlement signed at the plant-level.

¹ For table 4-1, Pearson’s chi-square test was computed after pooling the categories, since in the original table the expected count in the smallest cell was 0.43, less than the criterion set by Everitt (1977: 40). In all other tables in this chapter (4-2 to 4-4) we have computed the chi-square statistics without the pooling of categories. See Chapter 3 Section 3.3.4 for further discussion on small expected frequencies in contingency tables.

² Survey methodology and the basic characteristics of the surveyed units are discussed in Chapter 3.

Of course, even if the settlement is signed at the plant-level, the bargaining strategies of unions may be influenced by extra-firm issues, particularly if the unions are affiliated to centralised political parties, or if the transfer of resources from the state accounts for a significant proportion of gains from industrial activities. Interestingly, table 4-1 shows that amongst the units that concluded plant-level settlements 7 out of 13 had party affiliated unions³. This is somewhat contrary to the conventional wisdom widely assumed in the policy debates in India that decentralisation of collective bargaining would make unions less dependent on political parties (Hossain, Islam and Kibria 1999: 77; GOI Ministry of Labour 2002). Our field observations suggest that the politicisation of unionism is not determined by the extent of centralisation alone, as confirmed by the statistical insignificance association (see note of table 4-1), but depends on various other economic and political factors. Our hypothesis is that the involvement of political parties and external agency in unionism are closely associated with the relative size of 'within' and 'outside-firm rents'. As will be discussed in Section 4.3 and further elaborated in Chapter 5, we suggest that in industrially stagnant sectors, party-affiliation is sought by both unions and employers to secure wages and employment in return for a 'disciplined' industrial relations, whereas in more industrial dynamic sectors, changes in the type of union leadership reflects the extent to which they succeed in extracting greater share of 'within-firm rents'. Furthermore, shifts in the bargaining structure are often used as means to secure more favourable conditions for rent appropriation by bargaining agents, as we discuss regarding cases of decentralised collective bargaining in Chapter 6.

³ Our categorisation of the type of union leadership is not strictly a measure of 'politicisation' or 'externalisation' of unionism, but more an indication of the 'formal' links with political parties or other external organisations. Note that this means that, where there are multiple unions, the unit is categorised as "politically affiliated" if at least one of the unions recognised at the plant have formal links to political parties, even if there are other unions which may be 'independent', as in the case of Philips Taratolla (K10). Also even if union leaders and activists are members of political parties, if the unions are not 'formally' affiliated to political parties, the unit is not categorised as "politically affiliated", as in the case of State Bank of India (K2).

At this point of our discussion, we may at least say that independent non-political unionism is more likely to be found in establishments where at least part of the bargaining takes place at the plant-level. We may also say that in centralised collective bargaining, unions are more likely to be politically affiliated. The final observation is consistent with the experience in much of the Continental and Nordic countries, which suggests that the centralisation of collective bargaining and the unitary labour movement tends to strengthen union ties with political parties and ruling governments, whether such relations takes the shape of formal political affiliation or informal associations. Such political ties are important not only for unions who may influence the political agenda of allied political parties, but also for incumbent parties who may seek support from affiliated unions on unpopular reforms or wage restraint (Brugiavini et al. 2001, pp.175-7).

4.2.2 Types of bargaining agents

Let us next consider the bargaining agents who participate in the process of collective bargaining in our surveyed units. The type of agents who participate in the bargaining process, particularly the involvement of extra-firm actors in collective bargaining, is highlighted in rent-seeking models, in which the extent of rent-seeking by bargaining agents is explained in terms of the types of trade union leadership and their bargaining strategies (Mangel, Delorme and Kamerschen 1994). The bargaining strategy may be reflected in whether the unions are affiliated with political parties (Pencavel 1995; Hossain, Islam and Kibria 1999), or in the types of bargaining agents involved, for example whether external agents dominate the rent-seeking process (Kamerschen, DeLorme, Mangel and Morgan 2000). Again these types of union leadership and their bargaining strategies are thought to be associated with different types of rent-seeking activities.

Similarly, in the collective voice model (Freeman and Medoff 1984; Luchak 2003), it is suggested that the types of union leaders may have implications on

the extent to which workers' voice effectively contributes to improved productivity. The implication of the conventional analysis is that, as the union leaders become more skilful politically and administratively, they tend to seek self interest and lose touch with the rank-and-file, making the institutional response to collective voice ineffective.

In our surveyed units, two forms of participation to collective bargaining are found: bi-partite bargaining, where the agents consist of management and a labour union, and tri-partite where the central or local governments enter as an additional bargaining party, sometimes in a supportive role to one of the other two agents (i.e. management or labour) or as a participant with its own bargaining agenda. From Table 4-2 we can see that amongst the 21 units, for which we were able to identify the nature of bargaining agents, 8 units had tri-partite bargaining and settlement between management, labour and the state, 9 had bi-partite bargaining and 4 had both bi-partite and tri-partite bargaining for different settlements. All 3 units that had only industry-level settlement had tri-partite bargaining. Amongst the 13 units that had plant-level bargaining 9 had a bi-partite bargaining and 4 had tri-partite bargaining. Generally the two variables are correlated with each other, as confirmed by the statistically significant association.

TABLE 4-2 LEVEL OF BARGAINING AND BARGAINING AGENTS IN SURVEYED ESTABLISHMENTS

Bargaining agents	Level of bargaining			Total
	Industry-level	Mixed	Plant-level	
Bi-partite	0	0	9	9
Mixed	0	4	0	4
Tripartite	3	1	4	8
Total	3	5	13	21

Note: Pearson's chi-square test was computed as $\chi^2 = 21.969 > \chi_{0.001}^2(4)$, with the minimum expected count of 0.57, rejecting the null hypothesis that the variables are statistically independent. In addition, Kendall's tau-C was calculated as $\tau = -0.463 > \tau_{0.01}$, and Spearman's rank correlation coefficient as $r_s = -0.534$, confirming statistically significant association between the two variables.

Source: Author's fieldwork

In our surveyed sample, 9 out of 13 units with plant-level bargaining had bipartite bargaining, while in 4 cases we observed that the state may have a role in determining bargaining outcomes even in units that have plant-level bargaining. The latter observation is again somewhat contrary to the perception held in the Indian policy debate that plant-level collective bargaining is associated with bilateral negotiations between the firm management and labour unions, whereby the main focus of the negotiation is over the share of potential surplus generated from firm-level production, what we have earlier called ‘within-firm rents’, and that decentralisation of bargaining makes settlements less subject to political intervention. Such an assumption is also held by some mainstream theories, such as the collective voice and rent-seeking models, where bargaining at the plant-level is ‘chosen’ by bargaining agents because significant additional supernormal profit or rent can be extracted either through union-management cooperation or through rent-seeking. Neo-corporatist models also predict plant-level bargaining to be found in industries where the cost of rent-seeking is difficult to externalise because of competitive pressures, mainly due to technological and market conditions. Therefore conventional models predict the plant-level collective bargaining to have the limited involvement of extra-firm agents.

It is therefore of interest that there were 4 establishments⁴ in our sample where the plant-level bargaining at the time of the field research entailed significant and *constant* state involvement, and all 4 units experienced negotiation over settlements with disputes over the reorganisation of production. This does not mean that industrial disputes always invite *regularised* mediation by the state, as there were other firms with strongly disputed settlements, but without direct state intervention becoming the *norm*

⁴ Amongst these, 3 units, INDAL Belur, Philips Toratolla and BOC, were located in Kolkata (Calcutta) and one, INDAL Taloja, in Mumbai (Bombay).

for their industrial relations⁵. However, it does suggest that industrial conflicts often provide opportunities for external actors, including the state, to intervene in the bargaining process, which may result in the same plant-level bargaining involving different actors depending on their specific economic, social, and political conditions.

Once again, our hypothesis is that the involvement of external bargaining agents in LMIs depends on the extent to which bargaining agents can exploit their economic or organizational power to capture politically created income (i.e. ‘outside-firm rents’) compared to the gains from labour-management bargaining over the surplus at the point of production (‘within-firm rents’). This is a question of the location of bargaining agents in the redistributive politics, which depends on the balance of power at the macro level and how the coalition of rent-seeking is organised. As we elaborate further in Chapter 5, we suggest that the state and other external agency are more likely to be involved in LMIs where either (i) there is greater size of state resources available for appropriation and the logic of political mobilisation is such that the accommodation of industrial capital and labour within the redistributive coalition is critical; and/or (ii) the involvement of external actors provides means for transforming the LMIs to create favourable condition for further rent appropriation.

4.2.3 Ownership of firms

Some mainstream theories predict difference in the behaviour of bargaining agents in public and private sectors. The textbook neoclassical model of labour markets, as discussed in Section 2.1 of Chapter 2, assumes labour-management bargaining in the private sector, and given perfectly competitive product and labour markets, whereas in the public sector, ‘market forces’ reflected in the state of labour supply and demand may only have an indirect

⁵ For example, the 2000 settlement at the Hindustan Lever plant in Maharashtra was settled through the court, due to disputes over production reorganisation, but the involvement of extra-firm actors in this case was not regularised in a tri-partite structure.

role in setting pay rates. Similarly, in the new institutional economics (NIE)-inspired models and neo-corporatist literature, the ownership structure is considered to be an important variable that is correlated both with the institutional structure of the organisation and its efficiency implications. This is partly because wages and employment in the public sector are determined within a budgetary framework constrained by the government's fiscal policy, rather than a mere maximisation of profits at the firm level as assumed in standard economic models of private firms (Calmfors et al. 2001: 25-26; Falch and Strøm 2003). Additionally, some politicians may establish patron-client relations with public sector workers and unions, resulting in political intervention in the LMIs and increased rent-seeking (Nelson 1991: 45; Brugiavini et al. 2001: 175-7).

Let us first consider the relationship between the ownership of business establishments and the level of bargaining in our sample. Table 4-3 shows that out of 21 units, 11 were owned by private domestic capital, 5 were multinationals and 5 were public sector units⁶. Amongst the 11 units owned by domestic private capital, 8 had collective bargaining at the plant-level, one had an industry-level settlement, and 2 had a mix of both bargaining levels. All 5 units owned by multinational capital negotiated settlements at the plant-level. Hence, regardless of domestic or foreign ownership, it appears that private companies had a tendency to hold at least part of the bargaining at plant-level. This can be contrasted with the observation that amongst 5 units under public ownership 2 had regional or industry-level settlements, while 3 had both plant and industry level bargaining. Generally we find a strong correlation between the two variables, as confirmed by the statistically significant associations.

⁶ One of the units classified as "public" in our categorisation, Lagan Jute Manufacturing (K11) was a public sector firm until its privatisation in 2000, which was just prior to our field survey. Given that the observed bargaining relation was established when the firm was still government-owned, and in particular the settlements effective at the time was those negotiated in 1997, we have categorised Lagan as a public sector unit.

TABLE 4-3 OWNERSHIP STRUCTURE OF FIRMS AND LEVEL OF BARGAINING IN SURVEYED ESTABLISHMENTS

Level of bargaining	Ownership			Total
	Private (domestic)	Private (multinational)	Public	
Regional/ Industry-level	1	0	2	3
Mixed	2	0	3	5
Plant-level	8	5	0	13
Total	11	5	5	21

Note: Pearson's chi-square test was computed as $\chi^2 = 11.799 > \chi_{0.05}^2(4)$, with the minimum expected count of 0.71, rejecting the null hypothesis that the variables are statistically independent. Pooling the "type of ownership" into a dichotomous category (public vs. private), Kendall's tau-C was calculated as $\tau = -0.599 > \tau_{0.005}$, and Spearman's rank correlation coefficient as $r_s = -0.704$, indicating statistically strong association between the two variables.

Source: Author's fieldwork

The finding that none of the public sector firms enter collective bargaining exclusively at plant-level is consistent with the conventional theories and is not surprising. The experience of many neo-corporatist countries with highly centralised bargaining structures suggests that public sector unions have tended to play a central role, even if the bargaining agenda in the corporatist political system, such as the provision of social benefits, unemployment insurance and pensions, concern private sector employees as well (Calmfors et al. 2001). What is perhaps interesting to note is that some public sector units also engage in plant-level bargaining and combine it with more centralised forms of bargaining. Such mixed modes of bargaining are also commonly found in the private sector. This indicates that the dichotomist and static view of centralised vs. localised bargaining may be too simplistic and must be discussed with caution. Especially since the 1980s there has been a tendency to hold decentralised plant-level bargaining alongside firm-level or industry-cum-national negotiations with each focusing on different bargaining issues (Bhattacharjee 1999; Ramaswamy 2000). Our hypothesis is that this increased role of decentralised bargaining reflects the 'uneven' pattern of economic development in India since the 1980s, which has made it more difficult to

justify and sustain ‘traditional’ industrial-level bargaining that homogenise pay structure for similar work across the sector. We shall discuss the implications of this process of decentralisation and such mixed mode of collective bargaining in Chapter 6.

TABLE 4-4 OWNERSHIP STRUCTURE OF FIRMS AND BARGAINING AGENTS IN SURVEYED ESTABLISHMENTS

Bargaining agents	Type of ownership			Total
	Private (domestic)	Private (multinational)	Public	
Bi-partite	6	3	0	9
Mixed	2	0	2	4
Tripartite	3	2	3	8
Total	11	5	5	21

Note: Pearson’s chi-square test was computed as $\chi^2 = 5.918 < \chi_{0.05}^2(4)$, with the minimum expected count of 0.95, failing to reject the null hypothesis that the variables are statistically independent. However, after pooling the “type of ownership” into a dichotomous category (public vs. private), Kendall’s tau-C was calculated as $\tau = 0.372 < \tau_{0.05}$, and Spearman’s rank correlation coefficient as $r_s = 0.408$, indicating statistically significant association between the two variables.

Source: Author’s fieldwork

Next, if we consider the relationship between the type of bargaining agents and the type of ownership, we see from table 4-4 that amongst the 5 public sector units, all of them had some type of tri-partite bargaining, although 2 units had a plant-level bi-partite bargaining as well. The bargaining agents in the private sector appear to be quite diverse, although the majority had some form of bi-partite bargaining.

The dominance of tri-partite bargaining in the public sector is not surprising given that wage determination in public sector firms is subjected to the government’s fiscal policy. Furthermore in India, central and state governments generally followed policies of moderating conflict and imposing uniform wages and benefit amongst public sector firms even after liberalisation (Ramaswamy 2000). In contrast, the extent of extra-firm agency involvements in the bargaining processes of private firms is diverse,

suggesting that the types of agents involved is not dependent on the type of ownership of the firm alone. Once again, our hypothesis is that the involvement of different actors depends on the relative size of 'within' and 'outside-firm rents' available to bargaining agents in LMIs. We argue that the involvement of the state and other external agency is more likely when industrial capital and labour can appropriate 'outside-firm rents' through accommodation in redistributive coalition with other actors in the wider social context, which in turn reflects the broader patterns of accumulation within which labour-management bargaining takes place.

4.3 Typology of labour market institutions in Mumbai and Kolkata

We have so far considered several aspects of the types of unionism and bargaining: the level of bargaining, the types of union leadership and external bargaining agents, and the ownership of the firm. As we have already pointed out these aspects of the bargaining institutions are naturally not independent of one another. For example, collective bargaining in public sector firms is usually, if not exclusively, settled at the centralised level, since an investment decision in the public sector is typically not based on factors at the plant-level alone, but also takes into account costs and benefits at the level of society. Similarly, centralised bargaining tends to be associated with tri-partite bargaining, sometimes because management and unions have an interest in using the link with the state and political parties to influence the settlement in their favour, and sometimes because the state has its own political motivations for entering the bargaining process.

While empirical research on the diversity of India's LMIs across regions and industrial sectors is still limited, two sharply contrasting typologies can be extracted from the existing literature. On one hand, influential writers such as Pencavel (1995); and Banerji, Campos and Sabot (1995) in the current policy debates on LMIs are concerned with 'traditional' unionism and bargaining relations characterised as "state-dominated" or "involutionary pluralism"

(Rudolph and Rudolph 1987; Bhattacharjee 1999), which is thought to have followed from the state-led industrialisation strategies of the 1950s. This model of LMIs is characterised by politically affiliated unionism, and in some cases multiple unions fragmented along political party and factional lines, centralised bargaining structure at the region-cum-industry level and tripartitism with the central or regional governments acting as active participants in collective bargaining. Despite the general perception that the state is increasingly curtailing its role in mediating industrial relations, regularised state intervention continues in some industrial sectors, most notably the jute and engineering industry in West Bengal (Venkata Ratnam 1996: 79; Sen 1992a; 1992b) and the public sector cotton textile industry in Maharashtra (Ramaswamy 1988: 215; Bhattacharjee 1989; 1999; Dash 1996).

On the other hand, since the 1980s 'independent' unionism and 'modern' bargaining relations have become more prevalent, especially in Mumbai, which was previously limited to a few multinational companies. This type of LMI is characterised by a 'decentralised and fragmented' bargaining structure, whereby employees in different units are covered by separate agreements even within the same enterprise, and in some cases even between different departments within the same unit; and enterprise-level or company-based unions representing the whole workforce at the unit led by internal employee activists or outside trade unionists who avoid being politically labelled. This 'modern' sector covers a wide range of economic activities ranging from consumer goods to capital goods and intermediate goods industries, but this type of unionism is most well-known in multinational companies such as Hindustan Lever and Philips, as well as the chemical and pharmaceutical industry (Ramaswamy 1988; 2000; Banaji and Hensman 1990: 47; Davala 1992; Dash 1996: 313; Bhattacharjee 1999)

These two typologies that emerge from existing studies represent the polar extremes in Indian industry within which we would expect diverse

combinations of differential types of bargaining structure, union leadership and bargaining agencies. How these different aspects of collective bargaining and unionism link to one another to form differing types of bargaining relations in a particular unit, and more importantly how the types of LMIs interact with structural factors can only be examined empirically.

As a statistical method to characterise the typology of LMIs in our surveyed units, we have used multidimensional scaling (MDS) and factor analysis (FA) to reduce the number of dimensions in our data and categorise the types of LMIs in our surveyed units⁷. MDS is a mathematical tool that enables us to represent the proximities between variables spatially as in a ‘map’ (Dillon and Goldstein 1984: 108), as explained in Chapter 3 Section 3.3.3, with details of the procedure outlined in Appendix 4A.1 at the end of this Chapter. Factor analysis is used as an additional procedure to evaluate the relevance of the variables and identified typology, which is presented in Appendix 4A.2. The resulting typology of LMIs and the ‘mapping’ of surveyed units is presented in figure 4-1.

Our analysis from both the MDS and FA indicates that the typology of LMIs in our surveyed units is characterised by two aspects: (i) the extent of centralisation of bargaining and (ii) the extent of ‘politicised’ or external unionism, which are the two dimensions identified from the MDS procedure⁸. As we have already indicated in our discussion so far, our hypothesis is that the different types of LMIs can be explained by the relative size of ‘within’ and ‘outside-firm rents’ available to bargaining agents. Centralised bargaining is more like to be found in sectors with limited scope for achieving significant gains from increasing productivity and bargaining over plant-based ‘within-

⁷ While FA is a more widely used data reduction technique, it assumes quantitative/metric variables. Here, all of our variables are categorical dichotomous variables, and therefore the (non-metric) MDS is preferred. Nonetheless, as we show in the Appendix, the two techniques arrive at broadly similar typologies of LMIs.

⁸ The interpretation of the two dimensions is justified in our explanation of the MDS procedure in Appendix 4A.1.

firm rents', whereas decentralised bargaining is more likely to be found in industrially dynamic (even if the pattern of accumulation is 'uneven') regions and sectors. Also, we argue that party-based or external union leadership are more likely to be found when gains from 'outside-firm rents' outweigh that of 'within-firm rents' and/or external actors can effectively redress grievances or securing benefits which others cannot be achieved.

Recall that in Chapter 1, we saw that many of the policy debates on labour market reform in India have focused on these two aspects. In this sense, the factors that characterise types of LMIs in our data are consistent with the observations from the wider Indian context. At the same time, our analysis suggests that there are at least three or four different types of LMIs that can be characterised by these two factors, rather than a single stylised type of LMI, an aspect underestimated in the mainstream debates. In particular we have indicated four 'clusters' of units categorised by their region (Mumbai and Kolkata) and broad industrial sectors (modern and traditional)⁹.

⁹ The 'clusters' outlined in the diagram are meant to illustrate broad groupings of units that is meaningful for our interpretation rather than a result of statistical clustering procedure (for example, Dillon and Goldstein 1984: 109).

FIGURE 4-1 TYPOLOGY OF LMIs AND MAPPING OF SURVEYED UNITS

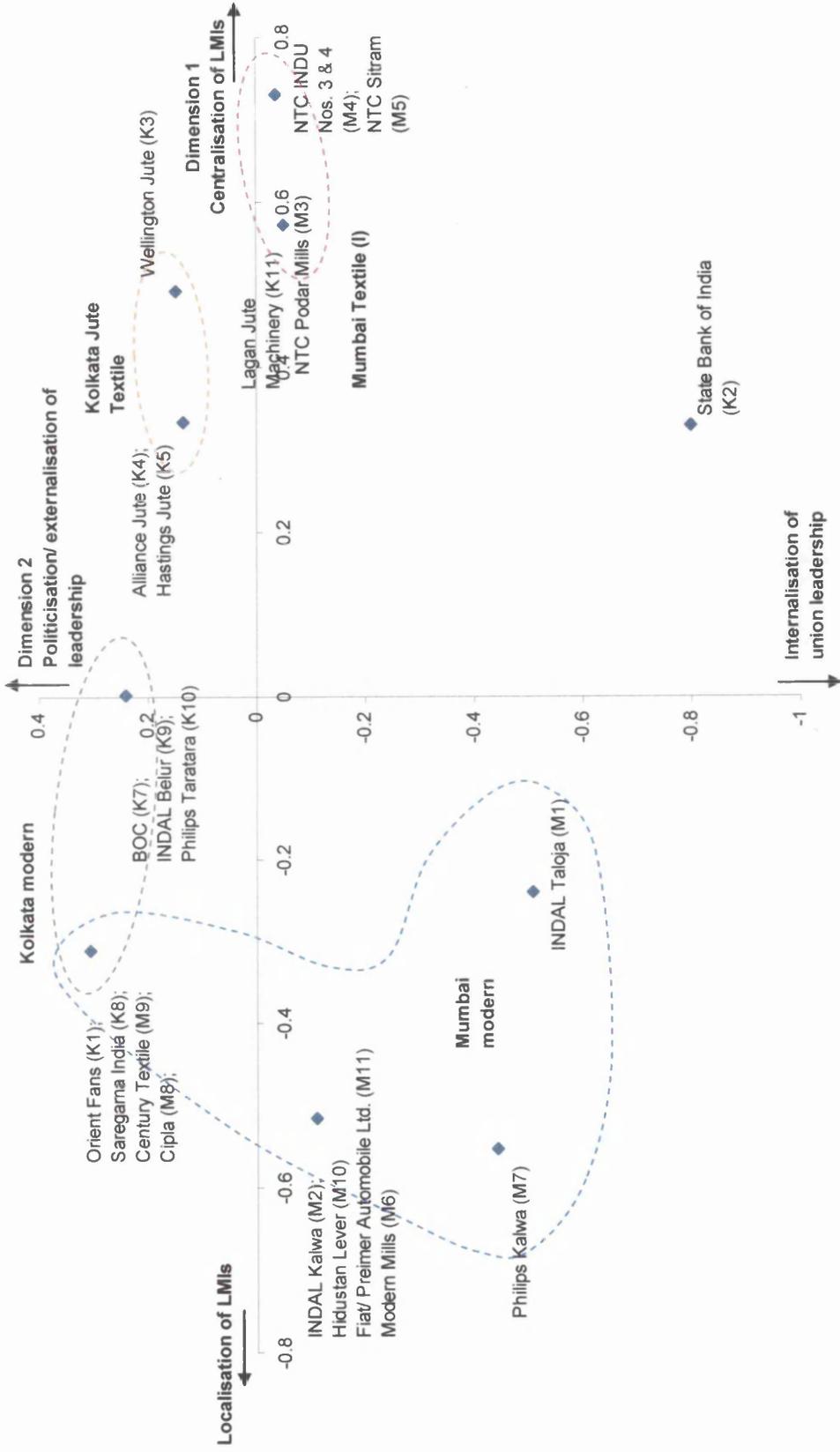


Figure 4-1 illustrates the mapping of our surveyed units and summarises the results of the two-dimensional MDS solution, with the extent of centralisation on the horizontal axis, and ‘politicisation’ or ‘externalisation’ of union leadership on the vertical axis. Therefore, observations located to the right of the diagram indicate the tendency for collective bargaining to be negotiated at industry-level, typically with the involvement of the state, whereas observations located to the left of the diagram imply more localised plant-level settlements. Similarly, observations located at the top of the diagram indicate that the union is affiliated to political party or have union leadership from outside the unit, whereas observations at the bottom suggest company-based unions with internal leadership.

The typology identified here is a useful way for us to illustrate the diversity of LMIs in Indian industries. It is however misleading to treat these types as being a static characteristic or portray them as exogenously determined, as often implied in the mainstream theories and policy debates. For example, a static reading of Figure 4-1 may lead to attributing the typology of LMIs to “tradition and culture” (Ramaswamy 1988: 215). This is inadequate since the typology of LMIs is reduced to subjective classification rather than explanation based on material reality. Instead, our objective is to interpret the typology of LMIs in our surveyed units as dynamic and systematic consequences of specific economic and political conditions within which the labour-management bargaining takes place. In Chapter 5, we focus on the type of patron-client politics and examine how industrial capital and labour are positioned within the redistributive coalition in Maharashtra and West Bengal, within which Mumbai and Kolkata are located, which in turn affects the historically specific ways in which industrial development proceeded in the two regions. From our ‘mapping’ in Figure 4-1, we find that in both ‘traditional’ and ‘modern’ sectors, the types of LMIs in Kolkata units are similar, relatively easier to characterise them in a ‘cluster’, whereas we find more diversity in the LMIs for Mumbai units. Our interpretation is that the

dynamic but ‘uneven’ economic development in Mumbai provided incentives for bargaining agents to organise to seek company-based ‘within-firm rents’ and therefore to organise LMIs differently according to their local conditions, rather than to seek politically created ‘outside-firm rents’ that are more attractive in less industrially dynamic regions such as Kolkata, where industrial capital and labour are more keen to secure wages and employment in return for a ‘disciplined’ industrial relations through politically controlled unionism.

4.3.1 ‘Traditional’ sectors in Mumbai and Kolkata

Several observations can be highlighted from our mapping in Figure 4-1. First, let us focus on the units we categorised as ‘traditional’ sector¹⁰ units, the majority of which are located in the upper-right corner of our diagram, indicating that the LMIs in these units are characterised by centralised tripartite bargaining and union affiliation to political parties. From Figure 4-1 we can see that all three of the privately-run jute manufacturing mills in Kolkata are positioned close to each other in the diagram, reflecting similarity in their collective bargaining patterns and unionism. In all of these jute mills, multiple (as many as 14) unions co-existed in each unit divided along political party and factional lines, and industry-level collective bargaining was negotiated, which deals with issues such as wages, fringe benefits, and dearness allowances. At the same time, in some mills, including Alliance (K4) and Hastings Jute Mills (K5) in our sample, separate mill-level settlements were signed between the mill management and the unions, with bargaining revolving around discipline, workload, working complement and productivity issues. Table 4-5 shows the signatory unions in tri-partite industry-wide

¹⁰ Cotton textile industry in Mumbai and jute manufacturing industry in Kolkata were selected as one of the comparable sectors in the two cities. We categorised them as ‘traditional’ sectors to refer to the state regulated industrial relations prevalent in these industries, which is typically referred to as the traditional model of unionism in the literature (for example, Bhattacharjee 1999). However it is possible to also characterise them in terms of their industrial history, since many of these mills go back to the second half of 19th century or early 20th century, although the subsequent development was not always uniform, as we see in some of our cases studies in Chapter 6. While our category is not related to the notion of ‘traditional’ sector in the dual economy model (Lewis 1954), which typically refers to the rural or the agrarian sector, both of our industries are manufacturing activities based on agricultural commodities. See Chapter 3 Section 3.2.2 for the ‘strata’ in our survey data.

settlements between 1969 and 1995, which was the latest industry-level settlement at the time of field research, together with the mill-level settlements in Alliance and Hastings mills in 1999 and 1998 respectively. The table illustrates the increasingly fragmented nature of unionism in Kolkata jute industry. As Sen (1996: 48-9) reports the number of unions that signed the industry-wide settlement in 1969 were 4, which have gradually increased over the past three decades up to 18 in 1995. The Centre of Indian Trade Unions (CITU), the union federation of the Communist Party of India (Marxist) or CPI(M), which has ruled West Bengal since 1977, is by far the largest of them with the estimated membership strength of around 35 percent of unionised workers in the jute industry (Sen *op cit.*: 79), followed by the Congress-affiliated Indian National Trade Union Congress (INTUC). Many of the other unions, which emerged as splinter or dissident unions of these two major union federations, are relatively small in number, and either take ultra-left stance or declare to be unaffiliated to political parties. For example the INTUC have at least three major industry-wide unions, the 'official' INTUC with Subrato Mukherjee as the State President, another splinter union registered as its Kali Mukerjee faction, and another led by a veteran INTUC leader Sisir Ganguly. Furthermore, table 4-5 shows that there are a number of unions recognised as bargaining agents at the mill-level, but are not signatories at industry-level. Once again, some of these local-level unions are formed by rival groups divided by party factional lines, or by geographical locations, with some even rumoured to be set up by the mill management to control and monitor workers.

TABLE 4-5 SIGNATORY UNIONS IN INDUSTRY-WIDE AND MILL-LEVEL SETTLEMENTS IN KOLKATA JUTE INDUSTRY

Unions	Tri-partite Jute industry-wide agreement					Bi-partite mill-level settlements	
	1969	1974/5	1979	1984/8	1995	Alliance Mills (1999)	Hastings Jute Mill (1998)
Bengal Chatkal Mazdoor Union (CITU)	•	•	•	•	•	•	•
National Union of Jute Workers (INTUC - Subrata Mukherjee)	•	•	•	•	•	•	•
Bengal Jute Mills Workers Union (UTUC - Lenin Sarani)	•	•	•	•	•	•	•
Jute Workers Federation (HMS)	•	•	•	•	•		
Jute Textile Workers Union (NFITU)		•	•	•	•	•	•
Bengal Provincial Chatkal Mazdoor Union (UTUC - Bowbazar)		•	•	•	•	•	
Pachimbanga Bengal Chatkal Mazdoor Federation (TUCC)		•	•	•	•		
Federation of Chatkal Mazdoor Union (AITUC)		•	•	•	•		
Bharatiya Jute Mazdoor Sangh (BMS)			•	•	•		
Rastriya Chatkal Mazdoor Union (INTUC - Kali Mukherjee)				•	•	•	•
All India Jute Textile Worker's Federation (HMS)				•	•		
West Bengal Chatkal Srimik Karmachari Union (unaffiliated)				•	•		
West Bengal National Jute Mill Sramik Union (FB - Marxist)				•	•	•	
National Union of Jute Textile Woerkers (INTUC - Sisir Ganguly)				•	•		
All India Jute Workers Federation (CITU)				•	•		
National Union of Jute Workers, Shramik Bhawan (INTUC - Subrata Mukherjee)					•		•
Indian National Jute Workers Federation					•		
Indian Federation of Jute Textile Workers					•		
Barrackpore Mahukuma Chatkal Mazdur Sangh, Alliance Unit						•	
Alliance Chatkal Mazdur Union						•	
Jute Textile Workers Union, Alliance Unit						•	
Jagatdal Thana Chatkal Mazdul Union						•	
Alliance Jute Mills Labour Union (Behara Pada Rd.)						•	
Alliance Jute Mills Labour Union (South Labour Line)						•	
Alliance Jute Mills Sramik Sangh						•	
Hastings Jute Mill Workers Union (AITUC)							•
Hastings Mill Workers and Employees Union							•
Hastings Jute Mill Ltd Mazdoor Sangh							•
Hind Mazdoor Kishan Panchayat (unaffiliated)							•
Number of signatory unions	4	8	11	15	18	14	10

Source: Sen (1992: 53) and author's fieldwork.

We also can observe from Figure 4-1 that all of the nationalised cotton textile mills in Mumbai under the control of National Textile Corporation (NTC) are also identified in a similar area of the diagram, characterised by centralised tripartite bargaining and party-affiliated unions. In all of these Mumbai textile mills, the 'representative' union is the Congress-affiliated Rashtriya Mill Mazdoor Sangh (RMMS), due to the Bombay Industrial Relations (BIR) Act of 1946, which imposes an industry-cum-regional settlement with the sole 'representative' union, although, as in Kolkata jute, a mill-level settlement is negotiated separately in some mills, including Podar Mills (M3) in our sample. In reality other unions exist in the industry, including the Girni Kamgar Sena (GKS) affiliated to the communal Shiv Sena party, Datta Samant's 'independent' Mumbai/Maharashtra Girni Kamgar Union (MGKU), and more recently Girni Kamgar Sangharsh Samiti (GKSS), but given their 'unrecognised' status as bargaining agents, many of these unions function as organisations to voice grievances not taken up by the RMMS or as workers co-operatives.

The type of LMIs represented here corresponds to one that is often portrayed as "state-dominated" or "involutionary pluralism" (Rudolph and Rudolph 1987; Bhattacharjee 1999), characterised by state intervention at every stage of the labour-management relations, whereby the "state is armed with the power to take note of industrial disputes, force labour and management to give notice of their intention to strike or lockout, conciliate to resolve their difference, decide whether the dispute should be referred for a judicial decision if conciliation fails, set up the courts which will adjudicate disputes, hand out interim solutions pending final disposal by the courts, ban strikes and lockouts, and compel labour to get back to work and the management to run the enterprise on pain of prosecution" (Ramaswamy 1988: 212-3). It is however simplistic to assume that labour and management have no active role to play in this state-controlled system of industrial relations. While the state intervention has sometimes meant promotion of political muscle of the party

in power and its allies in the labour movement, Ramaswamy (op cit: 214) argues that the employers also have been 'politically opportunistic' building relationship with the political party in power at the time, whilst using tactics such as lockouts against their union federations, and exploiting the procedure of conciliation and adjudication to buy time when it suits their purpose. Also some workers have similarly become allegedly "shrewdly calculative" creating opportunistic alliances with political parties in order to "extract the most out of the system" for example by securing patronage and protection in the case of personal grievances. This is particularly the case in the Kolkata jute manufacturing where workers may declare 'loyalty' to several of the multiple trade unions active in their mill. Sen (1992a: 47) reports that at least 14-15 percent of workers admitted having dual or triple membership, in the sense of paying membership dues to more than one union, in the two jute mills she surveyed, which is broadly consistent with the information collected during our fieldwork.

This 'state patronage' approach to industrial relations takes place in the economic context in which the industry is afflicted by 'sickness' characterised by low productivity, "backward" and outdated technologies, and general deceleration in the growth of demand for their products (Chandrasekhar 1984). All of our studied units in the 'traditional' sector had negative profits, with very low sales and export performances, combined with low capital/labour ratio. This is consistent with table 4-6, taken from a study on the jute industry based on a larger sample, whereby profit per sales and profit per asset were both negative for most of the 1990s. The poor demand for the jute goods is also reflected in the stagnant (but fluctuating) production and declining ratio of export shown in figure 4-2. The decline in demand for the jute goods is partly due to competition from alternative synthetic packaging materials, such as 'polysacks', as well as trade competition from Bangladesh and China. In addition, the poor financial performance of jute mills is also due to the low productivity, which measured in man-days per tonne is

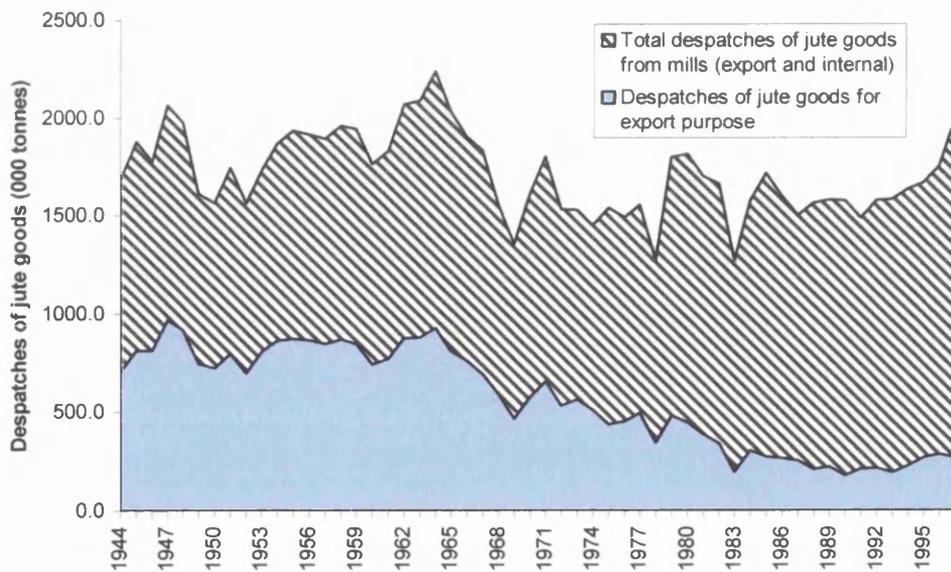
reported to be 45-46 man-days per tonne in Kolkata's jute industry (Government of West Bengal 1999), which the Indian Jute Mills Association (IJMA) compares with the reported figure of 25 man-days per tonne in China.

TABLE 4-6 FINANCIAL RATIO OF SELECTED JUTE COMPANIES:
1990-91 TO 1996-97

Year	No of companies	Profit after tax / Net sales	Profit after tax / Assets	Value of production / Total assets
1990-91	15	-8.8	-19.9	2.283
1991-92	19	-6.9	-14.0	2.020
1992-93	19	0.3	0.5	2.045
1993-94	23	-1.7	-3.0	1.819
1994-95	26	-0.7	-1.3	1.841
1995-96	22	-2.0	-3.4	1.744
1996-97	14	-3.3	-4.2	1.268

Source: Government of West Bengal (1999: 2)

FIGURE 4-2 SHARE OF EXPORT IN DESPATCHED JUTE GOODS FROM MILLS, 1944-5 TO 1997-98



Source: IJMA (1999: 71-3)

TABLE 4-7 INDIA'S PRODUCTION OF FABRICS

Year	Mills	Powerlooms	Handlooms	Hosiery	Total
1988-89	2902	10974	3993	2149	20018
1989-90	2667	11632	3924	2375	20598
1990-91	2589	13348	4295	2696	22928
1991-92	2376	13262	4123	2827	22588
1992-93	2000	13494	5262	3207	23963

Note: Units in million square meter. Fabric includes cotton, blended and non-cotton.

Source: Dalmia (1994)

TABLE 4-8 IMPACT OF NEW SPINNING TECHNOLOGY ON PRODUCTION COSTS AND LABOUR UTILISATION IN MUMBAI TEXTILE MILLS

	Old Technology	New Technology
Utilisation (per cent)	97.3	97.5
Spindles/rotors	32,256	4,560
Average employment per day	248	59
Average wage rate (Rs/month)	4,184	4,040
Output (kg/day)	15,600	26,000
Output/worker/day (kg)	62.9	457.6
Power (kWh/day)	28,500	48,000
Power consumption per unit of output (kWh)	1.82	1.84
Cost per machine (Rs lakh)	20	120

Source: Datta (1999: L-42)

In the case of textile industry, the competition comes from the decentralised hand-loom and small-scale power-loom sectors, which accounts for about 80 percent of the total production of fabrics in India, as shown in Table 4-7. In response to this, several oligopolistic “progressive companies” have modernised and expanded their production capacities by introducing new technology in dyeing and other processing facilities, and have diversified a significant component of their output by concentrating on quality products for the domestic upper class and export market (Chhachhi and Kurian 1982; Chandrasekhar 1984; Bhattacharjee *op cit.*). However because the cost of new technology is very high, such ‘modernisation’ has not been introduced in the majority of the textile mills. In Datta’s (1999) study on the impact of new technology in the Mumbai textile industry, it is reported that the cost of new technology in the spinning process is around 6 times of that of the old technology, as shown in table 4-8. Similarly in the same study, Datta estimates

that the cost of new technology in weaving is also approximately 10 times more than in the old technology. Note also that the new technology reduces the labour requirement in production process as indicated by the lower average employment per day under the new technology. Datta reveals that the introduction of new technology also coincides with elimination of certain production process, such as winding, in which the employment of women has been drastically reduced. He also observes that the modernisation process intensifies the labour process because many of the skill-intensive tasks involved in spinning are carried out by the new machines, and workers are reduced to an ‘operator’ whose main task is to “take care of the machine” (*op cit.*: L43).

The outcome of this productivity increase driven by new technology since the 1970s in the Mumbai textile industry is a dynamic but highly ‘uneven’ development, with a large gap emerging between the “better-off” and “backward” mills. The implication for LMIs is the collapse of the industry-wide collective bargaining in the Mumbai cotton textile industry after the Datta Samant-led Mumbai textile strike of 1982-83, when division emerged amongst private sector mills in the employer association, the Bombay Mill Owners’ Association (BMOA), between the oligopolistic and non-oligopolistic mills (Bhattacharjee 1989: M-70).

TABLE 4-9 SALES PERFORMANCE IN CENTURY TEXTILE & INDUSTRIES LTD. DURING 2000 (UNIT IN CROES RS.)

	Cloth	Yarn
Export	202.72	2.38
Local	129.01	4.96

Note: 1 crore is unit of 10 million = 10,000,000. 1 crore = 100 lakh.
Source: Author’s fieldwork.

This is reflected in two units, Century Textile & Industries Ltd. (M9) and Modern Mills (M6), which do not fit into the ‘cluster’ of Mumbai ‘traditional’ sector in Figure 4-1. Both of these units are privately-owned or privatised

cotton textile mills in Mumbai, characterised by localised mill-level labour-management relations. Century Textile (M9) is one of the several abovementioned oligopolistic “progressive companies” with ‘modernised’ production capacities and focus on fabric production for the high-end market. The company claims a share of 10.1 percent in the India’s cotton textile export, which is also consistent with Table 4-9, which shows the sales of cloth and yarn produced at the Century mills during 2000, with export accounting for the majority of sales. Century’s sales figure is over 40 higher than that in any of the NTC mills surveyed in our survey, as shown in table 3-2, which gives an indication of the disparity in the economic performance within the industry. In contrast, Modern Mills (M6) represents the opposite case of ‘weaker’ private sector mills characterised by obsolete technology, low levels of productivity and ‘industrial sickness’ in the face of competition from hand-loom and power-loom sectors. Many of these ‘sick’ mills have either closed down or been operating irregularly with partial capacity, and the focus of the owners has shifted to speculative activities in real estate investment and the construction of residential and amusement facilities for the urban upper class in Mumbai. Indeed, Modern Mills has not been operating regularly since the mid-1990s, with the company submitting ‘rehabilitation scheme’ to the Board of Industrial Financial Reconstruction (BIFR) under the Sick Industries and Companies Act of 1986. Out of Modern Mill’s 49,599 square meters of land at the Byculla district at the heart of Mumbai, 23,066.07 square meters was still retained for the mill, with the rest of land given permission for recreational, residential and commercial development (Pinto and Fernandes 1997: 62). D’Monte (2002: 183) reports that the gross profit from the sale for yarn is estimated as Rs. 2.9 crore compared to Rs. 26 crore from real estate, with the preservation of around 3-400 workers and continuance of spinning activity at the mill used as “a fig-leaf to cover what is a full-fledged diversion into real estate”. While the real estate investment is clearly lucrative given the production condition of these non-oligopolistic mills, this profit figure can be

compared to 339.07 crore raised from sales of cloth and yarn (from both export and domestic) by Century during 2000 as shown in Table 4-9 .

We shall further examine the impact of this ‘uneven development’ in the textile industry on LMIs and the labour process in Chapter 6. However, for the present purpose of characterising the typology of LMIs, note that the decentralised bargaining, indicated by these two units being located to the left along the horizontal axis in Figure 4-1, has not necessarily meant ‘internalisation’ of union leadership, as observed by these units being located at a similar level or higher to the NTC mills along the vertical axis in the diagram. This implies the so-called ‘independent’ or ‘new’ unionism in Mumbai is in fact diverse in their character, as we shall discuss further below.

Our hypothesis is that the centralised tri-partite collective bargaining in the majority of ‘traditional’ sectors reflects the state controlled industrial relations, whereby workers are provided with relatively stable wages and employment in return for ‘disciplined’ unionism, at the backdrop of limited scope of ‘within-firm rents’ in the industry. However, the decentralisation of bargaining-level in private textile mills in Mumbai, where the opportunity to appropriate ‘rents’ specific to local conditions was provided, either through productivity growth driven by the introduction of capital-intensive technology and the intensification of the labour process, or due to ‘rehabilitation’ by exploiting the rising prices for mill land in the commercial districts. Note that even in the private Mumbai mills where the industry-wide bargaining collapsed, significant involvement of external agency in trade unions has remained, rather than the ‘employees’ unionism’ that emerged in other sectors of Mumbai. No doubt, legislation such as the BIR Act that prevents unions other than the RMMS to be recognised as bargaining agents limits the scope for alternative labour movement. Also, as van Wersch (1992: 404-413) have argued, many of the workers’ preference for mill-level negotiation as a mean to seek economic demands, over developing an alternative political

movement, may imply weak class consciousness, a hypothesis we examine in Chapter 6. From our analytical perspective, the reproduction and transformation of LMIs are explained by the location of industrial capital and labour in the changing patron-client politics, which in turn reflects the particular patterns of accumulation. Therefore the failure of the rank-and-file unionism to make significant impact in Mumbai textile industry, and more generally the decline of the politically articulated working class movement in the city, must be understood within the wider social context of the region's redistributive politics that has increasingly become mobilised along caste and communal lines, as we shall expand further in Chapter 5.

4.3.2 Kolkata's 'modern' sector

Let us next turn to the type of LMIs in the 'modern sector'. From figure 4-1, we can confirm that all except one of the 'modern' sector¹¹ units based in Kolkata are 'clustered' at the top of the diagram, indicating a strong orientation towards politicised unionism, but without centralisation of bargaining. Following our discussion in the previous sections, our hypothesis is that the decentralised bargaining structure in Kolkata 'modern' sector can be explained by the greater opportunity for bargaining agents to make significant gains from seeking 'within-firm rents' compared to their counterparts in 'traditional' sectors such as jute. Similarly, we argue that the politicised LMIs in Kolkata are better understood as a reflection of the politically created 'outside-firm rents' in the context in which the state and the Communist Party of India (Marxist) or CPI(M), which has controlled over West Bengal since 1977, actively and continuously controls the industrial

¹¹ Our category of 'modern' sector is in contrast to our 'traditional' sectors, which included cotton textile industry in Mumbai and jute manifesting in Kolkata. As discussed in Chapter 3, it is recognised that this is a very broad category that includes a wide range of different economic activities, but the intention is to capture the emerging 'new' forms of unionism and bargaining relations since the mid-1980s, particularly in Mumbai, which stand out against the 'traditional' state-dominated industrial relations. However it is also possible to categorise these units as comparatively 'modern' in the sense that most were established around the time of Independence and developed at the time of 'Indianisation' of industries. While none of the industrial activities we study are 'hi-tech' in the sense of being close to the technological frontier, they nevertheless involve higher level of technological and skills than in most of cotton and jute textile manufacturing.

relations, and its trade union wing, the Centre for Indian Trade Unions (CITU). As we shall explain in Chapter 5, this state controlled bargaining relations and unionism are outcome of the state's accumulation strategy, which relies on subsidies and direct intervention, at the backdrop of the fragmented redistributive coalitions and the need to accommodate a wide section of the society for the state to maintain its political legitimacy.

Returning to Figure 4-1, it is striking how these units with very different products, technology and production organisation all have similar aspects to their LMIs: Orient Fans (K1) is a light engineering firm that produces electronic ceiling and portable fans for the domestic market, with 357 workers and staff at the time of the survey; BOC India (K7) is a multinational firm that supplies industrial and medical oxygen, with 59 workers; Saregama India (previously Gramophone Company of India and part of the international music group, HMV) (K8) is a music cassette tape factory with about 540 workers; the main operation in INDAL Belur (K9) factory is the remelting and rolling of aluminium sheet with about 800 operators; and Philips Taratolla (K10) is a light engineering factory that produces lamps with 144 workers at the time of survey. All 5 of these units are private firms with company-based, in many cases multiple, unions affiliated to political parties. That units based in Kolkata with diverse operations have similar LMIs implies the importance of the local political context in which the labour-management bargaining takes place.

The comparison between the 'traditional' and 'modern' sector units in Kolkata is important in understanding how technological and political factors interact in a complex way to provide opportunities, incentives and constraints for bargaining agents, while also determining their capacity for different mobilisation strategies. The difference in the type of LMIs in the two sectors in Kolkata is in the extent of centralisation of bargaining and the 'formal' role of the state in tri-partite collective bargaining, but not in the extent of the

politicisation of unionism. The tendency of industry-level bargaining or wage settlement through conciliation and adjudication is towards levelling and homogenising the compensation structure for similar work across the sector, with reference to traditionally agreed pay required for labour to sustain and reproduce itself. In this sense, our hypothesis is that the decentralised collective bargaining reflects the more favourable economic conditions these 'modern' sector firms enjoy, which on the one hand allow trade unions to extract potentially greater pay and benefits for their members, and on the other hand enables firms to reorganise their workforce according to their local needs, which in turn reflects the market forces and pressures more closely (Ramaswamy 1988: 217-8). In Chapter 6 Section 6.3.3, we shall analyse the pay schedule data to show that indeed in these decentralised settlements the pay is more steeply structured to reflect seniority and performance of workers, whereas the pay pattern is more flat in industry-wide settlements. Of course, such comparison must be interpreted with caution, given the very different products, technological and market conditions amongst these units. However, the pay schedule data leads us to hypothesise that the decentralisation of bargaining-level at least partly reflects the greater potential to achieve higher earnings.

However, such potential for greater gains from localising the bargaining structure have not led to the 'depoliticisation' of unionism in these 'modern' sector units in Kolkata. Our hypothesis is consistent with Ramaswamy's (*op cit.*: 175-188) observation that workers in Kolkata are less likely to disclaim alliances with political parties, particularly with the party in power, as long as they redress workers' grievances and secure gains. He also suggests that, although managers in Kolkata often complain about the political opportunism of such unionism, they also tend to support the trade union of whichever party is in power, since the parties can exercise control and discipline over their unions and their members, a sentiment we have come across during our field research as well.

In this context, it is important to note that the difference between the relatively similar types of LMIs amongst Kolkata's 'modern' sector and the more diverse types of unionism amongst their Mumbai counterparts, as we point out in the next section. Our hypothesis is that this relative similarity in the LMIs amongst units based in Kolkata can be understood by the pattern of economic growth in the region, whereby the accumulation within the sector has been relatively homogenous, compared to the more 'uneven' pattern of development in the industrially more dynamic Maharashtra, combined with the type of redistributive coalitions in West Bengal whereby middle and low-income groups are mobilised along partisan lines to capture politically created state resources. Once again, we shall examine these hypotheses in Chapter 5, when we discuss the comparative macro political economy of the two regions and its implications for the LMIs. At this point, we shall put forward a hypothesis that, in Kolkata, where the opportunity for productivity growth through the drastic reorganisation of labour-management relations at the plant-level is balanced against gains from 'staying with the regime', both industrial capital and labour are more likely to sustain their link to politically created 'outside-firm rents' by being accommodated in the nexus of patron-client relations and utilising their position within the wider distributive conflict.

Before turning to the observations on the 'modern' sectors in Mumbai in the next section, let us briefly comment on two 'outliers' in relation to the cluster of Kolkata 'modern' units in figure 4-1: State Bank of India (K2) and Lagan Jute Machinery Co. Ltd (K11), both of which place our previous observation in context and which indicate how the difference in the economic activities relates to the types of LMIs in a complex way. Although the focus of our current field research was on the manufacturing industry, the inclusion of a branch of the State Bank of India (SBI) located in Kolkata was an important point of reference for us to gain a broader understanding of LMIs, not least because of the increased 'financialisation' of capitalist development. Indeed

the position of the SBI in our two-dimensional mapping indicates that the types of LMIs may be very different in the banking sector, which is characterised by a combination of centralised national-level bargaining and employees' unionism with no directly declared affiliation to political parties or external organisations, although many of the union activists at the Kolkata branch were active members of the Communist Party of India (Marxist) or CPI(M). Traditionally, wages and employment conditions in banking were under direct state control, and collective bargaining only started in 1966 with negotiation taking place at the national-level (Mankidy 1997). SBI negotiates a separate company-level settlement with the employees' federation since the dispute over computerisation in banking operation in the 1990s, but again at the national-level (Ramaswamy 2000: 179). Given the increasing diversification of banking activities, it is likely that the bargaining relations and institutions vary significantly within the sector, which is an area under-researched and a task for future research. For example, the mode and issues in labour management in the nationalised SBI which primarily focuses on traditional roles of financial intermediaries (bank credit provision, deposit raising and lending) may be different from banks that are venturing into diverse business, such as mutual funds, venture capital, portfolio management and credit cards (Khandelwal 1997). At the least, the inclusion of SBI in our sample, allows us to put our typology of LMIs in context of the wider industrial relations scene in India.

In contrast, the observation from Lagan Jute Machinery Co. Ltd (K11) is interesting because, as the company name suggests, it is an engineering firm that produces machinery for jute manufacturing, and despite it being a machinery manufacturing factory, the type of bargaining relations and unionism is very similar to that of 'traditional' sectors such as Kolkata jute manufacturing and Mumbai cotton textile mills. Lagan was a public sector firm until 2000 when it was privatised (or 'disinvested') and when the author visited the factory, was run by the family who owns Hastings Jute Mills (K5).

However, the labour-management agreement in effect at the time was still the tri-partite industry-level settlement for public sector engineering firms in West Bengal and a separate plant-level bi-partite settlement, both signed in 1997, which is reflected by its high degree of centralisation of bargaining in Figure 4-1. While an inclusion of one unit does not allow us to generalise about the type of LMIs in public sector engineering firms in Kolkata, the observation offers us a point of reference with the private engineering firms with plant-level bargaining. As discussed earlier, our hypothesis is that the extent of centralisation of collective bargaining at least in part reflects the relative size of 'within-firm rents' and the potential for bargaining agents to appropriate greater share of the surplus generated from production. This of course needs to be understood in the wider context of the accumulation strategy at the macro-level in West Bengal, where there has been reliance on subsidies and direct state intervention to maintain industrialisation as a mean to create employment and sustain the legitimacy of the political regime, as we discuss further in Chapter 5.

4.3.3 Mumbai's 'modern' sector

Having commented on the 'modern' sector industry in Kolkata, let us now turn to its Mumbai counterpart. From figure 4-1, in contrast to the relatively concentrated 'cluster' that characterised the Kolkata modern industry, we can observe a greater diversity in the types of LMIs in Mumbai. We suggest that the diverse types of LMIs reflect the vitality and volatility of labour-management relations in Mumbai's 'modern' sector, whereby labour and employers seek to reorganise the bargaining relations and unionism in response to local economic conditions. INDAL Taloja (M1) and Philips Kalwa (M7) represent one side of the 'stylised' image of "the most evolved Indian version of business trade unionism" in Mumbai (Ramaswamy 1988: 17), characterised by a combination of decentralised plant-level bi-partite bargaining and company-based unionism and union leaders "who disclaim allegiance to political parties". In contrast to these two units, INDAL Kalwa

(M2), Hindustan Lever (M10), Fiat/ Premier Automobile Ltd. (M11), and even more notably, Cipla (M8) all have either politically affiliated unions or external union leaders, while still retaining the aspect of plant-level collective bargaining. The diversity in the types of LMIs in the Mumbai modern sector reflects another aspect of the “voluntarism” in the more profitable sectors of the economy, which is the increasing volatility of union leadership, whereby “free-floating workers not only shift easily from one union to another but even choose different unions for different purposes” driven by a “heightened sense of economism, [the] absence of ideology not merely of a political kind but also of a trade union one, [and] competitive bidding by-leaders for labour support and handsome benefits coupled with return commitments” (Ramaswamy 1988: 42-3). The types of bargaining relations and unionism in these units have been unstable over much of the period since the 1960s.

Our hypothesis is that this diversity in the type of unionism in Mumbai can be explained by the opportunities, incentives and constraints for, as well as capacities of, bargaining agents to focus their mobilisation strategy to localised bilateral bargaining as a result of a combination of two factors at the macro political economy of the region. On the one hand, a ‘bureaucratic liberalist’ approach to accumulation, whereby the state provides infrastructure and institutions to facilitate and ‘guide’ development, rather than to intervene directly in productive activities, led to dynamic but highly ‘uneven’ economic growth in the region. On the other hand, the logic of redistributive politics in Maharashtra was such that factional coalition has been organised along caste and communal lines. While there are examples such as the emergence of the Shiv Sena in the 1980s that played significant role in mobilising workers on linguistic grounds against immigrants from southern States and Muslims, and more broadly recruitment of organised and unorganised workers as well as increased number of self-employed for militant communal groups and street gangs (Pendse 2003), generally the organised labour movement has not been at the centre of such factional mobilisation. Similarly, while industrial capital

have employed mafia gangs for private protection of their business, the logic of political mobilisation is if anything driven by the decline and sickness of many of the 'traditional' industrial sectors, and the increasing commercialisation and financialisation of the economy. Thus we suggest that the scope for industrial capital and organised labour to appropriate 'outside-firm rents' was relatively limited in Mumbai, which led to greater compulsion for bargaining agents to increase their gains from 'within-firm rents'. In Chapter 5, we argue that this dynamic but contradictory pattern of accumulation in Mumbai can be explained by the balance of power amongst social groups, which led to a coalition of the 'elite' cluster of castes and classes that enabled the state to promote 'business-friendly' economic policies and opened space for a range of accumulating activities, including organised crime. The purpose of the discussion here is to examine the implication of this pattern of capitalist development and the shifting balance of power in the region that led to the continuous restructuring of unionism and bargaining relations by industrial capital and organised labour in Mumbai.

Hindustan Lever (M10) is a well documented case of workers shifting its alliance with a number of external leaders almost continuously since its formation (Banaji and Hensman 1990; Banaji 2000; Hensman and Banaji 2001; Ramaswamy 1988; 2000). The company was initially formed in 1933 as Lever Brothers India Limited, as a subsidiary of the Anglo-Dutch company Unilever, which still owns the majority stake, and became Hindustan Lever Limited in 1956 before being renamed as Hindustan Unilever Limited in 2007. The Sewree factory in Mumbai was established in 1934 and is the largest unit of the company both in terms of production and manpower, and manufactures soap, detergents, chemicals and personal care products. The union Hindustan Lever Employees Union (HLEU) was founded in 1948 by socialist leaders, which then came under the Communist Party of India-affiliated AITUC. When the internal leaders with leanings to the management controlled the union, it was affiliated to the Congress's INTUC. Later it came

under the Bombay Labour Union led by the socialist and left leaning George Fernandes, before moving further 'left' to the CPI(M) affiliated CITU, and in 1980 became an independent union led by the external leader, Datta Samant. In the background of this transition of union leadership was a dispute over sub-contracting and the problem of temporary workers, which the CITU leadership treated with indifference, and which led young militant activists to campaign to expose the unpopularity of the CITU. Since the murder of Datta Samant in 1997¹², the union is led by another external leader D. Thankappan who gained fame from the worker take-over of Kamani Tubes (Ramasaway 1988: 50-8; 2000: 67).

Cipla Ltd. (M8) offers an interesting case of an 'independent' union that recently shifted its alliance to a political party. Originally founded in 1935 as the Chemical, Industrial and Pharmaceutical Laboratories, Cipla is a pharmaceutical company known internationally for producing low-cost anti-AIDS drugs in developing countries. From 1979 to 1994, the representative union, Cipla Employees Union, formed in 1979, had external leadership affiliated to the Socialist Party. A new group of radical activists emerged around 1991 and eventually took over the union leadership in 1994. The new Employees Union was initially under the control of a non-political external leader Datta Samant and then affiliated to TUCI under the influence of the 'ultra-left' Communist Party of India (Marxist-Leninist) or CPI-ML in 2000. This transition of the union leadership and political affiliation took place as the backdrop to intense industrial conflicts, characterised by prolonged lockouts, over productivity issues and the reorganisation of the work force.

¹² After the Mumbai textile strike of 1982-3, which we discuss in Chapter 5, Datta Samant continued his involvement in politics and trade unionism during the 1980s and 90s. On the 16th of January 1997 Samant was murdered outside his home in Mumbai by gunmen who are believed to be contract killers. However, the background of the murder remains a mystery, not least because one of the alleged assassin, Vijaykumar Chaudhary who was a gang member working for the underworld don Chotta Rajan, was also gunned down by the police on the 30th of October 2007 in Kolhapur.

Philips Kalwa plant (M7), which manufactures light bulbs, offers a contrasting case to Lever and Cipla in that management contributed much more significantly to the changes in unionism (Banaji and Hensman 1990; Hensman and Banaji 2001; Ramaswamy 1988; 2000). Philips Workers' Union was formed at the Kalwa factory in 1968, having separated from the staff union Philips Employees' Union which was formed in 1962. In the mid-1980s, when disputes over productivity demands led to prolonged lockouts, new company management was brought in which instigated a split in the Philips Workers Union and encouraged supervisors to join a management-sponsored staff union called the Peico Employees' Union. This coincided with the Philips Federation that was formed in the 1960s and brought together the units in Mumbai, Kolkata and Pune, being legally dismembered in 1986, and bargaining decentralised to the plant-level. At the time of the survey, the two unions, Philips Workers Union and Peico Employees' Union, were active in both Kolkata's Taratolla (K10) and Mumbai's Kalwa (M7) plants, but whereas the Peico Employees' Union was affiliated to the CITU in Kolkata, it maintained 'independence' in Mumbai, reflecting the distinct political conditions in which the labour-management relations take place in the two regions.

Premier Automobiles (M11), a Mumbai-based vehicles manufacturer founded in 1944, which has entered into a technical collaboration with the Italian Fiat Automobiles, is another case where the company-based union was led by Datta Samant in the 1980s but was later removed by labour-management conflict. In the mid-1990s the company experienced industrial conflicts over productivity demands as well as poor dealer services that led to several high-profile criminal cases, which continued into the early 2000s. Following a prolonged lock-out in 1998, a new internal union leadership at Kamgar Ekta Premier Sanghatana are representing the workers at the plant.

What is common in all of these cases is that the transition of LMIs is associated with struggles over the mode of controlling the labour-process; in the form of linking wages to productivity, or using subcontracting and temporary workers. In the background of such disputes is the potential of productivity growth and thus extracting further surplus value, especially in the context of dynamic economic growth in the region. This provides strong incentives for bargaining agents to organise their labour-management relations to seek company-based 'within-firm rents', especially in the context of the macro political economy in which the scope for industrial capital and organised labour to gain from 'outside-firm rents' was limited. On the one hand, employers have tried to engineer unions and union leadership who commit to and enforce revision of work norms, reorganisation of manning levels (including promotion of 'voluntary' retirement) and the enhancement of productivity. On the other hand, workers have sought leaders who can effectively voice the significant issues that concerns workers and win them greater potential pay and benefits.

The comparison of the three INDAL factories provides further illustration of the dynamic and complex ways in which economic and political conditions determine the type of LMIs. Indian Aluminium Company Limited (INDAL) was established in 1938, and enjoys a leading market position in aluminium production in India with its operation covering all stages of aluminium production, from mining, refining and smelting, to the manufacturing of semi-fabricated products of sheet and foil. After the acquisition of the Kolkata plant in 1998, the company formally came under the control of Aditya Birla Group's 'business empire' in 2000, just before the time of our field research, and was later merged into the Hindalco Industries Limited in 2005. At the time of our survey, INDAL's Belur plant in Kolkata (K9) had two unions: one union, Indian Aluminium Belur Works Employees' Union claims to be independent and apolitical, but many of its core members are CPI(M) party members and unofficially participating in many political events

organised by its labour wing CITU. The other union, Indian Aluminium Belur Works Workmen's Union was affiliated to the congress-led INTUC. In the Taloja plant (M1) in Mumbai, there was a unique independent union, INDAL Karmachari Sangarnata Taloja, led by internal leaders and representing workers at the plant level. Leaders and core members of the union were linked with various political parties but as a union, they did not have any specific political linkage. In contrast, workers in the Kalwa factory (M2), also located in Greater Mumbai, were represented by an external union, Association of Engineering Workers, which was a regional non-political federation set up by Datta Samant in 1978.

Although our fieldwork data is not sufficiently equipped to offer a comprehensive analysis of the determinants of LMIs, we can propose some hypotheses by interpreting the diverse types of union leadership in different plants of the same INDAL company in the context of their technological and market conditions, and political factors within which labour-management bargaining takes place. Both the Belur (K9) and Taloja plants (M1) operate in relatively 'up-stream' production process, where aluminium is re-melted and rolled into a sheet. On the other hand, the Kalwa plant (K2) buys rolled aluminium sheets, some from INDAL sister plants and some from outside, further roll them into foil and convert them into aluminium packages used in pharmaceutical products, tobacco, sweets, ice creams and other consumer goods.

In this sense the Kalwa plant operates in a much more 'down-stream' operation compared to the other two units, and because of this, capturing new market and adapting to new market conditions becomes important for the survival of the plant. Not only are bargaining agents in the Kalwa plant in a more favourable position to extract a greater share of the surplus or 'within-firm rents' generated, due to their advantageous position in the production 'stream', but also the technological and skill levels involved in the production

process is much higher compared to their Belur and Taloja counterparts. The implication is that workers in the Kalwa are able to exercise a far greater and credible threat to impose significant costs on the company's operation, which provides incentives for the external union leadership to use their power, which comes from them not being on the payroll of the firm, to extract substantial benefits for their members in the long-run. This proposition can partially be illustrated by our analysis of pay scale in Chapter 6 in which we show that the pay structure is much 'steeper' in the Kalwa unit, implying greater return for seniority and performance. At the same time, external leadership may be preferred at Kalwa from the management's viewpoint as well, since external unions are less likely to interfere in the day-to-day operation once the settlements are negotiated, even if it means monetary costs in terms of buying workers support at times of settlement.

In contrast, the implications of a more 'up-stream' operation in Belur and Taloja plants are that their immediate welfare is less directly subjected to the opportunities and compulsions from the consumer market, and that the scope for bargaining agents to extract a significant long-term share of the surplus or 'within-firm rents' is relatively smaller. Gains are more likely to be secured from 'everyday struggles' to extract the most out of the system, rather than engaging in belligerent negotiation or the exercise of their power. This may take the form of utilising the linkage with political parties as in the Belur factory, or the form of internal union leadership as in Taloja plant, depending on the role of the state and other political actors in controlling and managing the labour process in the wider context. This of course does not mean that the industrial relations are necessarily more 'harmonious'. In fact none of the three INDAL plants have experienced major strikes or lockouts since the mid-1980s. Rather our interpretation of the observations is that the different economic and political conditions offer opportunities, incentives and constraints for LMIs to be organised differently, as well as provide structural

capacities of bargaining agents to adopt different mobilisation strategies accordingly.

4.4 Summary and discussion

This chapter examined the typology of LMIs in our surveyed sample in Mumbai and Kolkata, and pointed out that the types of LMIs can be broadly classified by reference to two dimensions: (i) the extent to which collective bargaining is centralised and involves state interventions in the form of tripartism; and (ii) the extent to which trade unions are formally affiliated to political parties or external leadership are involved in unions. We have also identified that types of LMIs within our surveyed units are broadly 'clustered' around regional (Mumbai vs. Kolkata) and sector ('traditional' vs. 'modern') categories. Our broad categorisations are consistent with the findings in other studies such as Ramaswamy (1988; 2000), Davala (1992), Venkata Ratnam (1996), Venkataratnam and Verma (1997) and Bhattacharjee (1999).

At one level, this attempt to empirically identify the diverse types of LMIs that exist in Indian industry is in and of itself an important intervention in the on-going debates on LMIs in India, where much of the policy prescriptions is discussed with the particular 'stylised image' of Indian LMIs, as we demonstrated in Chapter 1. Our analysis in this chapter at the least suggests that labour market reforms of the type considered in the policy circle must pay careful attention to the diversity of labour-management relations and unionism across regions and sectors.

However, the purpose of our empirical examination in this thesis is not merely to provide typologies and classifications, but to provide a materialist explanation of these differential types of LMIs. In line with our argument in Chapters 1 and 2, we have hypothesised that types of LMIs are to be interpreted as reflections of the historically specific ways in which industrial development proceeded in different regions and the balance of power at the

macro-level that underpins them. Several findings can be summarised here for further discussion in the remainder of this thesis.

We have argued in Section 4.3 that the typology of LMIs can be interpreted as a consequence of bargaining agents organising labour-management relations and unionism differently in response to technological, economic and political factors, which interact in complex and dynamic ways. For example, we have pointed out that the bargaining structure is more likely to be centralised, say, at the industry or regional-level in units where the scope for bargaining agents to achieve substantial gains from plant-level bargaining is limited, especially in the context of low productivity, “backward” technologies, and a decline in demand for their products. This was exemplified by the majority of cotton textile mills in Mumbai and Kolkata jute manufacturing clustered in this category. In addition, the decentralisation of collective bargaining to mill-level in private sector cotton textile units in Mumbai demonstrates the strong incentive for bargaining agents to seek ‘within-firm rents’ as a result of uneven development in the sector.

We have also interpreted the political affiliation of unionism or the presence of external union leadership as a manifestation of differential organisations of distributional conflicts over politically created ‘outside-firm rents’ at the macro political economy, against which the potential gains from bargaining over potential ‘within-firm rents’ are weighed. The comparison of ‘modern’ sector units in Kolkata and Mumbai is illustrative. In Kolkata, where the general pattern of industrialisation and accumulation is less dynamic, and where both industrial capital and labour are accommodated within the organisation of redistributive conflict over politically created resources, ‘modern’ sector unions have tended to maintain formal affiliations to political parties even when collective bargaining is typically of a bi-partite nature and takes place at the plant-level. In contrast, in the Mumbai ‘modern’ sector, where industrial development is more dynamic but also ‘uneven’, the types of

union leadership is found to be extremely diverse, reflecting the complex and particular ways in which technological, economic and political factors interact.

Our findings highlight an important fact that the political affiliation of unionism or presence of external union leadership on their own cannot distinguish between very different industrial relations. For example, the domination of political affiliated unionism in Kolkata is a reflection of a stagnant labour movement explained by the comparatively less dynamic industrial development in the region, and its particular factional organisation of distributive politics that enables bargaining agents to seek 'outside-firm rents' and gives them political capacity to resist change. In contrast, when political labels and/or external leadership are sought or abandoned by bargaining agents in Mumbai this can be interpreted as a sign of a vibrant but volatile and fragmented industrial relations whereby 'reshuffles' of union leadership is a form in which workers and/or employers express their disapproval (Ramaswamy 1988: 42; 1992: 9). This suggests that bargaining agents perceive greater scope for negotiating significant gains from reorganising the bargaining relations, and to put it differently, the macro political conflicts are such that it cannot offer sufficient payoffs to bargaining agents and there is a greater compulsion for increasing productivity and maximising the 'within-firm rents'. This raises important questions with regards to the validity of some policy prescriptions promoted in the on-going debates in India, say in the Second National Commission of Labour (SNCL), whereby considerable attention is paid in curbing union's linkages to political parties or influence over external leaders. Our analysis suggests that the issue is not so much *whether* there is affiliation to political parties or involvement of external unionists, but *how* and *why* this occurs.

If our interpretation gives the misleading impression of overemphasising the structural determinants of LMIs, this is because of the immediate objective of our analysis to provide an intervention in the mainstream theoretical and

policy debates dominated by methodological individualism and rational choice framework, as we discussed in Chapters 1 and 2. Of course, the relationship between the structural factors and the types of LMIs should be understood to be a dialectical one. Structure constrains and contains agents, as well as enables agents' action (Callinicos 1988). LMIs are not simply 'imposed' by macro political economic factors, since it is the bargaining agents that shapes and organises LMIs.

In addition, caution must be thrown against over-extrapolating our findings and interpretations drawn from our survey data with relatively limited number of observations, especially in the light of the difficulty in statistically establishing the 'representativeness' of our sample, as we discussed in Chapter 3. Therefore, in the remaining chapters of this thesis, we shall complement our findings here in two ways in order to further our understanding of the diverse typology of LMIs in Indian industry.

First, we need to evaluate our interpretation of the observed typology of LMIs in our surveyed units in the wider economic, social and historical contexts within which these labour-management relations take place. In Chapter 5, we shall therefore examine the macro political economy of Mumbai and Kolkata with the objective of identifying the differential types of 'rents' and the different types of political conflicts over them in shaping the opportunities, incentives and constraints of micro bargaining agents in the two regions.

Second, we need to examine the implications of the different types of LMIs in terms of the mode of managing the labour process. We have argued that the type of LMIs reflects the particular patterns of industrial development, and in particular the specific ways in which the labour process is managed and controlled. In Chapter 6, we shall examine the different ways in which productivity is ensured under different types of LMIs. What we are concerned with is not the technological relation between inputs and outputs, or even

whether these technological relations are productive or not as such, but rather the particular ways in which elements that make production possible (i.e. productive forces) are brought together, and the role bargaining agents play in this process. In the terminology of political economy, the objective is to interpret the different types of LMIs as a particular type of (social) relation of production.

APPENDIX TO CHAPTER 4

4A.1 Multidimensional scaling (MDS) of the typology of LMIs

The typology of LMIs in this Chapter was empirically analysed by using our survey data measured at the level of business or industrial units (offices, factories, plants and mills). While this is a necessary simplification to carry out our analysis, this implicitly assumes homogenous bargaining relations and unionism within each unit, which may not be the case especially in a unit with multiple unions.

Table A4-1 lists the 21 units surveyed in our fieldwork together with their bargaining structure, bargaining agents and ownership of surveyed units. As explained in Chapter 3, these units were obtained through non-probabilistic sampling, which means that strictly speaking, the use of inferential statistics has no basis in statistical theory, even if attempts have been made to cover a wide variety of bargaining relations and unions within our sample. Therefore, the aim of the analysis in this chapter is not to come up with an exhaustive typology of LMIs that can be generalised across Indian industry, but rather an exploratory exercise to provide information or a 'picture' on the perceived relationships amongst different aspects of bargaining relations and unionism in our sample.

As we discussed in Section 4.2 of this chapter, LMIs are multidimensional concepts with different aspects of bargaining relations and unionism interacting in complex ways. In addition, these interactions between different aspects of labour-management bargaining cannot be theoretically assumed and must be determined empirically. Therefore, data reduction techniques are employed to empirically identify underlying dimensions that represent the patterns of correlations within the set of observed variables.

TABLE A4-1 BARGAINING STRUCTURE, BARGAINING AGENTS AND OWNERSHIP OF SURVEYED UNITS

Name of unit	Category	Bargaining level	Union leadership	Bargaining agents	Ownership
Orient Fans (K1)	Kolkata modern	Plant-level	Politically affiliated	Bi-partite	Private (domestic)
State Bank of India (K2)	Kolkata modern	Mixed	Independent (internal)	Tripartite	Public
Wellington Jute Mill (K3)	Kolkata traditional	Industry-level	Politically affiliated	Tripartite	Private (domestic)
Alliance Jute Mill (K4)	Kolkata traditional	Mixed	Politically affiliated	Mixed	Private (domestic)
Hastings Jute Mill (K5)	Kolkata traditional	Mixed	Politically affiliated	Mixed	Private (domestic)
BOC (K7)	Kolkata modern	Plant-level	Politically affiliated	Tripartite	Private (multinational)
Saregama India, HMV (K8)	Kolkata modern	Plant-level	Politically affiliated	Bi-partite	Private (domestic)
INDAL Belur (K9)	Kolkata modern	Plant-level	Politically affiliated	Tripartite	Private (domestic)
Philips India Taratolla (K10)	Kolkata modern	Plant-level	Politically affiliated	Tripartite	Private (multinational)
Lagan Jute Machinery (K11)	Kolkata modern	Mixed	Politically affiliated	Mixed	Public
INDAL Talaja (M1)	Mumbai modern	Plant-level	Independent (internal)	Tripartite	Private (domestic)
INDAL Kalwa (M2)	Mumbai modern	Plant-level	Independent (external)	Bi-partite	Private (domestic)
NTC Podar Mill (M3)	Mumbai traditional	Mixed	Politically affiliated	Mixed	Public
NTC India United Mill Nos. 3 and 4 (M4)	Mumbai traditional	Industry-level	Politically affiliated	Tripartite	Public
NTC Sitram Mill (M5)	Mumbai traditional	Industry-level	Politically affiliated	Tripartite	Public
Modern Mills (M6)	Mumbai traditional	Plant-level	Independent (external)	Bi-partite	Private (domestic)
Philips Kalwa light factory (M7)	Mumbai modern	Plant-level	Independent (internal)	Bi-partite	Private (multinational)
Cipla (M8)	Mumbai modern	Plant-level	Politically affiliated	Bi-partite	Private (domestic)
Century Textiles and Industries Ltd. (M9)	Mumbai traditional	Plant-level	Politically affiliated	Bi-partite	Private (domestic)
Hindustan Lever (M10)	Mumbai modern	Plant-level	Independent (external)	Bi-partite	Private (multinational)
Fiat/ Preimer Automobil Ltd. (M11)	Mumbai modern	Plant-level	Independent (external)	Bi-partite	Private (multinational)

Source: Author's fieldwork.

Amongst various interdependence methods and dimension reduction techniques, (non-metric) multidimensional scaling (MDS) is employed instead of more widely used techniques such as factor analysis (FA), due to the

following two data considerations. First, our sample size is not very large ($n = 21$), which is far smaller than what is assumed in other dimension reduction methods such as FA: for example, Hair, Black, Babin, Anderson and Tatham (2006) recommend a minimum absolute sample size of 50 observations. Second, our variables on aspects of bargaining relations and unionism listed in table A4-1 are all qualitative at either nominal or ordinal scale, which for the purpose of statistical analysis are transformed into dichotomous dummy variables (see table A4-2 below). Again this does not conform to the data assumptions in FA, which are typically used for metric or quantitative variables. Non-metric MDS assumes only rank-order data and therefore more suited for our purpose. However, in the next section we have also provided the result of factor analysis of our data on LMIs, which produces very similar results and shows that our typology is not sensitive to the choice of statistical technique.

Table A4-2 lists the definitions and descriptive statistics of the 6 variables used for our factor analysis. As we have already pointed out, all 6 variables are dichotomous dummy variables generated from the qualitative variables in table A4-1. Two variables (CENTRAL and PLANT) are related to the level of collective bargaining.¹³ Two variables (POLITICAL and INTERNAL) are related to the nature of unionism or the type of union leadership. TRIPARTITE reflects whether the state participates as one of the bargaining agents in the formal settlement, or to put it differently, indicates whether the settlement was reached through tri-partite or bi-partite negotiations. The last variable PUBLIC provides information on the ownership structure of the establishment.

¹³ There are three categories in the level of bargaining: centralised bargaining only, plant-level bargaining only, and the mix of the two. Establishments that have collective bargaining only at centralised (industry, regional or national) level are given 1 for CENTRAL and 0 for PLANT. Establishments with bargaining only at plant-level have 1 for PLANT and 0 for CENTRAL. Establishments with mixed bargaining level are allocated 1 for both CENTRAL and PLANT.

TABLE A4-2 DESCRIPTION OF VARIABLES USED FOR THE MDS AND FA OF THE TYPES OF LMIS

Variable name	Definition	Sum	Mean	Standard deviation
CENTRAL	Dummy variable on the level of collective bargaining. 1 if centralised bargaining takes place; 0 if otherwise.	8	.38	.498
PLANT	Dummy variable on the level of collective bargaining. 1 if bargaining takes place at plant-level; 0 if otherwise.	18	.86	.359
POLITICAL	Dummy variable. 1 if there is a union affiliated to a political party; 0 if otherwise.	14	.67	.483
INTERNAL	Dummy variable. 1 if the union leadership is internal to the unit; 0 otherwise.	3	.14	.359
TRIPARTITE	Dummy variable. 1 if tri-partite bargaining takes place; 0 otherwise	12	.57	.507
PUBLIC	Dummy variable: 1 if the establishment is in the public sector; 0 otherwise.	5	.24	.436

Note: number of observations: $n = 21$.

TABLE A4-3 CORRELATION MATRIX OF VARIABLES USED FOR THE MDS AND FA OF THE TYPES OF LMIS

	CENTRAL	PLANT	POLITICAL	INTERNAL	TRIPARTITE	PUBLIC
CENTRAL	1					
PLANT	-.520*	1				
POLITICAL	.347	-.289	1			
INTERNAL	-.040	.167	-.577**	1		
TRIPARTITE	.679**	-.354	.408	.079	1	
PUBLIC	.713**	-.411	.158	.091	.484*	1

Note: Figures are Pearson's correlation coefficient.

* indicates that the correlation is significant at the 0.05 level, and ** indicates that the correlation is significant at the 0.01 level (two-tailed).

Table A4-3 presents the pair-wise Pearson's correlation coefficient for our variables. We find a strong positive correlation between CENTRAL and Public ($r = 0.713$), and between CENTRAL and TRIPARTITE ($r = 0.679$), as we observed from the contingency tables 4-2 and 4-3. We also find negative correlation between POLITICAL and INTERNAL, which is

again unsurprising since the two variables capture opposing aspects of union leadership.

TABLE A4-4 APPROXIMATE CONFIGURATION IN TWO-DIMENSIONAL EUCLIDEAN SPACE

Name of unit	Dimension 1	Dimension 2
Orient Fans (K1)	-0.3109	0.3061
State Bank of India (K2)	0.3294	-0.7991
Wellington Jute Mill (K3)	0.4925	0.1483
Alliance Jute Mill (K4)	0.3341	0.1343
Hastings Jute Mill (K5)	0.3341	0.1343
BOC (K7)	0.0021	0.2406
Saregama India, HMV (K8)	-0.3109	0.3061
INDAL Belur (K9)	0.0021	0.2406
Philips India Taratolla (K10)	0.0021	0.2406
Lagan Jute Machinery (K11)	0.5720	-0.0512
INDAL Taloja (M1)	-0.2406	-0.5073
INDAL Kalwa (M2)	-0.5159	-0.1095
NTC Podar Mill (M3)	0.5720	-0.0512
NTC India United Mill Nos. 3 and 4 (M4)	0.7304	-0.0372
NTC Sitram Mill (M5)	0.7304	-0.0372
Modern Mills (M6)	-0.5159	-0.1095
Philips Kalwa light factory (M7)	-0.5536	-0.4418
Cipla (M8)	-0.3109	0.3061
Century Textiles and Industries Ltd. (M9)	-0.3109	0.3061
Hindustan Lever (M10)	-0.5159	-0.1095
Fiat/ Preimer Automobil Ltd. (M11)	-0.5159	-0.1095

TABLE A4-5 EIGENVALUES AND ACCOUNTED FOR VARIANCE

Dimension	Eigenvalue	abs(eigenvalue)		(eigenvalue) ²	
		Percentage	Cumulative percentage	Percentage	Cumulative percentage
1	4.111285	52.01	52.01	79.63	79.63
2	1.753543	22.18	74.19	14.49	94.12
3	0.867868	10.98	85.17	3.55	97.67
4	0.541339	6.85	92.02	1.38	99.05
5	0.355821	4.5	96.52	0.6	99.64
6	0.274905	3.48	100	0.36	100

The objective of data reduction techniques such as MDS is to uncover the 'hidden structure' of a set of data (Dillon and Goldstein 1984: 107). In the context of our analysis, the goal is to find the underlying dimensions that best describe the general patterns of proximities, i.e. 'similarities' and 'dissimilarities', of various aspects of LMIs. Intuitively, variables with positive

correlation, such as CENTRAL and Public, have ‘similarities’, whereas variables with negative correlations, such as POLITICAL and INTERNAL, are ‘dissimilar’. MDS tries to find a spatial configuration of low dimensionality where the rank-order of the distances in the space most clearly corresponds with the rank-order of the proximities. MDS is a purely ‘data-analytic’ descriptive or exploratory technique to provide a ‘picture’ which can be used to give a meaningful interpretation of the data, rather than derived from any pre-determined probabilistic models (Mardia, Kent and Bibby 1979: 396). The final solution is obtained after numerous trials or iterations (Dillon and Goldstein *op cit.*: 111). Further details of the MDS procedure are discussed in Chapter 3 Section 3.3.3.

The algebraic equivalent of the two-dimensional map shown in Figure 4-1, which we discussed in detail in this chapter, is the matrix of stimulus coordinates shown table A4-4. Since there are 6 original variables used for the analysis, in theory 6 dimensions can be obtained, and yet only two are retained from our final solution. Table A4-5 presents the eigenvalues and (cumulative) proportion of the total variance explained. Note that about 74 percent of the total variance is accounted for by the first two dimensions, which is an indication that the two retained dimensions sufficiently capture the general structure of the original data. Our final solution can also be evaluated by Kruskal’s STRESS index, presented in table A4-5, which is a ‘goodness-of-fit’ measure, small values of which indicate little error between the fitted distances and the original proximity values from which the space was derived. The MDS arrives at the ‘terminal’ solution when the improvement in fit measured by STRESS after another iteration does not exceed the predetermined value. ‘Agreement’ measures also indicate a very good fit of our final solution to the original data set: Mardia’s fit measure 1 was computed as 0.7419, and Mardia’s fit measure 2 was 0.9412, indicating that the proportion of a distance matrix explained by our two dimensions was about 74 per cent and 94 percent, respectively.

TABLE A4-6 KRUSKAL'S STRESS BETWEEN ADJUSTED DISSIMILARITIES AND EUCLIDEAN DISTANCES

Name of unit	Kruskal's STRESS index
Orient Fans (K1)	0.1360
State Bank of India (K2)	0.0862
Wellington Jute Mill (K3)	0.2451
Alliance Jute Mill (K4)	0.1772
Hastings Jute Mill (K5)	0.1772
BOC (K7)	0.1587
Saregama India, HMV (K8)	0.1360
INDAL Belur (K9)	0.1587
Philips India Taratolla (K10)	0.1587
Lagan Jute Machinery (K11)	0.1960
INDAL Taloja (M1)	0.1328
INDAL Kalwa (M2)	0.1208
NTC Podar Mill (M3)	0.1960
NTC India United Mill Nos. 3 and 4 (M4)	0.1510
NTC Sitram Mill (M5)	0.1510
Modern Mills (M6)	0.1208
Philips Kalwa light factory (M7)	0.0895
Cipla (M8)	0.1360
Century Textiles and Industries Ltd. (M9)	0.1360
Hindustan Lever (M10)	0.1208
Fiat/ Preimer Automobil Ltd. (M11)	0.1208
Total	0.1487

FIGURE A4-1 SHEPARD DIAGRAM OF THE MATCH BETWEEN s_{ij} AND \hat{d}_{ij}

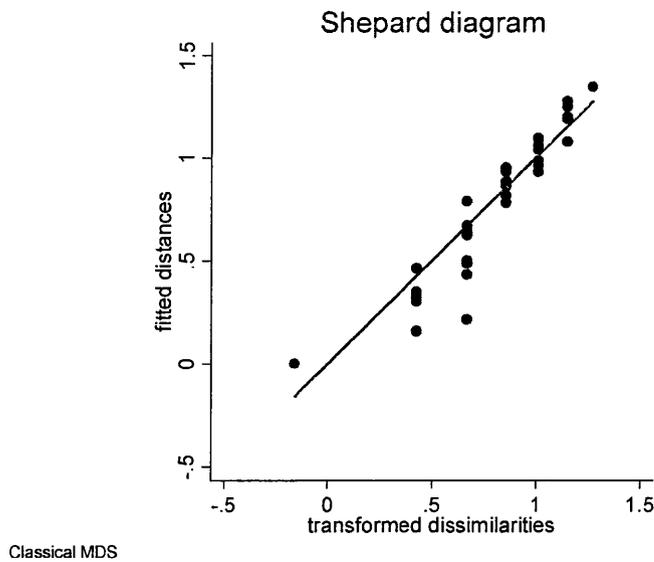


Figure A4-1 shows the Shepard diagram corresponding to this solution, another standard method to evaluate how well the retained dimensions represent the original data, whereby the data is plotted against the proximities along the horizontal axis and the distances along the vertical axis. We can see that a good linear fit is obtained, if not perfect.

TABLE A4-7 PAIR-WISE CORRELATION BETWEEN THE DIMENSIONS AND THE VARIABLES

Variable name	Dimension 1: Centralisation of LMIs	Dimension 2: Politicisation/ externalisation of leadership
CENTRAL	0.9075	-0.1897
PLANT	-0.6007	-0.0348
POLITICAL	0.5772	0.7642
INTERNAL	-0.1429	-0.8233
TRIPARTITE	0.8396	-0.1148
PUBLIC	0.7414	-0.3776

Finally, let us comment on the interpretation of the two retained dimensions. Since the primary objective in MDS is to map the objects in a multidimensional space, it is customary to interpret the dimensions using the two-dimensional map, as we did using figure 4-1. In section 4.3, we interpreted dimension 1 (on the horizontal axis) as the extent to which collective bargaining is centralised and involves state interventions in the form of tri-partism; and dimension 2 (on the vertical axis) as the extent to which trade unions are formally affiliated to political parties or external leadership are involved in unions. Our interpretation can be justified by examining the correlation between the two dimensions and the variables used in the analysis presented in table A4-7. Dimension 1 is most strongly correlated with CENTRAL, followed by TRIPARTITE, and PUBLIC. It is also negatively correlated with PLANT. In contrast, dimension 2 has a strong negative correlation with INTERNAL, and a positive correlation with POLITICAL.

4A.2 Factor analysis of the typology of LMIs

In the previous section, we have argued that the characteristics of the data are such that multidimensional scaling (MDS) is more suited for the analysis of this chapter. We have nonetheless provided a factor analysis of the same data, as a way to back up the result obtained and discussed in Section 4.3 of this chapter. Despite the limited sample size and the non-metric scale of our variables, we can still justify the use of factor analysis on the ground that (a) the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy (MSA) is 0.645, which at least satisfies the absolute minimum criteria¹⁴; and (b) Bartlett's Test of Sphericity rejects the null hypothesis that all eigenvalues or 'roots' of the covariance matrix Σ are equal of our data, suggesting that sufficient correlations exist among the variables to proceed ($\chi^2 = 43.215 > \chi^2_{0.000}(15)$)¹⁵. Therefore, we proceed with the use of factor analysis of our data, as a mean to compare our result from the MDS procedure, and also to evaluate the relevance of the dimensions extracted.

Factor analysis is similar to MDS in that it is also "concerned with the identification of structure within a set of observed variables" (Dillon and Goldstein 1984: 53-4). The objective of factor analysis (and principle component analysis employed as the extraction method here) is to identify factors (or principle components) in order to explain as much of the variation in the data as possible with as few of these factors as possible. Factors are extracted by 'rotating' the correlation between variables, as shown in table A4-3, and iteration based on statistical criteria. The procedures of factor and principle component analyses are discussed further in Chapter 3 Section 3.3.2. Here let us focus on the result of applying factor analysis to our data.

¹⁴ Hair, Black, Babin, Anderson, and Tatham (2006) argue that KMO-MSA value must exceed 0.50 for both the overall test and each individual variable. Acton and Miller (2009) suggest a value of at least 0.60.

¹⁵ These statistical tests are discussed further in Chapter 3 Section 3.3.2.

TABLE A4-8 ROTATED COMPONENT MATRIX

	Principle components	
	PC1: Centralisation of LMIs	PC2: Internalisation of leadership
CENTRAL	.909	-.110
PLANT	-.631	.273
POLITICAL	.324	-.832
INTERNAL	.114	.915
TRIPARTITE	.803	-.084
PUBLIC	.833	.107

Note: (1) Extraction Method: Principal Component Analysis.
 (2) Rotation Method: Varimax with Kaiser Normalization Rotation converged in 3 iterations.
 (3) Cumulative variance explained by the 2 extracted components: 71.942%.

The extracted factors are summarised in the rotated component matrix in table A4-8. Note that just as in the result obtained from MDS, we have extracted two dimensions (principle components), which we shall comment on below. Also note that the general patterns of correlation between the two dimensions are also similar to our result from MDS, except that the second principle component appears to be the inverse of the second dimension from the MDS. The first principle component is most highly correlated with CENTRAL, as well as with TRIPARTITE and PUBLIC, indicating that this factor is associated with the extent of centralisation and state involvement in LMIs. It is also negatively correlated with PLANT, which confirms this interpretation. This first principle component captures a similar tendency in the data set to the one covered by the first dimension from the MDS.

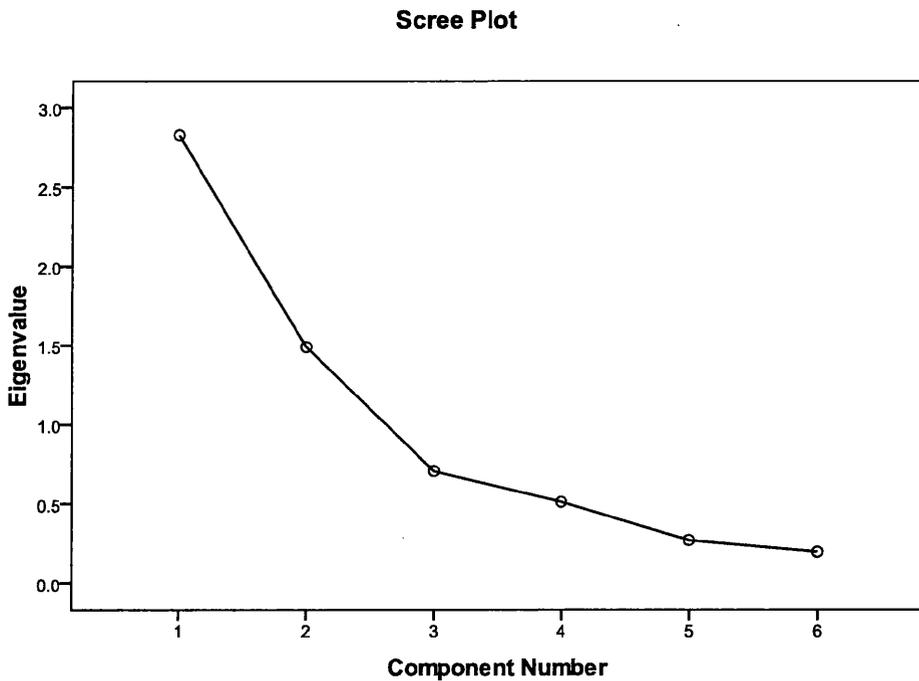
The second factor is most highly correlated with INTERNAL, indicating that union leadership comes from within the unit, and negatively correlated with POLITICAL, which indicates affiliation to political parties. The two variables to which this second component is correlated describe the linkage or otherwise to political party and other external organisations. This is the same to the second dimension from the MDS, except that the signs of the correlation are opposite, indicating an inverse relationship.

TABLE A4-9 EIGENVALUES AND ACCOUNTED-FOR VARIANCE

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.827	47.119	47.119	2.682	44.700	44.700
2	1.489	24.823	71.942	1.635	27.242	71.942
3	0.705	11.75	83.691			
4	0.512	8.529	92.220			
5	0.270	4.507	96.727			
6	0.196	3.273	100.000			

Note: Extraction Method: Principal Component Analysis.

FIGURE A4-2 SCREE PLOT



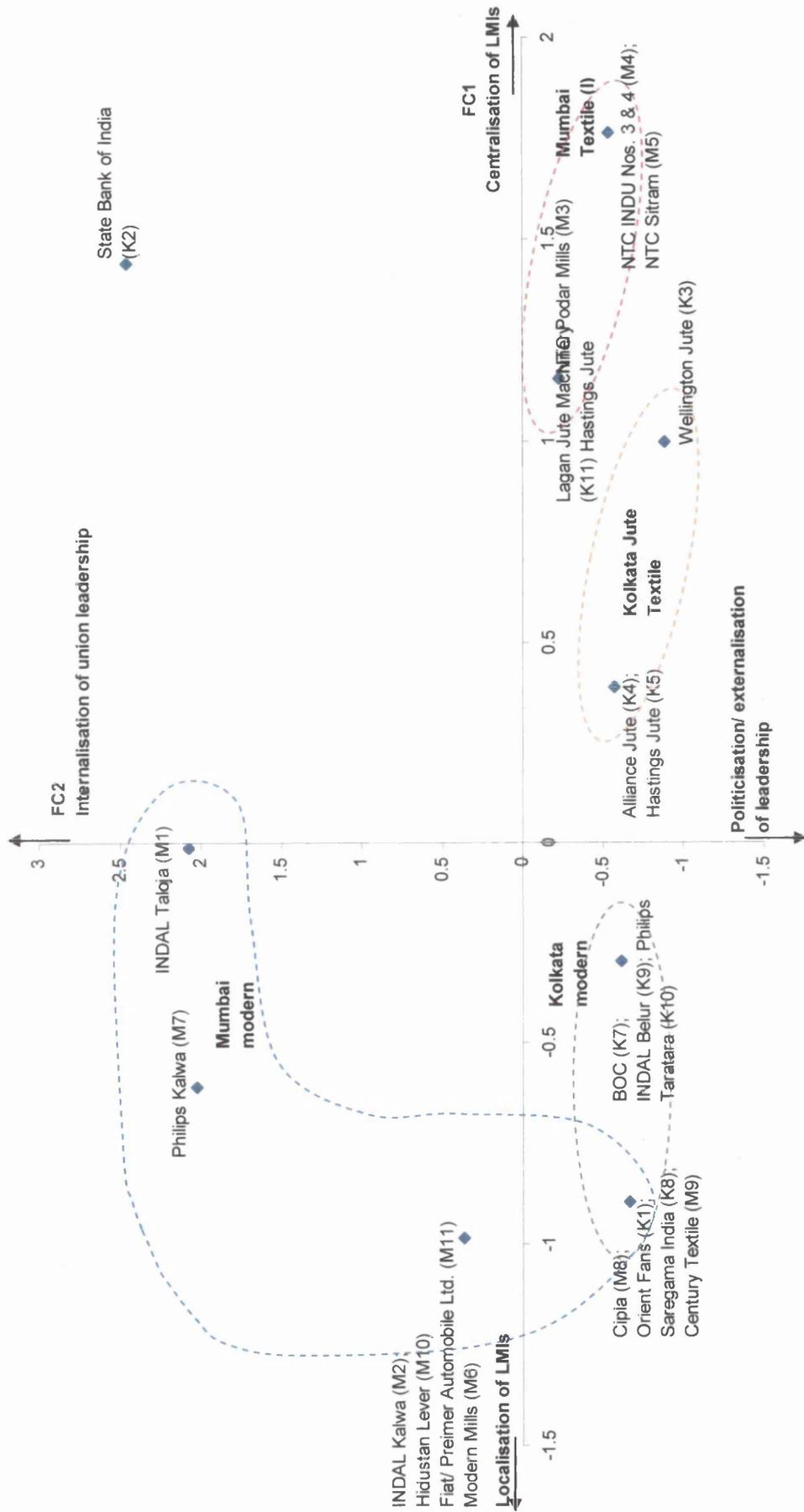
As we have already suggested, the outcome of the factor analysis is similar to that obtained from MDS earlier in this chapter. Table A4-8 presents the eigenvalues and (cumulative) proportion of the total variance explained. As in the previous section, since there are 6 variables, theoretically there are 6 principal components extracted. However, we found that the eigenvalues (total variation) are greater than one only for the first and second

components. A commonly used decision rule to determine the number of principal components to extract is to find the components with total variation greater than 1. Also the two components explain about 72 per cent of the total variation in the original variables. This means that by using these two components, we are able to represent the data with about 28 per cent loss of information. Another commonly used criterion for selecting the number of factors or principle components is to examine the scree plot, shown in figure A4-2, whereby the eigenvalues of each component are plotted in successive order of their extraction (Dillon and Goldstein 1984: 48-9; Jolliffe 2002: 112-7). Here we can identify a fairly sharp 'elbow', or change of slope, in the graph at the second principle component. For these two reasons, we shall consider the first two principal components as the variable that summarises the information contained in the original 6 variables relatively efficiently.

Finally, figure A4-3 shows the two-dimensional 'mapping' of our surveyed units along the two extracted principle components. We can identify a similar typology of LMIs as well as 'clusters' of units by regional and sectoral categories from this diagram to those found from figure 4-1 in Section 4.3 of this chapter. In fact figure A4-3 is more or less the same mapping in figure 4-1 but flipped upside-down vertically, which is explained by the 'inverse' nature of the second dimension obtained from the two techniques.

That we are able to find a very similar underlying structure from the same dataset using different data reduction procedures shows the 'robustness' of our empirical results. In fact we have attempted to apply factor analysis with different extraction methods (principal components, unweighted least squares, generalized least squares, maximum likelihood, principal axis factoring, alpha factoring, and image factoring) as well as rotation methods (varimax, direct oblimin, quartimax, equamax, and promax.) and still obtained very similar results.

FIGURE A4-3 TYPOLOGY OF LMIs AND MAPPING OF SURVEYED UNITS (WITH ALTERNATIVE DIMENSIONS FROM FACTOR ANALYSIS)



MACRO POLITICAL ECONOMY AND LABOUR MARKET
INSTITUTIONS IN MUMBAI AND KOLKATA

5.1 Introduction

In Chapter 4, we identified and examined the differential types of labour market institutions (LMIs) in Kolkata (Calcutta) and Mumbai (Bombay) using data obtained during our field research. From the objective of this thesis, the typology of LMIs is not merely a subjective classification, but interpreted as a systematic and dynamic consequence of the way in which economic development and accumulation preceded in these regions.

The objective of this chapter is therefore to place these findings within the economic, political and historical contexts in Maharashtra and West Bengal, within which Mumbai and Kolkata are located. If we use the term introduced in Chapter 2 Section 1.2, this is an attempt to empirically illustrate the role of within- and outside-firm 'rents' in determining the opportunities, incentives, and constraints of bargaining agents, and analyse the way in which LMIs are organised differently. For this purpose, an empirical measurement of the type and extent of within- and outside-firm 'rents', which does not directly refer to the type of LMIs, is important. While there have been studies focusing on the political and social factors in shaping bargaining relations, such as Nelson (1991); Banerji, Campos, Sabot (1995); and Pencavel (1995), these studies tended to use the politicised nature of LMIs as evidence of politically created rent-seeking regimes. This conventional approach is inadequate and tautological since comparing the *ex-post facto* bargaining relations in itself cannot provide insights into the extent of particular types of rents, or their influence over bargaining relations. For example, the observation that

politicised unionism dominates industrial relations in Kolkata compared to Mumbai does not immediately indicate that the size of politically created 'outside-firm rents' are greater in West Bengal than in Maharashtra. Therefore the particular pattern of distributional conflicts at the macro political economic level in Mumbai and Kolkata is evaluated using secondary evidence on the economic, social and historical contexts as well as the 'evolution' of LMIs in the two cities.

In Section 5.2, we shall examine the 'divergence' of economic growth and patterns of industrialisation in Maharashtra and West Bengal. Until the early 1960s, it was widely perceived that Mumbai and Kolkata had "dual dominance" in industrial development arising out of their colonial heritages (Sinha 2005: 44). Since the mid-1960s we have seen a departure in patterns of economic growth and industrial development in the two regions. The popular explanations that attribute this discrepancy in economic performance to exogenous factors such as culture and ideology or to 'central discrimination' are not so much wrong as inadequate from our materialist analytical approach. An alternative explanation is proposed to focus on the importance of different types of macro political conflicts in shaping the opportunities, incentives, constraints and capacities of micro agents in the two regions, which in turn has implications for the types of LMIs.

As case studies of the way in which distributional politics created incentives for LMIs to be organised differently, in Section 5.3 and 5.4, we compare the labour laws and the distribution of State budgets in Maharashtra and West Bengal. From a political economic perspective, labour laws can be understood as a legal *form* of capitalist social relations, in the sense that laws reflect the particular ways in which labour is organised, the labour process is controlled and managed, and labour is able to contest the total surplus value. By defining the rights of employers to control the labour process and the rights of labour unions to contest employer's policies, labour law can significantly influence

strategy of both management and labour unions. Also by defining the process through which such contestations are made, labour law influences the cost of actions by bargaining agents. Similarly, the configuration of the State budget allocation reflects the particular pattern of accumulation by informing us how the state acts as rent provider to various stake holders within society, including, but not restricted to, labour and management. Once again, the pattern of resource transfer from the state significantly affects the type of patron-client accommodations of and rent-seeking by bargaining agents by influencing their opportunities, incentives and constraints.

In Section 5.5, we take our hypothesis further to describe the historical 'evolution' of LMIs in Mumbai and Kolkata with a focus on the balance of power at the macro political economic level of the two regions. Following our argument in Chapter 2, the task for this thesis is to provide political models on the relationships between different types of macro political economic conflict and the type of micro-level strategies by LMIs. Here, political modelling is not only about the size of political constituency or the degree of inclusion, which has been the focus of existing models, such as Calmfors and Driffill (1988); Alvarez, Garrett and Lange (1991); Banerji, Campos and Sabot (1995); Aidt and Tzannatos (2002) amongst others. Instead, we are interested in categorising different forms of conflict of coalitions of rents, when the ability to mobilise popular support is different. To put it differently, our argument is that LMIs and collective bargaining can be better modelled by taking into account a range of social interest groups, and not merely focusing on the bargaining agents internal to LMIs.

Finally, note that in this chapter the term 'state' with a small s is used to refer to the general concept of the state as "the architecture of bureaucratic institutions" (Sinha *op cit.*: xvii), whereas 'State' with a capital S is used to denote the 'provinces' or 'regional states', such as Maharashtra or West Bengal.

5.2 Development and distributional politics in Mumbai and Kolkata

5.2.1 A tale of two cities: from 'dual dominance' to divergence

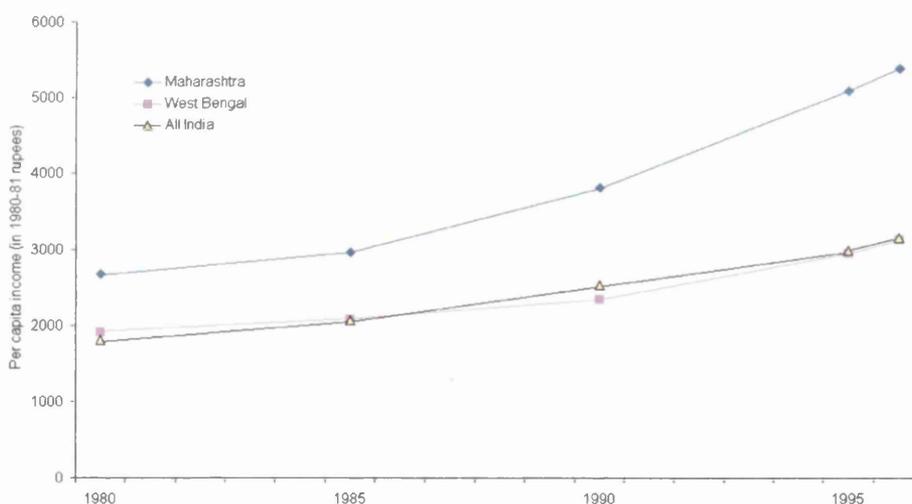
Since the early stages of industrialisation in the 19th century under British colonial rule until the mid-1960s, Maharashtra (called Bombay State before 1960) and (West) Bengal were two of the most industrially advanced regions in India. The first cotton textile mill was established in 1851 by a Bombay merchant C. N. Davar, and by the end of 1860 at least ten mill companies had been organised in the city (Morris 1983: 574). In Bengal, George Acland, an English entrepreneur established the first modern jute-spinning firm in 1855. Importantly, while the majority of the shareholders of cotton mills in Bombay were local merchants such as Parsis, the jute mills were predominantly controlled by British investors. Morris suggests that “much smaller quantities of native capital in Bengal were available for industrial ventures than was the case in Bombay. This may have something to do with the fact that the scale of Indian commercial enterprise in eastern India before 1914 also was relatively small” (op cit.: 567-9). This difference in the early pattern of industrial capital is important, since it partly explains the relatively weak political power of industrial capital in Kolkata today as we argue in the next section.

Nonetheless, Sinha (2005: 44) points out that there was a “clear ‘dual dominance’ of Bengal and Bombay in the industrial field arising out of colonialism”. She cites that in 1913-14, the total number of companies in Bengal was 973, and the same for the Bombay province was 613, which accounted for about 35 per cent and 22 per cent respectively of the industrial and commercial activities in India. Also Bombay had the highest productive capital employed, closely followed by Bengal, and the two regions employed about 62 per cent of the total productive capital in India during this period. A decade after Independence, in 1956, the share of all India productive capital in West Bengal was 21 per cent, while Bombay state’s was 30 per cent. Move forward to 1997-98, and Maharashtra’s share of productive capital is 18.81 per cent, whereas the same for West Bengal is 6.03 per cent. Although these

figures cannot be directly compared¹, and of course the declining share partly indicates the widespread distribution of industrial and commercial activities across India since Independence, one can immediately note the contrasting tales of the two cities.

The divergence in the economic status between Maharashtra and West Bengal was certainly evident by the end of the 1970s. Figure 5-1 shows that in 1980 the average per capita income in Maharashtra was 2675.5 rupees compared to 1913.4 rupees in West Bengal, which was marginally favourable to the all India average of 1808.1 rupees. We can also observe that since the second half of the 1980s, economic growth in Maharashtra has accelerated much faster than that in West Bengal, which followed the all India trend closely, resulting in a wider economic gap in the two states.

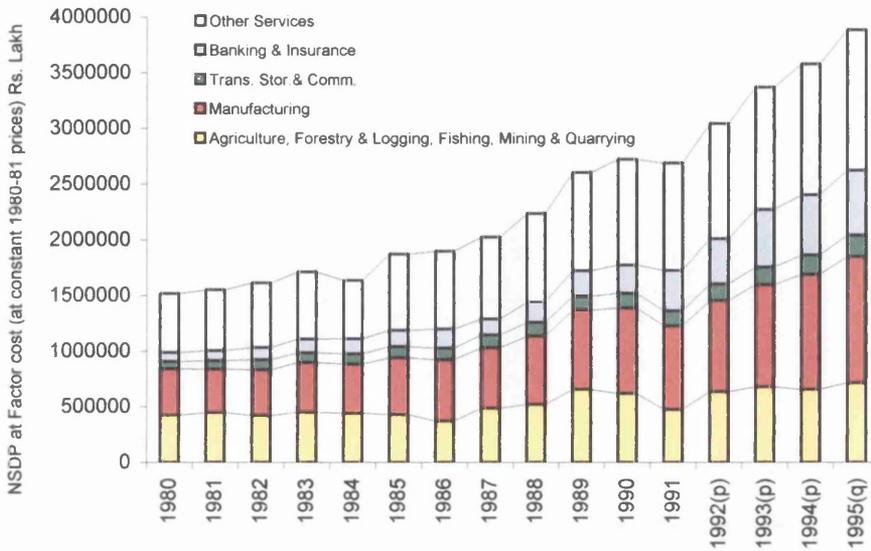
FIGURE 5-1 PER CAPITA INCOME IN MAHARASHTRA AND WEST BENGAL, 1980 – 1996



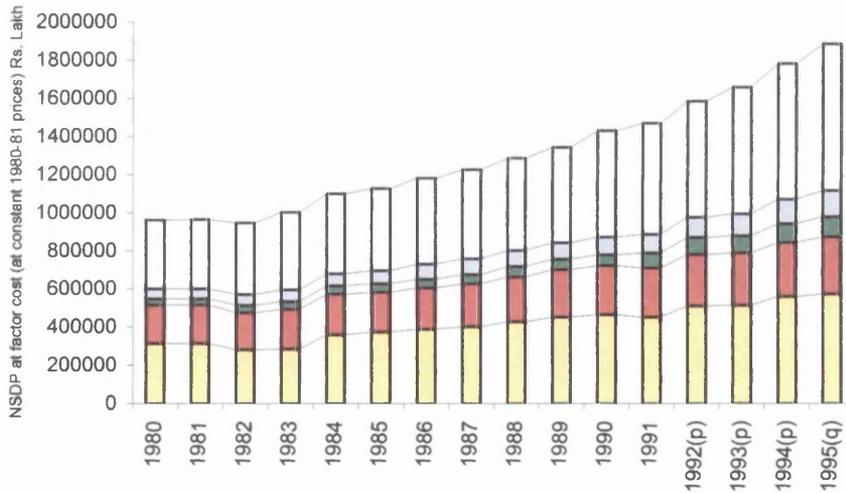
Source: World Bank (2000: 142).

¹ Significantly, Bombay province included Maharashtra and Gujarat until 1960. Gujarat's share of productive capital in 1997-98 was 13.90 per cent, which put together with Maharashtra's share of 18.81 per cent, compares favourably to the 1956 figure.

FIGURE 5-2 NET STATE DOMESTIC PRODUCT (NSDP) AT FACTOR COST BY INDUSTRY (A) MAHARASHTRA



(B) WEST BENGAL



Source: National Account Statistics, Government of India, New Delhi.

A closer inspection of the state-level economic data reveals that, not only had the growth rate and the average income level diverged in the two regions, the composition of the economic activities in the two states differed over time as well. Note that the two graphs in figure 5-2, which shows the net state domestic product (NSDP) at factor cost measured in 1980-81 constant prices, have different vertical scale reflecting the gap in economic wealth between the

two States. From the figures we also notice a contrasting pattern in the contribution of manufacturing production to the overall domestic economy between the two states. If we compare the State-level product of the manufacturing sector in Maharashtra, the net product of the manufacturing sector in 1980 was Rs. 415,197 lakh, which grew to Rs. 1,132,605 lakh in 1995 (measured at constant 1980-81 price). This implies that the output in the manufacturing sector has increased by 172.9 per cent in 15 years. However, if we consider the proportion of manufacturing production in NSDP, we find that it only has risen from 27.4 percent in 1980 to 29.2 percent in 1995. Nonetheless, this is a more significant growth than the industrial performance in West Bengal. The manufacturing production in West Bengal has increased from Rs. 201,619 lakh in 1980 to Rs. 325,853 lakh in 1995, implying a 61.6 percent growth, which in terms of the proportion of manufacturing production to NSDP has *declined* from 21 percent in 1980 to 16.6 percent in 1995.

Note that in both Maharashtra and West Bengal, but particularly in Maharashtra, the type of economic activity that rapidly expanded in recent decades is banking and insurance. In Maharashtra, the output from the banking and insurance sector increased from Rs. 81,177 lakh in 1980 to Rs. 582,748 lakh in 1995, more than 7 times of the output 15 years before. Proportionally, the contribution of the bank and insurance sector to NSDP in Maharashtra has increased from 5.4 per cent to 15 percent. Similarly, in West Bengal, the output from banking and insurance has increased by nearly 200 percent, and the proportional contribution to NSDP has increased from 5.4 percent to 7.7 percent.

In the context of this thesis, which focuses on the differential types of labour market institutions (LMIs) in Mumbai and Kolkata, this observation of contrasting economic performance and industrial development generates two opposing hypotheses regarding the relationships between the LMIs and

economic growth. The first hypothesis emphasises the impact of LMIs on economic efficiency and productivity, and postulates that the particular types of LMIs in the two regions account for their diverging economic development. As we discussed in Chapters 1 and 2, this perspective is influential in the mainstream economic literature that informs the on-going policy debates in India. In contrast, an alternative hypothesis can be proposed with a focus on LMIs as a reflection of the particular patterns of economic development. In this thesis we have pointed out the importance of the second structuralist approach, partly as an intervention into the current debates, even if in reality, the relationship between the two are likely to be dialectic. More fundamentally, we have argued that the many mainstream models that assume that LMIs precede growth as in the first hypothesis misleadingly treats them as ‘exogenous’ variables. We shall elaborate on these contrasting hypotheses in the following sections.

5.2.2 Contrasting ‘investment climate’ in Maharashtra and West Bengal

In this section, we shall examine several popular hypotheses which focus on the issue of governance in explaining the differing patterns of investment in Maharashtra and West Bengal. In recent years, a number of indices on ‘economic freedom’ and the ‘investment climate’ have been published, and have been used as evidence of institutional ‘distortion’ to the ‘efficient’ functioning of market mechanisms, which can then be used to justify institutional reforms.

It is therefore not a coincidence that one of such indices was developed by Bibek Debroy, who is amongst the most vocal proponents of labour market reforms. The Economic Freedom Index for India (Debroy, Gangopadhyay and Bhandari 2004) evaluates “the unfettered ability of an individual to make economic choices” in 20 states in India, measured in 50 variables, grouped

into 13 categories², which includes industrial relations as a constraint on control over business. Perhaps not surprisingly, the constructed index corroborates with the popular perception that Maharashtra is associated with a business-friendly outlook, while West Bengal is allied with the image of being ruled by radical left-wing parties and less attractive to private investors. Indeed, from table 5-1, we can see that the index gives Maharashtra the highest mark for its 'good investment climate' which includes better industrial relations scenario, a larger number of regulated and unregulated markets, and lower taxation, while West Bengal is given a low mark for its low work-participation rates and poor law and order situation.

TABLE 5-1 DEBROY'S ECONOMIC FREEDOM INDEX FOR INDIA

Rank	State	Economic Freedom Index	Rank	State	Economic Freedom Index
1	Tamil Nadu	0.44	11	Jammu & Kashmir	0.27
2	Maharashtra	0.44	12	Haryana	0.26
3	Gujarat	0.40	13	West Bengal	0.22
4	Punjab	0.39	14	Uttar Pradesh	0.21
5	Andhra Pradesh	0.36	15	Madhya Pradesh	0.19
6	Karnataka	0.35	16	Orissa	0.18
7	Kerala	0.35	17	Assam	0.17
8	Uttaranchal	0.29	18	Jharkhand	0.16
9	Himachal Pradesh	0.29	19	Chhattisgarh	0.14
10	Rajasthan	0.27	20	Bihar	0.11

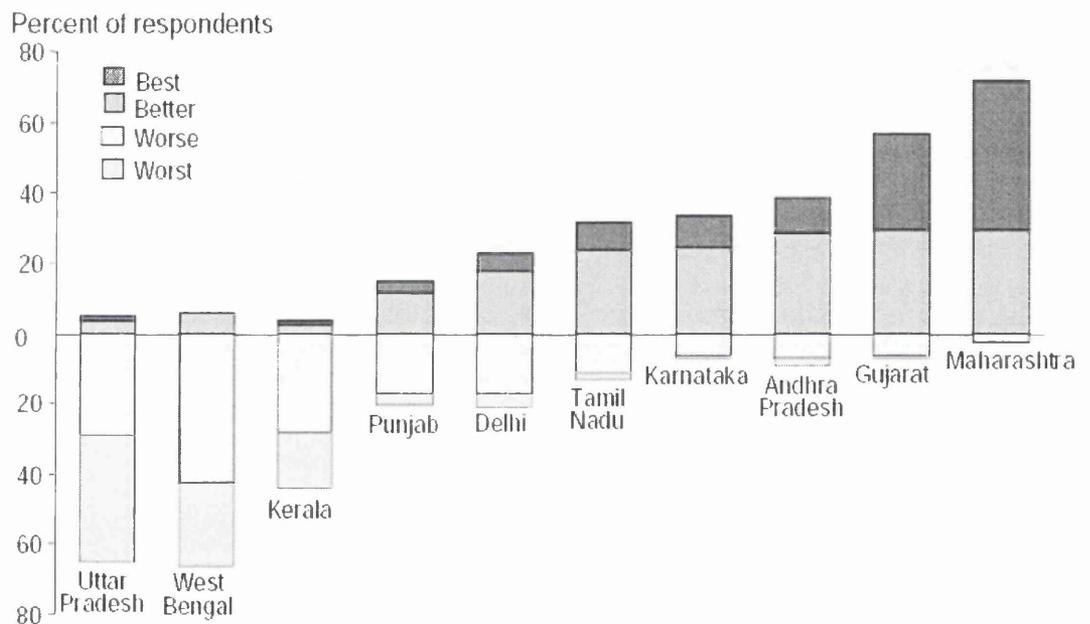
Source: Debroy, Gangopadhyay and Bhandari (2004: 585).

A similar attempt to measure the differential business environment can be found in the World Bank's Firm Analysis and Competitiveness Survey (FACS) of India, carried out by the employers association, the Confederation

² Variety of social and economic indicators are included such as (1) the ability to make a choice (poverty levels, health indicators, type of houses, electricity and sanitation); (2) social and family biases (sex and literacy ratios as well as caste differentials in education); (3) lack of available choices (rate of economic growth, employment, work participation levels etc); (4) lack of information (access to newspapers, telephone, mobile phones and television); (5) lack of physical mobility (access to roads, availability of buses and ownership of cars/two-wheelers); (6) lack of ability to process information (access to education and teacher-pupil ratio); (7) safety, law and justice; (8) efficiency of governance; (9) limits on trade (market fees, licence fees for traders, the number of haats/mandis and regulated markets); (10) constraints on realising full returns from effort (essentially, taxes); (11) limits on control over own business (industrial relations and power shortage); (12) issues in buying and selling of land/assets (taxes on property and capital transactions, stamp duty rates etc); and (13) availability and cost of capital.

of Indian Industry (CII), in 2000 and 2002, in which business managers and accountants are asked to identify states that they thought had a better or worse business climate than their own state. Figure 5-3 shows the result of the 2000 survey in terms of the percentage of respondents who identified a state's investment climate as better or worse than that of their current state in the 2000 survey, which lists Maharashtra as the most favoured state in terms of the perception of the investment climate, whereas West Bengal is considered as one of the least favourable in this regard.³

FIGURE 5-3 PERCEPTION OF BUSINESS MANAGERS ON INVESTMENT CLIMATE OUTSIDE THE STATE



Source: Dollar, David, Iarossi, Giuseppe, and Mengistae, Taye (2002: 27).

Such attempts to measure the extent of market distortions, economic freedom and the investment climate are evidently related to the so-called 'good governance' agenda in the current development literature, whereby

³ The scope of the survey expanded from 10 provincial states in the 2000 survey to 12 in 2002. However, the ranking of the states in the two surveys is "not significantly different from one another" (Veeramani and Goldar 2004:3). Indeed in FACS 2002, Maharashtra again receives the more favourable score on perception of investment climate, whereas West Bengal is the least favourable only after U.P.

improving transparency and democratic accountability, tackling corruption and anti-competitive practices, and empowering the 'citizens', together with the traditional 'Washington consensus' agendas such as market liberalisation and decentralisation, are seen as key reforms to enhance growth and alleviate poverty (Fine 2001).

These indices suffer from various measurement issues. For example, the publication of the economic freedom index provoked debate on what 'economic freedom' actually means in a society such as India. It is not clear whether the lack of roads or power, or social restrictions on women and those from the lower castes are indications of a lack of economic freedom, or whether they simply signal low level of development. The resulting indices are sensitive to how economic freedom is defined, and therefore to small changes in the data (Seetha 2004). Similarly since the index on investment climate is based on the opinion of business managers and accountants, it suffers from the obvious problem of the index ultimately being based on subjective perceptions.

A more significant concern is one of interdependence and causality between the variables. Studies such as Dollar et al. (2002) and Debroy et al. (2004) implicitly assume a causal relationship between the business environment, for example represented by the volatility of industrial relations, as the independent variable and economic efficiency and growth as the dependent variable. However it is also likely that high income and rapid economic growth lead to a reduction of the perceptions of distortion to the market and good business environment. The key issue is not that the perception is subjective, which it is, but that it is tautological because perceptions on good governance, economic freedom, and a good business environment are closely connected to successful economic growth. Managers and investors are more likely to complain about industrial relations constraining their activities if the business is not doing well. If this is the case, it is not surprising that indices on

market distortion, economic freedom and a good investment climate appear to be positively correlated with economic growth. Indeed from a political economic perspective, the type of industrial relations or LMIs should not be treated as independent or 'exogenous' variables that can be 'chosen' by agents, but rather are seen as reflections of structural problems which constrain the opportunities and incentives, as well as facilitate the actions, of bargaining agents.

Despite these problems, these indices are very popular and influential in policy circles, to the extent that recently the CPI(M)-led government invited the World Bank to visit West Bengal and get recommendations on improving its investment climate rating (Kamboj 2005). More importantly, the difference in investment climates or governance capacities, which includes LMIs such as trade unionism and state and institutional interventions in industrial relations, are perceived as explanatory factors that influence and explain the difference in economic status and performance across regions, say the divergence between Maharashtra and West Bengal. This is for example reflected in a series of newspaper articles authored by prominent Bengali economists, in which labour market policies as well as the political economy of organised labour were identified amongst the reasons for the industrial decline in West Bengal (cited in Bhattacharjee 2001b). The critical question is, then, what determines the investment climate or 'good governance'? The tendency in the mainstream literature is to implicitly refer to some cultural difference, such as the Bengali mentality and their sub-nationalism, or the communist ideology that is supposed to be guiding the regulatory framework and state intervention by the Communist Part of India (Marxist), or CPI(M), government, which are contrasted with the Congress-rule in Maharashtra based on the political dominance and "elite-pluralist hegemony" of the Maratha caste (Lele 1990; Harriss 1999). While cultural differences and ideological traditions no doubt exist, they are inadequate as an explanation for the divergence in the two regions on their own, without examining how such

culture and ideology are rooted in the particular balance of power in the two regions.

A related hypothesis regarding the diverging trends in investment and industrial development in Maharashtra and West Bengal is that the patterns of investment inflow into the regions differed because of the national-level redistributive politics. Especially popular amongst political actors, firm managers and trade unionists in West Bengal to account for the lack of investment into the state is the notion of 'central discrimination' towards states ruled by opposition parties, which is perceived to have occurred through uneven distribution of licences or of public sector spending controlled by central ministries (Sinha 2005: 55-56).

Despite the well documented tensions between the centre and West Bengal government, the centre's discrimination is at best a partial explanation for the lack of investment, not least since the centre-state tension existed even before the CPI(M) came into power during Congress rule between 1947 and 1967 (Jha and Mishra 1993; Banerjee 1996) with issues ranging from refugee problems after the second partition of Bengal to the jute tax. Once again, in order to explain the uneven distribution of resources at the national-level, we need to go beyond the ideology-based assertions, and explain why Maharashtra was able to extract or attract investments better than West Bengal over time, by focusing on the particular balance of power and types of distributive coalitions that dominate the internal politics of the two regions.

5.2.3 Types of distributive politics in Maharashtra and West Bengal

In this section, we shall focus on an alternative approach to the macro political economy of Maharashtra and West Bengal by focusing on the types of macro political conflicts and the material conditions that underpin them, rather than reducing it to cultural and ideological differences. In the context of this thesis which focuses on the types of LMIs in Mumbai and Kolkata, we are concerned with the different coalitions of distributive politics that

shapes the opportunities, incentives, constraints and capacities for micro bargaining agents to organise labour-management relations. Therefore the intention here is not to develop a full account of the political process in the two states, on which there has been development in scholarly understating over the past two decades.

The political economy of the Indian state was developed by Bardhan (1984), Rudolph and Rudolph (1987), and Chibber (2003) who have described the state as being constrained by the compromise of power between dominant classes. In contrast, Harriss-White (2003) has focused on the existence of a 'shadow state', which functions alongside the 'formal' state, dominated by the patron-client networks of traders, small businessmen, petty commodity producers and richer farmers. Reviewing the lively debate on the modern Indian state, Fuller and Harriss (2001: 10) point out that there is an emerging consensus that the state-system in India, whether real or imagined, is "profoundly penetrated or influenced by social forces".

The question for our purpose is how the balance of power and organisations of macro political conflicts give rise to different types of distributional politics, and in turn how they affect the rent-seeking strategies of bargaining agents. Sinha (2005) points out that there is an important difference in developmental strategies adopted across State governments within India. On the one hand, there are States, including Maharashtra, whose strategy might be termed 'bureaucratic liberalism', whereby the state focuses primarily on institutional and infrastructural development and the monitoring of performance. On the other hand, others including the State government in West Bengal have been known for their dependence on central subsidies and *ad hoc* industrial strategies. These differences in state distributional strategies cannot be explained by the difference in ideological leanings or culture alone, but must be explained in terms of the class and caste coalitions that constrain and penetrate them.

The different ways in which the redistributive coalition emerged and was reproduced in Maharashtra and West Bengal is an important topic for future research which deserves a fuller treatment. Here we can sketch several features of the state-level politics in the two regions as propositions.

5.2.3.1 Distributional politics in Maharashtra

We have already seen that Parsi entrepreneurs and merchants, who were placed under the protection of the Dutch and English East India Companies, played an important role in developing early industries in Bombay such as the cotton textile mills. It was these Parsi merchants, along with Gujarati Hindus, Jain and Muslim capitalists, as well as Baghdadi Jews and Marathi and Konkani speaking traders, who controlled a wide range of business activities from shipping to joint-stock banking (Chandavarkar 1994: 58-63; Hansen 2001: 38). In this sense, Bombay was “dominated by the non-Maharashtran business communities” in the 19th century (Gupta 1982: 47). The political movements in this ‘old’ Bombay was characterised by the nationalist movement on the one hand, which “presented the interface of the indigenous elites of migrants from various parts of the country, principally non-Marathi speaking, with the English speaking colonial élite”, and the working class movement, which articulated the aspirations of “the Marathi-speaking middle and lower strata of the city, the clerks and workers” (Patel 2003: 4).

In contrast, the state politics in Maharashtra, for most of the post-Independence period, has been dominated by the Congress party, which has only been out of power in 1978-80 and 1995-99⁴, by seeking “to combine the

⁴ The period 1978-80 can be characterised as a consequence of factional infighting within the Congress. In 1978 Sharad Pawar, an ex-Congress politician, who formed the Progressive Democratic Front (PDF) became the youngest Chief Minister, only to be routed by the Congress two year later. Pawar then formed Congress (S), then returned to the Congress (I) in 1990 to form a minority government, and then split again to form the National Congress Party (NCP). In this sense the event in 1978-80 was not necessarily an effective challenge to the Congress rule. The only real challenge to the Congress rule happened in 1995, when the BJP-Shiv Sena alliance formed a non-Congress government for the first time. Vora (1996) suggests that the reasons for the election success of BJP-Shiv Sena in 1995 were the inner fighting within the Congress and Congress's loss of support from the Muslim community particularly after the 1992-93 riots.

aspirations of the Marathi-speaking populations with the material interests of the non-Marathi traders and industrialists” (Vora and Palshikar 2003: 161-2)

Indeed, in the late 19th century, the majority of labour employed in industries such as cotton textile was local Marathi speaking residents in Mumbai (Mehta 1954: 116). However as industrial development proceeded in the first half of the 20th century, and as labour demand increased, the number of migrants from outside the State, such as Uttar Pradesh, increased (Morris 1965: 63-5). This influx of migration did not however lead to segmented labour markets between local and migrant workers, but rather to a ‘continuous and multilayered’ labour market structure (Sato 1994: 103), with the relatively high level of education of migrants and the migration by family unit given as some of the reasons for the relatively high level of integration into local labour markets. The existence of a relatively integrated labour market structure is, together with the early development of local industrial and commercial capital, another important structural condition that characterises capitalist development in the region.

At the heart of the Congress domination in Maharashtra, which is predominantly an agrarian society, was the incorporation of the rural dominant caste group *Maratha (-Kumbi)* caste as the symbol of the political and social identity of Maharashtra (Lele 1990: 177-8). The ‘elite’ cluster of this dominant caste is mainly owner-cultivators with medium to large-size land holdings in predominantly the western Maharashtra region (Jadhav 2006). The Maratha gained political dominance in the country-side after the land reforms initiated in the 1950s significantly weakened the political power of *Brahman* absentee landlords. When the *Maratha* non-Brahman political leaders started joining the Congress party in the 1930s, there was initially antagonism between the Brahman and non-Brahman movements. In the 1950s, the Congress party was reorganised along linguistic lines, at the backdrop of a popular cultural and political campaign that portrayed Marathi speakers,

Marathas as well as *Brahmans*, as those who constituted the majority of the Bombay province but were exploited by “alien *Shethjis* and *Banias*, that is, moneylenders and urban capitalists belonging to Parsi, Gujarati, and Marwari communities” (Hansen *op cit.*: 41-2). This established the solid foundations of the Congress party which is perceived as “an expression of the dominance of the Maratha caste” (*op cit.*: 35).

John Harriss (1999) cites Lele (1990) and Jenkins (1996) to argue that that the Congress-Maratha political dominance constructed “a system of elite-pluralist hegemony”, which, despite its rhetoric, enabled the greater accommodation of ‘elites’ from Scheduled Castes, Scheduled Tribes and other religious groups, including the Muslims, than elsewhere. Lele argues that the Maratha caste has “shown, historically, the kind of flexibility and openness which effectively conceals substantial economic and cultural disparities and emphasizes kinship and community” (p.179), which led to caste dominance that allows competitive and flexible accommodation of various segments of the dispersed middle classes, from the rich and middle farmers/ peasants to professionals, traders and money-lenders. The early Congress leaders also “won the confidence of industrialists as well as labour leaders in urban centres” (p.182). An alternative way to interpret the stability of the coalition is that the prospect of alternative political action was limited to the extent that the accommodated groups “developed a vested interest in the maintenance of the system” (p.188). Various mechanisms of patronage, most notably the employment guarantee scheme (EGS), were used to channel benefits to the Congress-Maratha interests, while the system also created space for contestation and class/ caste conflicts in later years (Patel 2006; Joseph 2006; Jadhav 2006). A possible consequence of this was the political unity of economic and political interests under this Congress system in Maharashtra at the time of its creation, which formed a loose coalition of economic interests which enabled the accumulation of the pro-rural dominant Maratha caste/class in conjunction with urban capitalists. It is important to note however that this did not

necessarily mean that the state was able to focus on industrialisation, especially given the predominantly rural-support base of the Congress.

Under this party-caste domination, capital accumulation in western Maharashtra, and Mumbai in particular, took three interrelated trajectories, especially since the 1970s (Appadurai 2000; Patel 2003: 11-24). The first was the flight of capital away from the old centre of the city to shift the production to the suburbs and satellite towns such as Thane, Kalyan, and New (Navi) Mumbai areas, which are within the Mumbai Metropolitan Region, and sometimes still further to nearby cities such as Pune and Nasik. This shift was also combined with a move from a labour-intensive orientation of the region's industry to capital-intensive production, as well as the casualisation of the work force, the developments we shall discuss further in Section 5.5 below. Second, mirroring this trend of 'de-industrialisation' of old Bombay, there has been a growth of service industries, including finance, tourism, retailing, and entertainment. The increased influence of financial capital is particularly important for our purpose, which includes the speculative capital operating in illegal and black markets, fuelled by consumption and speculative real estate investments. Third, following the expansion of the illegal or black markets, there has been indication that Mafia gangs have entered into land and housing markets, and forged alliances with sections of the Shiv Sena movement, which we discuss below. These trajectories of accumulations in Mumbai and other industrial areas are interesting because while Mumbai tends to be associated with the positive pro-developmental or pro-business image, in fact an important aspect of the accumulation process in the region is the shift of 'elite' interest from attracting resources to industries and extract kickbacks from industrialists to capturing resources from various forms of organised crimes.

Setting aside the moral and welfare implications of this 'dynamic' yet contradictory nature of capitalist development, what we are concerned with

here is the type of distributional politics in Maharashtra, within which LMIs in industries based in Mumbai are located. On the 'supply-side' of rents, the state in Maharashtra, with the backing of the dominant groups and interests, adopted a strategy of 'guiding the market' by facilitating firms and industries to operate rather than to directly participate in productive activities (Sinha 2005). For example, Sankar, Mishra and Nandagopal (1994: M-115) argue that the State-level public enterprises (SLPEs) in Maharashtra were set up as area development or "promotional enterprises in view of their strategies to accelerate the pace of economic development through helping the private sector enterprises". As we shall see in Sections 5.3 and 5.4 below, the economic policy of the Congress government in Maharashtra has meant that the type of 'rents' available to the bargaining agents in industrial relations took the form of 'within-firm rent' by supporting the operation of industrial capital and providing institutional and infrastructural capacity, rather than the form of politically created 'outside-firm rent' through direct state intervention or government subsidies.

This does not mean that politically created 'rents' did not exist, or even that they were less important, in Mumbai. In fact, given that the legitimacy of the Congress rule depended on accommodating a wide range of social groups and interests, particularly those in the 'elite' cluster of various castes and ethnic groups, distributional conflicts over political resources dominated politics in Maharashtra, which were led by factional coalitions organised along communal and linguistic lines. The intra-dominant class factional division within the Congress started to emerge since the late 1980s between the western Maharashtra Maratha 'elite' and other groups such as lower Maratha-Kumbi groups, as well as Maratha elites from eastern Maharashtra, which weakened the political legitimacy of the Congress (Jadhav 2006: 5160). The Dalit movement and the rise of Shiv Sena (Shivaji's Army), which emerged in 1966 as a radical son-of-the-soil movement against south Indian migrants, are also reflections of this decline of the Congress hegemony especially after the

1990s and the competitive accommodation of newly emerging middle classes, which further strengthened the caste-based political mobilisation in the state. No doubt, industrial capital and labour are also part of these factional coalitions, but given the caste-based organisation of the distributional politics, they have not been at the centre of this mobilisation, with the exception of Shiv Sena affiliated trade unions and other caste and religious organisations, which rallied workers around their linguistic and religious symbols, and business classes engaging neighbourhood mafia gangs for private protection of their commercial activities (Patel 2003: 23-4). Working class politics, which was one of the dominant expressions of modernity in old Mumbai, has come to be overshadowed by linguistic and communal political movements by the 1990s. The militant 'independent' trade unionism since the 1980s may be interpreted as a so-far unsuccessful attempt to challenge this caste-based distributional politics in Maharashtra.

It is our hypothesis that the limited scope for bargaining agents in industrial relations to impose political settlements in their favour at the macro political economic level has meant that the scope for seeking 'outside-firm rents' was limited, while there was greater compulsion for them to focus on 'within-firm rents' at the backdrop of dynamic but uneven pattern of accumulation in the region. The particular pattern of redistributive politics in Maharashtra helps us specify the structural opportunities and capacities for a mobilisation strategy by unions to mobilise workers for long-term firm-specific action, rather than to seek 'rents' beyond the firm, as we argue in Chapter 6 Section 6.3 in our analysis of the labour process under different types of LMIs. Also, as discussed in Chapters 1 and 2, it is our hypothesis that the types of LMIs can be understood at least in part as a reflection of the balance of power at the macro-level and the specific patterns of accumulation. It is therefore our argument that the diverse types of LMIs in Mumbai observed in Chapter 4 can be explained in terms of this mobilisation strategy by bargaining agents to organise LMIs according to local conditions to maximise their share of

‘within-firm rents’ in the long-run. The perceived image of ‘business unionism’ in Mumbai is therefore understood as reflecting the economic, political and social conditions of the region.

The communal, linguistic and ethnic fragmentation of Maharashtra politics is another of the consequences of the aforementioned linguistic movement, which “claimed a political voice, public visibility, and perhaps more important, political ‘property rights’ to the city based on its numerical strength and allegedly purer Maharashtrian cultural heritage” (Hansen *op cit.*: 69). Leaders of factional organisations would cultivate, if not create, clientelist networks and paternalism, by say, sponsoring youth clubs or providing jobs for lower middle class and working class men in Mumbai (pp. 72-74). Communal political movements such as the Shiv Sena increased its support by its “ritualized systematic and excessive violence as a political instrument” (p.231) and penetrating “the intricate connections between politics, real estate brokerage, and industrial investments” (p.104).

TABLE 5-2 POST-PARTITION HINDU-MUSLIM RIOTS IN MAHARASHTRA AND WEST BENGAL

State	1991 Total Pop	1991 Muslim%	Hindu-Muslim Riots 1950-1995	Deaths in Hindu-Muslim Riots, 1950-1995	Deaths Per Million
Maharashtra	78,937,187	9.67	195	1456	18.4
West Bengal	68,077,965	23.61	89	287	4.2

Source: Wilkinson (1998)

On one hand, the particular social structure in Maharashtra enabled ‘dynamic’ economic accumulation to take place, which is reflected in the perception that it is the state with one of the best ‘investment climate’ and ‘governance’ capacities, as we saw in Section 5.2.2. The other side of this capitalist development in Maharashtra is however the violent ways in which communal tensions are politicised, the most famous of which was the 1993 riots in Mumbai (of which Shiv Sena is accused as the key perpetrator). Table 5-2

shows the number of Hindu-Muslim riots and deaths in such riots since 1950, which reveals in a crude manner the distinctively brutal aspect of capitalist development that has unfolded in Maharashtra, which relate to the communal and ethnic dimensions of redistributive conflicts over external rents in the region.

5.2.3.2 Distributional Politics in West Bengal

The industrial stagnation that characterised the state of West Bengal and the relative decline in the economic status of Kolkatta since the mid-1960s (at least until the early 1990s) are often attributed to the ideological leanings of the Left Front governments led by the Communist Party of India (Marxist) or CPI(M), which has been influential since the mid-1960s and has controlled state resources since 1977. For example, Crook and Sverrisson (2001: 48) argue that West Bengal represents a case whereby not only has the ruling CPI(M) had ideological commitment to accommodate the poor in the political process but also “was prepared to engage actively with local politics (even if for its own politically self-serving reasons), to challenge local elite resistance if necessary and to ensure implementation of policies”. However, Kaviraj (1997: 259) points out that the CPI(M) has also “sought to increase their appeal to social groups not traditionally considered their usual social base”, including business groups by assuring them of “firmer control over trade union movements”.

While the ideological commitment of the Left Front government was no doubt an important factor that promoted pro-poor policies, Sinha (2005: 184-200) offers a different interpretation by focusing on a socio-economic coalition of ‘non-productive middle-class hegemony’ that has dominated the state politics of West Bengal. Kohli (1990: 367) argues that “modern Bengal politics has been dominated by an upper caste, well-off, educated minority” known as the Bengali *bhadralok*. The *bhadralok* or ‘respectable people’, is a term that refers to a multitude of upper and middle castes originally from the

“rentier class who enjoyed intermediary tenurial rights to rents from the land” (Chatterji 1994: 1-5) but over time “came to be removed from productive activities in both agriculture and the urban sector”. Many of the *bhadralok* can be connected to the *zamindars*, who were revenue collectors under the British colonial rule, many of whom were absentee landlords (Kohli 1990). Instead of being involved in agricultural production or participating in village life, through access to English education, the *bhadralok* formed the bureaucratic and professional classes around the late 19th century, and controlled most of the political positions under the Congress as well as the CPI(M) governments. This ‘non-productive hegemonic elite’ radicalised under the Bengali sub-nationalism “did not represent the commercial interest of either the agrarian or the industrial sector” (p.188). In fact, Chatterji (1994) points out that the *bhadralok* movement was able to appeal to other less privileged sections of Bengali Hindu society or to other caste, ethnic and tribal groups. However, crucially, Kohli points out that “[c]lass hegemony was never well established within West Bengal and caste affiliations have not provided the basis for state-wide political mobilization” (p.368), which is a contrasting situation to the one found in Maharashtra.

We already discussed in Section 5.2.1 that the early industries in Calcutta were established and controlled mainly by the British. During the 1910s, the number of establishments increased, mainly controlled by Bengali-Hindu traders and other groups such as the Marwalis⁵, but these early indigenous capitalists suffered from their subordinate position of being collaborators of the British capitalists (Bagchi 1972; 2002). However, Sinha (2005) argues that the weak position or ‘non-organic character’ of the indigenous business

⁵ A common perception is that urban commerce and industry in West Bengal has been dominated by non-Bengalis: first the British and then Parwaris and Parsis, which is seen to be “partially responsible for the failure of capitalism to become an integral part of Bengali social structure” (Kolhi 1990: 375-6). This view underestimates the increase of Bengali commercial and industrial capital in the early 20th century (Bagchi 2002: 168-71). Nonetheless, Bagchi agrees that, regardless of their social backgrounds, these ‘Indian’ capitalists were constrained by the colonial arrangements of industrial developments in the early period.

classes alone is not sufficient in explaining the lack of 'pro-developmental' consensus in West Bengal. She suggests instead that the critical factor was the lack of "incorporation of the industrially relevant class into the party-state system" (p.191) which contrasts to the coalitions of upper classes across society and the alliance between economic and political powers in western India⁶.

Another structural condition that is worth noting is the 'segmented' labour market structure in Kolkata. Just as in Mumbai, at the early period the majority of workers hired in industries such as jute manufacturing was local Bengali, but this composition of labour in terms of their areas of origin changed markedly from around 1895 manifested as "a consistent switching from local to non-local labour" (Gupta 1976: 299), especially from Bihar, U.P. and Orissa. More importantly there are indications to suggest that there was a higher share of Bengali workers in skilled labour, whereas the majority of migrant workers were uneducated unskilled labour, resulting in a more segmented labour market structure compared to that in Mumbai (Gupta *op cit.*: 302; Sato 1994: 103). The combination of 'non-organic' industrial and commercial capital and segmented labour market structure in Kolkata contrasts to the initial conditions in Mumbai, and is likely to have led to the different trajectory of accumulation in the two regions.

It is possible that these structural conditions partly contributed to the inability of the dominant caste movement to form stable coalitions with the 'elites' in other sections of the society, and because of this the CPI(M) government had to appeal to a wider social base to sustain their power. This is reflected in land reforms and various social welfare programmes that were intended to mitigate poverty in the State, and to some extent succeeded in "penetrating the

⁶ It is also possible that the dominant class or caste structure is less cohesive in Bengal, as suggested by Kohli (1987). Such inference is consistent with contestations to rural dominant castes such as the Tebhaga movement in 1946 (Alavi 1965), but requires further discussion which is beyond the scope of this thesis.

countryside without being captured by the propertied groups” (Kohli 1984: 228), although there is evidence to suggest that propertied classes obtained disproportionately greater benefits (Mallick 1993). Still the less cohesive dominant class and caste in West Bengal is in contrast to the experience of Maharashtra we discussed above. It is also interesting that caste and communal identities play a much less important role in political mobilisation in West Bengal. Instead, CPI(M) generates political support in part by appealing to the Bengali regionalism or ‘sub-nationalism’. Kohli (1990: 375) argues that the CPI(M) “is conceived of not only as a communist party; it is also a Bengali party”. Sinha (2005: 197) goes further to suggest that the “Left Front crafted a long-term, coherent political strategy at enhancing this regional sentiment and regionally located political support”.

The weak socio-economic coalition combined with the ideology of ‘sub-nationalism’ that is needed for electoral advantage meant that the West Bengal took a very different ‘developmental’ strategy to that of Maharashtra. We have already seen that after 1977 the Left Front has reformed their ideological position in favour of business and monopoly capitalists (Mallick 1993). The CPI(M) also revised the strategy of their trade union wing, the Centre of Indian Trade Unions (CITU), from being ideologically committed to militancy in the 1960s and early 70s to taking the view that “strikes were not essential for [the] redressal of workers’ grievances nor [...] the only manifestation of the militant attitude of the workers” as declared in the state-level conference of the CITU in 1980 (Ramaswamy 1984: 177-8). Despite these and other gestures, the industrial strategies of the Left Front governments at least until the early 1990s “came to be characterized by an apparent ad hoc nature” (Sinha 2005: 198). More specifically, “the Left Front governments have chosen the soft option of depending on New Delhi for subsidies” (Banerjee 1996: 218-9) in order to sustain industrial growth and create employment through direct state interventions. Kohli (1990: 376) instead attached the blame to the industrialists and moneyed urban interests in

Kolkata who “have preferred to intervene in Bengal’s politics through New Delhi”, which has further strengthened the sentiments for Bengali sub-nationalism. In contrast to the neo-liberal developmental strategies of ‘guiding the market’ in Maharashtra, West Bengal governments focused on setting up “more manufacturing enterprises in view of their strategy to participate in directly productive activities” (Sankar, Mishtra and Nandagopal 1994: M-115).

In the context of our discussion on the organisation of distributional politics within which labour-management bargaining takes place, the implication of the fragmented caste/class structure, which requires the CPI(M) to incorporate wider social groups, particularly the middle and lower classes, and the developmental strategy with its orientation to direct state intervention, is that redistributive competition in West Bengal took at party-political form. In the organised-sector commerce and industry, this is reflected in the multiple unions divided not only along partisan lines but also by factions within parties. Sen (1992) in her study on the jute industry, points out the difficulty of identifying the relative strength of each union because while the majority of workers do not pay a membership fee to unions in normal times, while some declare support for two or more unions. Ramaswamy (2000: 65) argues that many such unions, especially in older industries such as jute textiles, “are more like strike committees” which “lend an existence centred around conflict, mobilizing mass support during strikes”. In addition, these party-affiliated unions act as one of the important means for political parties to mobilise mass support for political rallies and elections. Similarly, outside the industrial and commercial sectors, the party-controlled *panchayat*, the local government positions of which were opened up to party political competition in 1979 by the CPI(M) government for the first time, became the mechanism through which rural credit and employment are allocated, again giving rise to party-based distributional conflicts in the countryside. Thus our hypothesis is that the balance of power and the type of macro political economy in West Bengal have meant that both industrial capital and labour had a greater scope

for participating in the distributional politics in Kolkata compared to those in Mumbai.

It is therefore our hypothesis that the dominant class led process of industrial development has created a greater structural opportunity and capacity for bargaining agents to mobilise workers to capture a greater share of politically-created external 'rents' as part of patron-client networks organised by political entrepreneurs who have no direct links to productive activities, even if the State politics has been 'elitist' in nature (Mallick 1993). At the same time, the relatively stagnant process of accumulation until the 1990s meant unions had limited scope for increasing gains through mobilising to maximise 'within-firm rents'. Thus our argument is that the politicised nature of LMIs in Kolkata as observed in Chapter 4 can be explained in terms of the mobilisation strategies by bargaining agents to seek external rents beyond the firm, or at least to 'stay with the regime'.

Finally let us briefly comment on the political economy of West Bengal after the 1990s. Between 1978 and 1981, the CPI(M) government implemented an extensive land reform which (i) vested surplus land after the imposition of a ceiling on family landholding; and (ii) recorded the names of sharecroppers in the record of rights in order to give them the protection and benefit to which they were entitled under the law as amended by the predecessor government, known as 'Operation Barga'⁷ (Bandyopadhyay 1995; 2000; 2003)⁸. In addition, since the 1980s, West Bengal has experienced rapid growth in agricultural production, in particular rice. Overall economic growth since the 1990s has improved, despite the continued stagnation in industrial development, mainly led by the expansion of the service sector (Guruswamy 2005). It is possible

⁷ 'bargadars' = sharecroppers

⁸ However, there are evidences to suggest that Operation Barga only managed to put 30% of tenants and 16% of landless tenants on record. From this observation, it appears as if the benefit of Operation Barga was greatest amongst rich peasants – 71% of tenants in the 4-10 ha ownership category (Shankar 1999).

that the emergence of the 'new' middle classes as a result of economic growth has made the alliance between the upper caste *bhadralok* and the middle and lower classes, which gave the CPI(M) political dominance during the 1980s, less stable. Kohli (2006b) hypothesises that the communist parties may have "demobilised their organised supports" from the desire to attract investment and improve its growth performance. More recently, the worse defeat of the CPI(M)-led Third Front in the 2009 Indian general election, and the peculiar alliance of the armed guerrillas of the CPI(Maoist), Trinamool Congress and the Indian National Congress that emerged as opposition to the CPI(M) around the issue of police repression against the tribals in Lalgarh, may indicate the changing coalition of politics in West Bengal. Whether this leads to the formation of a stable upper and middle class/ caste alliance through the accommodation of landed middle classes as seen in Maharashtra, and whether it leads to long-term industrial development and economic growth in the region remains to be seen.

5.2.3.3 Summary and implications

There are clearly very similar patterns in the early industrialisation and economic development in Mumbai and Kolkata. In both regions, the industrial and commercial bourgeoisie were outside the politically dominant groups, at least in the early period. In both regions, a relatively stable party politics emerged, albeit of very different ideological leanings, which was possible by establishing a broad coalition of interests. However, while in Maharashtra a particular political/caste unity emerged in the early phase of Independence, which allowed the dominant political groups to form coalition that enabled the state to carry out 'liberal' developmental management (but also with violent consequences), in West Bengal the incorporation of accumulating classes did not happen to such a great extent, and economic development was not pursued as a significant agenda of social and economic coalitions (Sinha 2005: 184-200). We have suggested several contrasting social

and political factors that may led to this difference, which are summarised in table 5-3, but clearly there is scope for further research.

In particular, it seems that the critical difference in the political history of the two regions lies in the establishment of the nature of political alliances during the early period of Independence. A possible factor is the contrasting agrarian structure at the time. As we have seen, a reasonably successful land reform in the 1950s led to the abolition of absentee landlords, who then formed part of the professional classes in the urban area, and to the dominance of landed middle caste *Marathas* to form a coalition of 'elite pluralism' in Maharashtra (Lele 1990: 177). Such effective land reform did not happen until the late 1970s in West Bengal, and the absentee landlords (*zamindaris*) lacked the political legitimacy to mobilise support of the productive groups in the region. Of course the timing of the land reform must be understood as a reflection of the specific process of early accumulation and industrialisation in the two regions, rather than as an operational instrument (Grinberg and Sartosta 2009). Another possible factor is that the radicalisation of the political classes around issues such as nationalism and regionalism in around the period of Independence (and significantly the partitions of Bengal) meant that caste played less role in Bengali politics compared to western India. However, focusing on these factors alone would be misleading since "there is a danger that one may recreate the past so as to make the present an inevitable outcome of the past" (Kohli 1990: 385). These and other possible questions would have to be developed in future research projects.

For the purposes of this thesis, however, we are concerned with the implications of the different balances of power amongst social groups and their political trajectories on the differential types of 'rents' and rent-seeking, which provide incentives for bargaining relations and unions to be organised differently. In the following two sections, we shall examine the differential types of rents by focusing on the labour laws and state budget allocations.

5.3 Labour legislation in Maharashtra and West Bengal

5.3.1 Labour law as a legal *form* of capitalist social relations

In this and the next sections, we shall examine some evidence of the differential types of ‘rents’ available to the bargaining agents in industrial relations, which shape the opportunities, incentives and constraints of organising labour market institutions (LMIs) differently in Maharashtra and West Bengal. In particular, we shall focus on the role of the state in the two regions providing these differential ‘rents’.

The state may become a rent provider to industry and actors in industrial relations for various reasons. For example, if ensuring industrial growth and providing employment is the major factor for the legitimacy of the government, the state may provide a certain amount of excess earnings to attract production of goods and services. However, as we have seen in Section 5.2.3, the ability of the government to form such developmental strategies is often fundamentally constrained by the distributional politics in the wider society. In such a case, provision of ‘rents’ is likely to be motivated by the political survival of the government and state officials.

The motive behind the state’s provision of ‘rents’ is important in understanding the patterns of macro rent allocation. If the State is allocating a large portion of the macro rent to the industrial labour market because of the importance of inducing industrial development, the state will do so as long as state intervention is important and effective for the growth of the industrial sector. On the other hand, if ‘rents’ are allocated for the motive of accommodating different groups to prevent challenges to the legitimacy of the government and state officials, then the type and amount of ‘rents’ allocated to agents of LMIs would depend on their location within the coalition of macro political economic conflicts, and their relative bargaining power within the wider society.

Labour laws and legislation are important aspects of LMIs⁹ since they can shape labour-management relations (i) by influencing the way in which labour unions may form and grow; and (ii) by regulating the process of collective bargaining and labour disputes. In this sense, labour legislation signals the possible gains, in the form of monetary and non-monetary payoffs, including employment, security, and fringe benefits, all of which, according to our broad definition¹⁰, can be considered as ‘rents’ from labour-management bargaining.

Moreover, from a materialist perspective, labour legislation is an expression of the way in which society as a whole controls the labour-process, not just at the point of production. It tells us the how the labour movement is differentiated, the political representations developed, and alliances forged (Bensaid 2002: 112). It articulates the scope and limits of cooperation and conflicts in the labour-process. It conveys the model of how the total surplus value is to be distributed within society. In other words, labour legislation can be understood as a legal *form* of capitalist relations of production.

However, we have seen in Chapter 1 that labour legislation covers less than 10 per cent of the total workforce in India. Given this limited scope and coverage of ‘formal’ state regulation, modifying the labour laws and other state regulations is typically not the primary target of the redistributive coalitions of the type discussed in Section 5.2.3 (Khan 2005). Nevertheless, we can still expect the resulting legislation and regulatory practices to broadly reflect the types of macro politics conflicts in the region.

Therefore by comparing the labour laws in Maharashtra and West Bengal, our aim is to analyse the differential modes of managing and controlling the labour process and the patterns of capitalist development in the two regions,

⁹ See our definition of LMI in Chapter 1 Section 1.2.

¹⁰ See our definition of ‘rents’ in Chapter 2 Section 1.2.

which in turn have determined the emergence, reproduction and transformation of the types of LMIs.

5.3.2 Industrial Disputes Act, 1947 (IDA)

As a comparison of the legal framework for LMIs in Mumbai and Kolkata, and the particular mode of managing the labour process in the two regions it reflects, we shall consider the State amendments made to the Industrial Disputes Act, 1947 (hereafter IDA). Being an Act passed by the central government, the IDA extends to the whole of India. However under the Indian Constitution both centre and State governments are empowered to legislate the issue of industrial disputes, and thus various State governments have passed their own State Act on industrial disputes. Section 31 of Act No. 38 of 1956 provides that the operation of the State Act in that State shall not be affected in relation to the matters covered by the State Act, but for the matters not covered by the State Act the provisions of the Central Act shall apply. Further, the State legislators have amended the central Act from time to time (Srivastava 1985: 20-28). Hence, while the IDA has been passed at the centre (and occasionally has been amended at the centre, sometimes reflecting the way in which the Act is received at the State level) State-level legislators have a considerable degree of freedom changing the legal framework of collective bargaining.

State legislators change the legal framework of collective bargaining and labour disputes because of the particular conditions of their region. That condition may come from the economic realities of the industrial sector. For example, labour unions' ability to disrupt industrial peace may necessitate legislators to give concessions to workers. On the other hand, the need for a flexible labour market may lead legislators to push for pro-employer amendments to the Act. The particular conditions at the State-level are also likely to be related to the social structure and the type of distributive conflicts. Labour laws may be designed in favour of labour if workers and trade unions

are accommodated and strongly represented in a coalition of social actors in a such a way that they can exercise organisational power to contest the legitimacy of the government or state officials may result in passing pro-labour amendments. Or, the same condition may lead the state to take a more interventionist approach to the labour market. In contrast, if industrial capital is accommodated in a social coalition of the ruling classes, or if there is a social base for supporting industrial capital, the state may relax labour laws in their favour or at least modify the type of state intervention in the industry.

Therefore as a starting point for our analysis of the State amendments to the IDA in Maharashtra and West Bengal, we have categorised the type of state amendments on the IDA as pro-labour, or pro-employer, pro-government, or others. A similar treatment of the State amendments to the IDA is done by Besley and Burgess (2002), in which 121 State amendments in 15 States are classified as pro-worker, pro-employer or neutral. This classification reflects the view that the state merely intervenes into the bi-partite bargaining relations between labour and management by passing labour market regulations. In contrast, our categorisation is based on the understanding that the state's role in intervening to the LMIs goes beyond merely mediating the industrial relations. Rudolph and Rudolph (1987), amongst others, have suggested that in countries like India, the state has a much more active role in shaping the bargaining relations between labour and management, and may behave as a bargaining agent with its own agenda as well. In addition, we have argued in Section 5.2.3 that the state may intervene in LMIs when the accommodation of industrial capital and labour are important in controlling the mobilisation of political conflicts.

In addition, the different assumptions regarding the role of the state in LMIs have implications as to how we interpret the observations on State-level amendments to labour legislation. Besley and Burgess implicitly assume that the *de jure* legal framework immediately implies *de facto* labour market

regulations (Bhattacharjea 1996), since for them the state is 'choosing' 'pro-worker' or 'pro-employer' changes to labour law and regulation according to their political positions. In contrast, if we argue that the legitimacy of political regime depends on accommodating the coalitions of patron-client networks, the state's labour market policies may be subjected to the particular location of industrial capital and labour in this patron-client politics. In this latter scenario, the state's passing of *de jure* 'pro-worker' legislation may be combined with the *de facto* 'pro-employer' policies and implementations. We must therefore interpret labour legislation in the context of the wider state policy on LMIs.

Another methodological difference is that where B&B treat labour law as an operational variable of the state, we see State-level amendments as a reflection of a particular structural characteristic of the local political economy. In Chapter 2 we have seen that the conventional economic models have been mainly concerned with analysing the pay-off structure within a given institutional framework, which sets the 'rule' of bargaining. However, increasingly economists are becoming aware that the institutional framework itself may be a result of a particular bargaining process. Labour law reform is a classic example of such institutions. Moreover from our understanding of labour law as the legal *form* of capitalist social relations, LMIs including labour legislation are an expression of the particular mode of managing and controlling the labour process.

Besley and Burgess' methodology also suffers from the problem of focusing only on the state amendments of the IDA in characterising the type of labour legislation in each State (Bhattacharjea 1996). Besides having the right to amend the central Act, States have the right to pass their own labour laws that can override the central Act. From table 5-3, we can see that the number of State-level amendments in West Bengal far exceeds that of Maharashtra. One of the reasons States like Maharashtra does not have many State amendments

to the IDA is because they have their own labour laws, which supersede the central IDA. The relatively small number of state amendments in Maharashtra should not be taken as an indication that Maharashtra has less industrial disputes or that state intervention in the labour market is relatively unimportant in Maharashtra. We shall therefore also comment on additional legislation and the wider juridical environment within which labour-management relations take place in Maharashtra and West Bengal.

TABLE 5-3 TYPES OF STATE AMENDMENT TO THE INDUSTRIAL DISPUTES ACT IN MAHARASHTRA AND WEST BENGAL

	Maharashtra	West Bengal
Pro-labour amendments	0	16
Pro-employer amendments	3	0
Pro-government amendments	1	3
Other types of amendments	3	8
Total number of state amendments	7	27

Note: Types of amendment categorized by the author. For detailed discussion on the criteria of categorization, see the Appendix of this chapter.

From table 5-3, if we focus on the types of amendments that have been made in the two states, we find that while the majority of state amendments in West Bengal can be characterised as 'pro-labour' in its nature, the state amendments in Maharashtra have no such distinctive feature. According to our categorisation, in West Bengal 16 out of 27 State-level amendments are 'pro-labour', 3 are 'pro-government', and none is effectively *de jure* strengthening the bargaining position of employers¹¹. In contrast, in Maharashtra, out of 7 State-level amendments we have categorised 3 as favouring employers, while none could be considered as pro-labour. However, this does not mean that industrial relations are necessarily *de facto* 'pro-labour' in West Bengal. As we

¹¹ The West Bengal amendment on section 25C in 1981 can be seen as pro-labour if considered on its own, which states that if being laid off is not due to electricity problems then the workers receive 100% of their wages as compared to the normal 50% (this is how Besley and Burgess categorise). However we argue that this amendment needs to be considered in relation to another amendment (section 2) that took place in 1981 which allows employers to lay-off workers at time of electricity problems without government permission. For more discussion on this, see the Appendix of this chapter.

point out below, since 1977 when the CPI(M) government came to power, West Bengal has been characterised by one of the highest incidence of lockouts in India, while the incidence of strikes has fallen, implying that the *de jure* legislative changes did not reflect the changes in *de facto* industrial relations. Also the observations on Maharashtra's state amendments on IDA must be interpreted within the wider legal framework and juridical scenario in the region. As we shall elaborate below, our interpretation of the seemingly paradoxical state policy on LMIs in West Bengal is that the state takes a direct and detailed interventionist approach to industrial relations, rather than the legalistic or bureaucratic approach that characterises industrial relations in Maharashtra.

FIGURE 5-4 TIMELINE OF STATE AMENDMENTS TO IDA

	Maharashtra state amendments	West Bengal state amendments
-1950s	<u>BIR Act 1946</u>	1958 - 1 neutral amendment 1959 - 1 neutral amendment
1960s		
1970s	1974 - 2 neutral amendments	1974 - 1 neutral amendment
	<u>1975-77 Indira Gandhi's Emergency Regime</u>	
	<u>MRTU&PULP Act w.e.f 1975</u>	<u>1977 CPI(M) government sworn in</u>
1980s		1980 - 12 pro-labour amendments; 3 pro-government amendments
	1981 - 3 amendments (2 pro-employer; 1 pro-government)	1981 - 1 neutral amendment
	<u>1982-83 Mumbai textile strike</u>	
	1983 - 2 amendments (1 pro-employer and 1 pro-government)	1986 - 1 pro-labour amendment 1989 - 3 pro-labour amendments; 3 neutral amendments
1990s		1990 - 1 neutral amendment

Notes: MRTU&PULP Act was initially passed in 1947 and was amended in 1971 but it came effective from 1975. "w.e.f" stands for "with effect from".

In addition to the content of amendments, it is also important to consider the timing of the state amendments. As we can see from figure 5-4, many of the important amendments to the IDA that significantly influenced the

opportunities, incentives and constraints of bargaining agents occurred in the 1980s. One of the possible factors is the changing political climate surrounding industrial relations after Indira Gandhi's emergency regime (1975-77), when attempts were made to impede labour militancy, which we discussed in Chapter 1. However, Besley and Burgess's analysis that covers 15 States across India suggests that there was not a uniform response in terms of State-level amendments to the IDA. Therefore we must also consider the region-specific factors that led to the changes in the legal framework in Maharashtra and West Bengal.

In Maharashtra, the significant factor was the emergence of the 'modern' or 'independent' militant unionism led by non-political external leaders such as Datta Samant, made most famous by the Mumbai textile strike of the 1982-83, which happened as a backdrop to the dynamic but uneven industrial development in the region. Out of 7 state amendments that were passed in Maharashtra, 5 were in the early 1980s. The predominantly 'pro-employer' tendencies of the IDA amendments can be interpreted in the light of the political climate of the time.

Similarly, the changes in legal form of social relations in West Bengal in the 1980s cannot be explained without the political dominance of the CPI(M) and the reorganisation of the redistributive coalition in the region. The bulk of the state amendments took place after the CPI (M) was sworn in to the state government in 1977. 15 out of 27 West Bengal state amendments were in 1980, three years after the entrenchment of the left front government, 12 of which were 'pro-labour' in nature. The state government under CPI (M) rule was committed to reversing "the trend towards industrial stagnation" while at the same time "increasing the control of the actual producers or workers over their industries" (Das Gupta 1995). The 'pro-labour' nature of West Bengal amendments to IDA in the 1980s can be seen as a reflection of this rhetoric of the state government's attempt to appeal to its middle and lower income

groups, while in practice restraining union militancy to reassure the business classes.

To sum up, the comparison of the number, content and timing of state amendments to IDA in the two states shows that labour law reforms are very sensitive to the local political economic conditions, especially when the state policy is constrained by the need to maintain the political legitimacy of the regime.

5.3.3 Additional labour legislation and juridical institutions

In addition to the central Acts such as the Trade Union Act of 1926 and the Industrial Disputes Act of 1947, three labour laws that are specific to Maharashtra are relevant to our discussion on the LMIs: The Bombay Industrial Relations (BIR) Act of 1946; Maharashtra Recognition of Trade Unions (MRTU); and Prevention of Unfair Labour Practices (PULP) Act of 1971.

We have discussed in Chapter 1 that the Trade Union Act of 1926 (central legislation) provides for the registration of trade unions, that any seven members can register a union, but does not mention recognition. However the MRTU of 1971 provides for voluntary recognition of a specific trade union as the sole bargaining agent (Bhardwaj 1996: 268). However, because the method of determining the representative bargaining agents, such as through secret ballot, is not established, the selection of the sole bargaining agent has often been contested.

The BIR Act of 1946 preceded the IDA by one year, and applies to textile, sugar, transportation industries, cooperative banks and the Bombay Electric Supply and Transportation (BEST). The BIR Act imposes an industry-wide bargaining in these industrial sectors with the 'representative' union (Bhattacharjee 1999: 20) and requires that the dispute be placed for arbitration whenever conciliation fails. Under the BIR Act, the representative union is

defined as the registered union with at least 25 percent membership in an industry in a local area. However, once again, the majority union can be determined on the basis of membership dues, rather than through election by secret ballot. On the one hand, this forced the reluctant management to deal with workers through arbitration binding on both parties, and attempts to eliminate inter-union rivalry (Ramaswamy 2000: 50), which were important to stem the industrial unrest in the period around Independence. However, the combination of the BIR and MRTU Acts also means that, “by providing for a single recognised union, the BIR Act saddled the workers with an organisation and leadership they could not rid themselves of, once they realised it was not working in their interests” (Krishnan 2000: 11). In the textile industry in Mumbai, the Congress-affiliated Indian National Trade Union Congress (INTUC) union, called the Rashtriya Mill Mazdoor Sangh (RMMS), has been recognised as the sole bargaining agent of workers. Many observers including Morris (1955) have questioned the legitimacy of the RMMS as the dominant union in the industry, given that the status was established without an election to ascertain workers support. This has been one of the sources of many disputes, including the Mumbai textile strike of 1982-83, in which the leader of the ‘independent’ trade union movement Datta Samat presented a charter of demands which included derecognition of the RMMS.

Finally the PULP Act of 1971 provides for preventing unfair labour practices, including the right of the officers of the unrecognised union or any member to meet and discuss with the employer their grievance or to go to the Labour Court, and in this sense it counter-balances the MRTU Act. However, under the MRTU and PULP Acts, a settlement signed with the ‘representative’ union will bind all workmen (Bhardwaj 1996: 269).

It is difficult to make a general comparison of these Maharashtra-specific laws in relation to the central Acts to classify whether they are ‘pro-worker’ or

‘pro-employer’. Venkata Ratnam (1996: 65-6) argues that “BIR Act is generally hated by unions and MRTU & PULP Act is equally disliked by the employers”. Note that the BIR Act which imposes industry-wise settlement and dispute resolution through arbitration applies to sectors related to vital public services or industries such as textiles that we categorised as ‘traditional’ in Chapter 4. In contrast, in the majority of the industrial sectors, “the state has a tradition of relative non-intervention” in Maharashtra (Ramaswamy 1988: 214). However, this has not necessarily meant a harmonious bi-partite collective bargaining exists in the ‘modern’ sector in Maharashtra, as indicated by the industrial relations which have increasingly taken a legal and bureaucratic form.

TABLE 5-4 THE NUMBER OF LABOUR COURTS (LCs) AND INDUSTRIAL TRIBUNALS (ITs), AND THE NUMBER OF INDUSTRIAL DISPUTES PENDING WITH LCs / ITs IN MAHARASHTRA AND WEST BENGAL

Name of State	Total number of labour courts and industrial tribunals	Total number of industrial disputes pending during 1989
Maharashtra	68	91, 924
West Bengal	11	3, 600
India total	323	338, 047

Source: Venkata Ratman (1996: pp.114-5)

Table 5-4 shows the number of labour courts and industrial tribunals in Maharashtra and West Bengal, together with the number of industrial disputes pending before them. We can see that Maharashtra has set up the highest number of labour courts and industrial tribunals, and also has the second highest number of disputes pending before labour courts and industrial tribunals in India after its neighbouring state, Gujarat. Bharadwaj (1996: 270-1) argues that this is because “the courts tend to accept the litigant’s plea for adjournment on the flimsiest of grounds” and reports that “9 out of 10 cases” get adjournment on some pretext or the other. What emerges from this is an industrial relations scenario in which labour-

management disputes are increasingly settled through the courts rather than by collective bargaining.

One of the reasons for this legal form of industrial relations in Maharashtra is that the “culture of bilateralism” (Hensman and Banaji 2001: 4) that characterised the collective bargaining in the Mumbai ‘modern’ sector has always been a contested terrain, and much of this contestation took place in the labour courts and industrial tribunals. As we have seen, collective bargaining in the Mumbai modern sector is bipartite in nature, but from the very early period there have been attempts by employers to resist this “culture of bilateralism” (*op cit.*: 4). In the 1950s and early 60s when employers often resisted bi-partite bargaining, this culture of collective bargaining had to be forced by unions through “the machinery of litigation”. After the 1970s, when it became common for the management to submit demands for negotiation, “litigation was now used by employers to codify and lend legality to sets of management objectives which were not easily secured through collective bargaining. But insofar as the Courts upheld the union’s stand, companies were now increasingly unabashed about flouting Court orders” (p.5). In Chapter 6 we shall see how these differing forms of industrial relations have influenced the type of union leaderships as well as their strategies and activities.

To recap, in this section we have interpreted the labour legislation in Maharashtra and West Bengal as a legal *form* of capitalist social relations, and therefore as a reflection of the particular patterns of accumulation in the two regions. Our interpretation therefore contrasts with the methodology implicit in Besley and Burgess (2002) as well as in many of the mainstream models that inform the on-going debate on labour law reforms in India, whereby labour legislation is assumed to be an ‘exogenous’ variable ‘chosen’ by the state or policy makers. Our alternative interpretation suggests that the apparent ‘pro-employer’ legislation and the legal form of industrial relations in

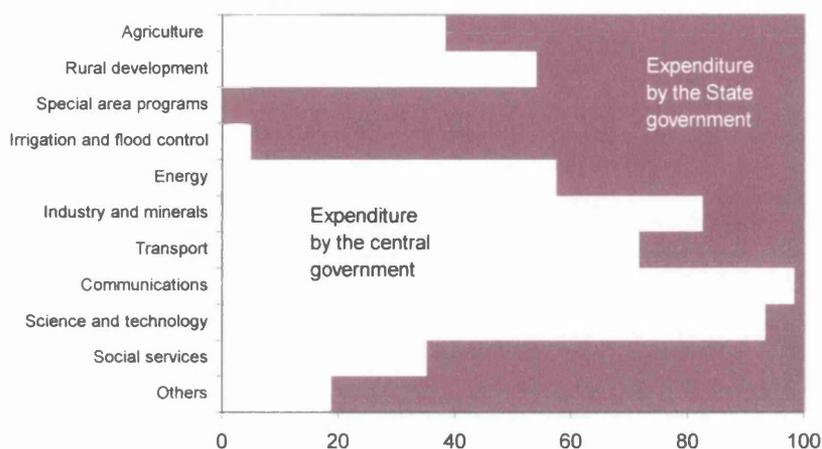
Maharashtra is a reflection of the 'liberal' developmental management, underpinned by the broadly 'pro-developmental' coalition of social groups as argued in Section 5.2.3, combined with the dynamic but uneven development in the region. Similarly, the paradoxical combination of the *de jure* 'pro-labour' legislation and the *de facto* disciplining of industrial relations in West Bengal reflects the fragmented class/ caste structure and the accommodating strategy perused by the state to pursue pro-labour policies while maintaining stable industrial relations.

5.4 Allocation of state resources in Maharashtra and West Bengal

In this section we consider the role of budget allocation in influencing the bargaining relations between labour and management in Mumbai and Kolkata, with a special focus on the redistribution of State-level planning expenditure in Maharashtra and West Bengal. As in our discussion on labour legislation in Section 5.3, we interpret the patterns of planning budget allocation as reflections of different types of macro political conflicts, which in turn reflects how industrial development proceeded in the two regions.

Once again, this is of course not to suggest that the transfer of state resources typically takes a budgetary form, or even that the fiscal transfer is the most important focus of redistributive politics in India. In fact, we would expect that the majority of the politically created 'rents' are transferred through non- or off-budget channels, sometimes even through illegal means (Khan 2005b). However evaluating the size and patterns of these off-budget transfers are difficult by their own nature. Moreover, even if the scope of fiscal transfer is limited, we can still expect the resulting budget allocation to reflect the political conflicts and the patterns of accumulations in the region, as long as we make the comparison while placing the findings in the wider social context.

FIGURE 5-5 MAJOR SECTOR WISE PROPORTION OF EXPENDITURE BY CENTRAL AND STATE GOVERNMENTS IN THE 7TH PLAN (1985-90)



Note: numbers in percentage.
Source: Sato (1994: 113)

From the early period, the issue of the level of decision-making has been one of the critical aspects of the discussion on the Indian planning process. It has been widely argued that one amongst a list of problems with the centralised planning in a large and heterogeneous country like India is the issue of regionally uneven development. Chakravarty (1987: 46) points out that the inability of central planning or the market to deliver “balanced regional growth” was recognised since the mid-1950s. Where there is a large regional diversity in the factor endowments, technology, and social and cultural practices, centralised planning has a tendency to polarise regions rather than equalise them. This is somewhat paradoxical since one of the justifications for planning in India was precisely because of the advantage of scale in a large market. Nonetheless, such concerns about regional diversity, combined with a long tradition of regionalism since the colonial period, led to development of a detailed mechanism of division of tasks in terms of planning projects. From figure 5-5 we can see that the State-planning budget was generally important in areas like special area programs and irrigation, whereas in communication, science and technology much of the planning budget was carried out by the

centre, with further pressure for greater regional autonomy intensifying in recent years. Therefore, the State-level budget is increasingly becoming an important terrain for redistributive politics in India.

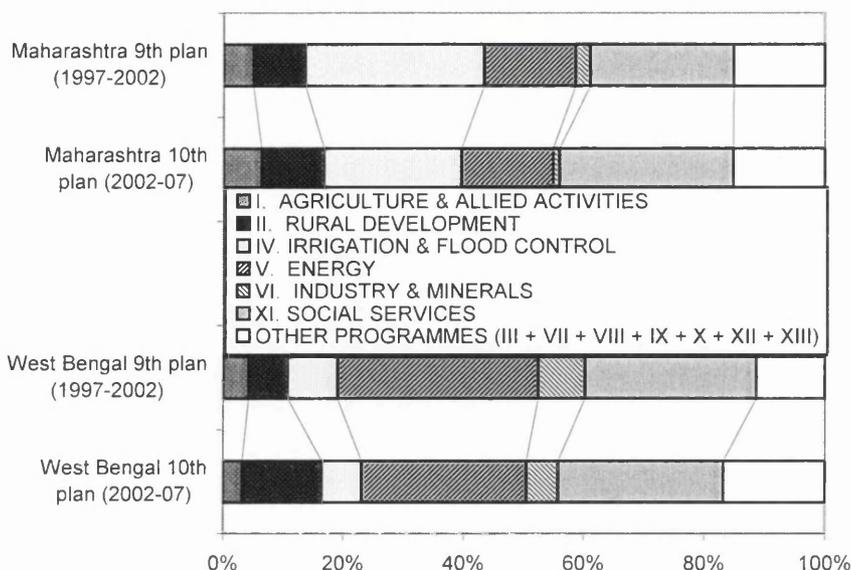
TABLE 5-5 BUDGET OUTLAY OF STATE PLANS IN MAHARASHTRA AND WEST BENGAL

Major heads of development projects	West Bengal 9th plan (1997-2002)	West Bengal 10th plan (2002-07)	Maharashtra 9th plan (1997-2002)	Maharashtra 10th plan (2002-07)
I. Agriculture & allied activities	71,213	91,463	182,820	424,862
ii. Rural development	110,776	379,769	317,340	691,972
iii. Special area programmes	21,682	106,379	19,190	37,322
iv. Irrigation & flood control	140,357	189,866	1,092,880	1,525,501
v. Energy	563,688	785,550	559,690	1,016,351
vi. Industry & minerals	132,630	150,984	90,260	71,656
vii. Transport	106,432	279,917	340,250	521,721
viii. Communications	0	0	0	0
ix. Science, technology & environment	5,896	15,519	1,320	5,525
x. General economic services	20,570	25,847	100,110	284,951
xi. Social services	479,827	786,780	873,370	1,923,321
xii. General services	36,931	52,026	30,950	160,018
Other programmes	NAP	NAP	61,820	NAP
Grand total	1,690,000	2,864,100	3,670,000	6,663,200

Note: Figures for the 9th plan are approved outlay, while the figures for the 10th plan are projected outlay. Units in Rs. Lakh. NAP = Not applicable.
Source: Planning Commission, Government of India.

In this section we shall focus on the State-level budget and its allocation in the 9th (1997-2002) and 10th (2002-2007) 5 years plan. We can observe from table 5-5 that the total budget of the 5 year plans in Maharashtra is higher than in West Bengal; Maharashtra's budget was about 70 percent higher in the 9th plan and 82 percent higher in the 10th plan. This probably reflects the fact that Maharashtra is the state that has the capacity to finance projects with their own tax revenues whereas West Bengal depends on central assistance and suffers from shortfalls of resources (Bagchi and Sen 1992).

FIGURE 5-6. PERCENTAGE OUTLAY OF STATE PLANS IN MAHARASHTRA AND WEST BENGAL

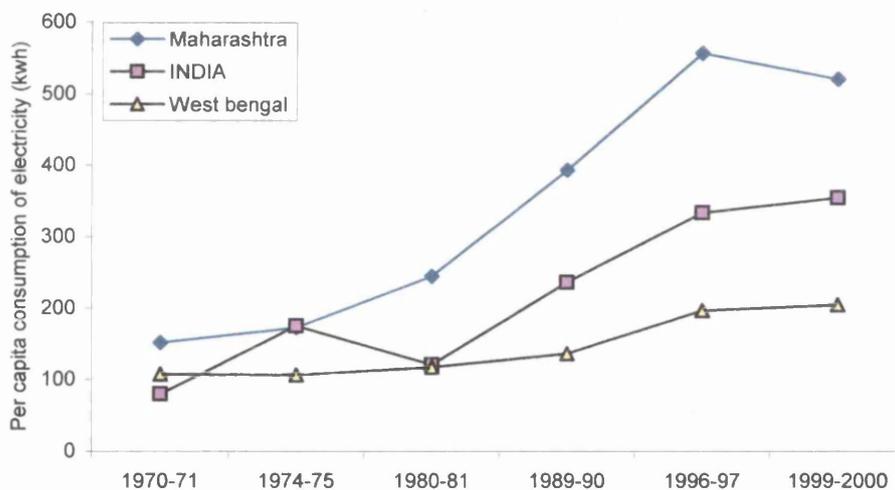


Notes and source: same as table 5-5

Let us next consider the proportional allocation of planning budget in the two States. From figure 5-6, several differences between Maharashtra and West Bengal can be found in terms of the proportion of planning budget allocation. First, the budget allocated to irrigation and flood control is proportionally higher in Maharashtra than in West Bengal. While in West Bengal irrigation and flood control only accounts for 8.3 percent of the budget in the 9th plan and 6.6 percent in the 10th plan, in Maharashtra it comprises 29.78 percent in the budget of the 9th planning and 22.89 percent in the 10th planning. The much higher number of major irrigation projects in Maharashtra further confirms this difference. Under the tenth five-year plan, there are 47 projects currently ongoing in Maharashtra, while only 4 are in progress in West Bengal. This, of course, partly reflects the geographical differences of the two states, with Maharashtra located in the arid or semi-arid Deccan plateau in which the large part of the region receives less than 600 mm of annual rainfall, compared to West Bengal in the Sunderban delta with higher annual rainfall often exceeding 1500 mm (Singh 2005). However we should also note the fact that stakeholders of major irrigation and water resource projects are not

necessarily people in the agricultural sector or the rural area. Benefits of major water projects include generating power, providing drinking water and sanitation to the urban area, together with irrigation, command area development, flood control and watershed programmes. In fact many of the benefited areas by major water projects are urban industrial areas such as Bombay, Pune, and Thane districts in Maharashtra, Calcutta and Howrah districts in West Bengal. The higher proportion of resources allocated to irrigation and flood control projects reflects the fact that there is a strong demand to establish urban infrastructure as well as providing the basis for productive modern agriculture in Maharashtra.

FIGURE 5-7 PER CAPITAL CONSUMPTION OF ELECTRICITY IN MAHARASHTRA AND WEST BENGAL



Source: Planning Commission, Government of India (2001) *10th Five Year Plans*, Volume III, Chapter 3, p. 87, Annexure 3.10.

Second, if we focus on the budget allocated to energy related projects, while in West Bengal this made up for 33.35 percent in the 9th plan and 27.43 percent in the 10th plan, in Maharashtra it only represented 15.25 per cent in the 9th plan and 15.25 per cent in the 10th plan. Of course, since the total budget of the planning outlay is much higher in Maharashtra than in West Bengal, this does not necessarily mean that West Bengal government spends

more on energy than in Maharashtra. In fact, from table 5-5, we can see that in fact the budget for energy in the 9th plan were almost the same in the two States, and in the 10th plan Maharashtra is planning to spend more on energy related projects than West Bengal. The greater emphasis on irrigation and energy investments in Maharashtra reflects the higher energy consumption in the State. From figure 5-7 we may see that West Bengal's per capita energy consumption level is lower and grew slower than the all India average, whereas in Maharashtra it grew much faster throughout the 1980s and 1990s.

It is of course difficult to distinguish to what extent this difference in the pattern of State budget allocation to infrastructure projects is due to resource endowments in the two regions and to what extent it can be attributed to state policies, which in turn reflects difference in accumulating class dynamics in redistributive politics. What is important for our purpose is that the allocation of public resource to infrastructure projects in Maharashtra can be interpreted as 'outside-firm rents' of a particular type that can be captured by accumulating classes both in the rural area, which increasingly have shifted their focus to energy-intensive agricultural activities such as floriculture, horticulture, viticulture, food processing for the export market and related service activities, as well as by accumulating interests in urban unorganised sector, which has increasingly developed into "a new constituency" for the Congress since the 1980s (Jadhav 2006: 5160). This is in contrast to the type of 'outside-firm rents' in West Bengal that involve direct state involvement and subsidies, as we discuss below.

Third, development policies and projects related to industry and mineral sectors occupy a higher proportion of the planning budget in West Bengal than in Maharashtra. In West Bengal, industry and mineral development projects formed 7.85 percent in the 9th 5 years plan and 5.27 percent in the 10th plan. In Maharashtra, it covered only 2.46 percent in the 9th plan and 1.08 in the 10th plan. From table 5-5 we may observe that, not only the

proportion of the budget allocated to the industrial sector was higher in West Bengal, but the absolute amount of the budget was higher in West Bengal than in Maharashtra in both the 9th and the 10th plans. Further, if we look at the composition of budget within the industry and mineral category, we see that there is a difference in the types of projects funded under the 5 years plans in these two states. From table 5-6 we may notice that in Maharashtra 40 percent of the budget in the 9th plan and 72 percent in the 10th plan were set aside for village and small scale industries (VSI), while 59 percent of the planning budgets in the 9th plan and 28 percent in the 10th plan were allocated to non-VSI projects. In contrast, about 80 percent of the development budget was invested in non-VSI projects in West Bengal.

TABLE 5-6 TYPES OF PROJECTS IN INDUSTRY AND MINERAL SECTORS FUNDED BY THE 5 YEARS PLANS

Minor heads of development projects	West Bengal 9th plan (1997-2002)	West Bengal 10th plan (2002-07)	Maharashtra 9th plan (1997-2002)	Maharashtra 10th plan (2002-07)
1. Village & Small Industries	21,306.29 (16.07 %)	28,302.00 (18.75 %)	36,230.00 (40.14 %)	51,646.00 (72.08 %)
2. Industries (Other than VSI)	109,974.65 (82.92 %)	119,614.00 (79.22 %)	52,835.00 (58.54 %)	20,010.00 (27.93 %)
3. Minerals	1,348.61 (1.02 %)	3,068.00 (2.03 %)	1,195.00 (1.32 %)	0.00 (0.00 %)
TOTAL - (VI. Industry and minerals)	132,629.55 (100.00 %)	150,984.00 (100.00 %)	90,260.00 (100.00 %)	71,656.00 (100.00 %)

Notes and source: same as table 5-5

One possible explanation for this greater share of resource allocation to the non-VSI projects in West Bengal may come from its high number of public sector enterprises. From table 5-7, we see that West Bengal has 82 State level public enterprises (SLPEs), which is the second highest number of SLPEs after Kerala. These 82 SLPEs are making a net accumulated loss of Rs. 5,068 crore, which is the highest figure amongst Indian States and an overwhelming 71.951 percent of SLPEs in West Bengal are loss-making SLPEs, which is also the highest. Despite this, only 6 SLPEs (7.32%) are non-working. This is in clear contrast with the public sector enterprises in Maharashtra.

Maharashtra also has a high number of SLPEs attracting the third highest amount of total investment after Uttar Pradesh and Gujarat. Amongst these SLPEs in Maharashtra, 66.15 percent are categorised as loss making; this rate is lower than West Bengal but still higher than the all India average (40.36%). However, what makes Maharashtra different from West Bengal is the relatively high number of non-working SLPEs; 26.15 percent of the SLPEs are non-working, which is higher than the all India average (19.88%).

TABLE 5-7 STATE LEVEL PUBLIC ENTERPRISES (SLPEs) IN MAHARASHTRA AND WEST BENGAL

State	Approx. No. of SLPEs	Estimated total investment in SLPEs (Rs. crore)	Net accumulated loss (Rs. crore)	Approx. no. of loss-making SLPEs	Approximate no. of non-working SLPEs
All India	835	167,718	20,691	337	166
Kerala	109	9,805	1,280	52	13
West Bengal	82	18,241	5,068	59	6
Karnataka	76	19,295	811	37	13
Orissa	68	9,796	1,180	18	34
Maharashtra	65	19,186	NAV	43	17
Tamil Nadu	59	6,192	NAV	NAV	12
Gujarat	54	23,438	965	NAV	NAV
Punjab	53	12,425	847	25	23
Uttar Pradesh	45	24,753	3,110	NAV	NAV
Assam	42	3,649	2,792	28	10
Madhya Pradesh	26	7,923	NAV	8	15
Himachal Pradesh	21	3,143	369	12	2
Goa	12	4,869	730	NAV	NAV

Note: NAV = Not Available.

Source: Planning Commission, Government of India (2001) *10th Five Year Plans*, Volume II, Chapter 7, p.706, Table 7.1.15.

This can of course be because the loss making establishments in Maharashtra are more severely unprofitable than in West Bengal, which we cannot verify here since we do not have information on the loss figures of Maharashtra's SLPEs. However, it appears that the loss making establishments in West Bengal face less likelihood of terminating operations, either voluntarily or by facing less pressure to do so compared to those in Maharashtra. The observation here is consistent with our discussion in Section 5.2.3 that the

public sector enterprises in West Bengal are set up with a strategy to intervene in and manage directly productive activities, which was contrasted with the development management in Maharashtra whereby public investments are used as a means to supply infrastructure and accelerate the pace of economic development by assisting and guiding private sector enterprises.

TABLE 5-8 SOCIAL SERVICES PROJECTS IN STATE PLANNING

	West Bengal 9th plan (1997-2002)	West Bengal 10th plan (2002-07)	Maharashtra 9th plan (1997-2002)	Maharashtra 10th PLAN (2002-07)
1. General Education	56169.68 (11.71%)	79789 (10.14%)	183811 (21.05%)	253811 (13.20%)
2. Technical Education	17124.84 (3.57%)	10652 (1.35%)	26432 (3.03%)	43837 (2.28%)
3. Sports & Youth Services	4351.12 (0.91%)	10106 (1.28%)	8133 (0.93%)	57000 (2.96%)
4. Art & Culture	2630.98 (0.55%)	3316 (0.42%)	4278 (0.49%)	7157 (0.37%)
Sub-Total (Education)	80276.62 (16.73%)	103863 (13.20%)	222654 (25.49%)	361805 (18.81%)
5. Medical & Public Health	97863.90 (20.40%)	103618 (13.17%)	91823 (10.51%)	110666 (5.75%)
6. Water Supply & Sanitation	43544.83 (9.08%)	73317 (9.32%)	293578 (33.61%)	776276 (40.36%)
7. Housing (incl. Police Housing)	22688.10 (4.73%)	13723 (1.74%)	21355 (2.45%)	96214 (5.00%)
8. Urban Development (incl. State Capital Projects & slum Area Development)	180807.74 (37.68%)	348102 (44.24%)	84003 (9.62%)	309336 (16.08%)
9. Information & Publicity	1305.83 (0.27%)	2148 (0.27%)	542 (0.06%)	460 (0.02%)
10. Welfare of SCs, STs & OBCs	17232.61 (3.59%)	41034 (5.22%)	110127 (12.61%)	158911 (8.26%)
11. Labour & Employment	12580.34 (2.62%)	5444 (0.69%)	25142 (2.88%)	57956 (3.01%)
12. Social Security & Social Welfare	7954.71 (1.66%)	46776 (5.95%)	6254 (0.72%)	12790 (0.67%)
13. Nutrition	7291.32 (1.52%)	31429 (4.00%)	17892 (2.05%)	34707 (1.81%)
14. Other Social Services.	8280.77 (1.73%)	17326 (2.20%)		4200 (0.22%)
TOTAL - (XI. Social services)	479826.77 (100.00%)	786780 (100.00%)	873370 (100.00%)	1923321 (100.00%)

Notes and source: same as table 5-5.

Fourth, if we compare the proportion of the planning budget that is allocated to social services, the proportion is about 27-8 percent in both Maharashtra and West Bengal. If we compare the proportion of the budget within the category of social services (table 5-8), we find that budget allocated to education is constantly higher in Maharashtra than in West Bengal. We also find that the budget allocated to water and sanitation, and Welfare of Scedule Castes (SCs), Schedule Tribes (STs) and the Other Backward Classes (OBCs) is systematically higher in Maharashtra. The systematically higher spending on water supply and sanitation once again reflects the focus on infrastructure provision, while the latter focus on SCs, STs and OBCs reminds us of the predominantly communal-based redistributive politics in Maharashtra. In contrast, West Bengal has a significantly higher budget allocation to projects related to urban development, which includes State capital projects and slum area development. The latter is particularly important in relation to the accommodation of lower and middle income groups, which have been part of the political coalition that ensured the dominance of the Left Front regime until very recently. However, interestingly, we do not find a clear difference in the budget allocated to labour and employment category. It is possible that this reflects Mallick's (1993) argument that the economic policies of CPI(M) government was limited in delivering improvements in the standard of living of the lower classes because of the 'elitist' nature of its political base, despite the revolutionary rhetoric, although this requires further discussion on this area, which is beyond the scope of this thesis.

These observations extracted from the comparison of the State planning budget again reinforce our hypotheses on the contrasting patterns of redistributive politics and the process of industrial development in the two regions. The greater emphasis placed on infrastructure building, especially in irrigation, provision of energy and water, and education in Maharashtra reflects the neo-liberal developmental policy pursued in the region as a

backdrop to the relatively stable and broadly ‘pro-developmental’¹² coalition based on the *Maratha-Kumbi* caste cluster. In contrast, the much more direct interventionist orientation with reliance on State level public enterprises (SLPEs) can be understood in terms of the political coalition between the dominant *Bhadralok* castes and the middle/ lower income groups that enabled the dominance of the CPI(M) since the mid-1970s, but also reflects the lack of a stable coalition of ‘elite clusters’ of social groups.

Having established the macro political economic contexts in which labour-management bargaining takes place over the last three sections, we shall now analyse the implications on how it lead to the emergence of differential types of LMIs in Mumbai and Kolkata.

5.5 ‘Evolution and involution’ revisited: LMIs in Mumbai and Kolkata in a historical perspective

So far in this chapter, we have analysed the macro political economy of Maharashtra and West Bengal, with the aim of characterising the opportunities, incentives, and constraints of bargaining agents to organise LMIs differently in the two regions. Mumbai (Bombay) and Kolkata (Calcutta) are two of the oldest industrial centres of India, as we saw in Section 5.2, and are also the birthplace of the organised labour movement in Indian industries. In the early Independence period, both cities experienced militant labour unionism galvanised by the anti-colonial struggle, but which ‘evolved’ into differential types of LMIs. While Kolkata saw the establishment of patron-client networks between the communist state government and its labour wing, the LMIs in Mumbai followed differential paths, ranging from industrial relations controlled by the state-business nexus, to the “most evolved Indian version of business trade unionism” (Ramaswamy 1988: 17).

¹² This refers to the economic policies that facilitate accumulating activities but does not imply that the ‘elite’ interest was necessarily ‘developmental’ in nature, as discussed in Section 5.2.3.

This section aims to contrast the historical development of the labour movement in the two cities.

Despite the contemporary perception of professional company-based unionism, in the pre-Independence period, communist labour leaders dominated the labour movement in Bombay. The support to the communist leaders, for example illuminated by the general strike of 1928, was partly a response to the ambivalent attitude of the Congress party to the labour movement. For example, Gandhi declared in 1921 “we seek not to destroy capital or capitalists but to regulate the relations between capital and labour. We want to harness capital to our side” (cited in R. Chandavarkar 1994: 413). However once the communist leaders discredited themselves by supporting the British during the Quit India campaign, which resulted in the split between communist All India Trade Union Congress (AITUC) and nationalist Indian National Trade Union Congress (INTUC), and the Congress gained power after Independence, the influence of the red unionism gradually declined. In 1960 attempts to revive the Marxist movement saw the rise of the Centre of Indian Trade Unions (CITU) which failed to establish itself as the dominant force in Mumbai’s labour scene.

As in the rest of India, the ruling Congress government adopted a policy of patronage to the labour unions through the Congress affiliated INTUC. As we have seen in Section 5.3.3, in industries such as Mumbai textile industry the space for state-patronage strategy was ‘legally’ created by the Bombay Industrial Relations (BIR) Act of 1946, which allows for a single union with more than 25 percent of the total workforce to be selected as the representative union for the entire industry. However because the employer can unilaterally determine the majority union on the basis of membership dues, without an election by secret ballot, the system was open to manipulation (Bhattacharjee 1999: 6). The Congress government and business leaders in some industries exploited this to select INTUC unions as the

'representative' union, including in the cotton textile industry, where communist unions traditionally dominated. During the independence struggle, the Indian National Congress, seeking to accommodate textile mill workers, set up the Mill Mazdoor Sanbha, which was transformed into the Rashtriya Mill Mazdoor Sangh (RMMS) in 1945, and was approved as the representative union under the BIR Act.

Opposition of the RMMS claims that there is a frequent corruption between the mill management and the RMMS union activists. For example, it is often thought that the RMMS receive payment for consenting to VRS schemes and the closures of departments and mills. Also the RMMS has alleged links to mafias and gangs that are used to convince reluctant workers to support such agreements (Pinto and Fernandes 1996). Other unions active in the industry have consistently contested the representative status of the RMMS on various occasions. In 1960, the CPI-affiliated Girni Kamgar Union forced the registrar to admit that the RMMS membership has declined. Yet, the industrial court ruled in favour of the RMMS on the grounds that the appointment of the Girni Kamgar Union's general secretary S. A. Dange's appointment was not in accordance with the union's constitution. As discussed in Chapters 1 and 4, in 1981 an independent trade union activist Dr. Datta Samant formed the Mumbai/Maharashtra Girni Kamgar Union (MGKU) demanding wage increases and for *badli* (casual) workers to be made permanent, and calling an indefinite strike. This led to the 1982-3 Bombay textile strike supported by a loose coalition of various non-Congress unions. At the height of its popularity, the MGKU filed an application for recognition submitting a petition to show that the RMMS's membership had fallen below the 25 per cent criteria. Again the court dismissed the challenge ruling that the "[s]udden changes of fortunes of membership may not be allowed to disturb the status quo" (quoted in Pinto and Fernandes 1996). It is also important to note the role the Congress government played in preventing mill owners from

reaching a settlement with Samant “with the sole intention of saving from collapse the INTUC, which was under challenge” (Ramaswamy 1988: 215).

By the 1980s the Shiv Sena affiliated Girni Kamgar Sena (GKS) emerged and gained popularity through its ability to deliver economic and social benefits (Shaikh 2005). For example, Shiv Sena is famed for its ‘sons-of-the-soil’ campaign, demanding preferential treatment for Marathi-speakers, which appealed to the resentment shared by the local Maharashtrians towards migrants and Muslim communities. Also, Shiv Sena is known to be successful in offering ranges of social services, including settling family matters, securing water and electricity connections, and helping individuals with job searches (Gupta 1982). From the beginning Shiv Sena has taken a pro-management and pro-government stand, which enabled them to utilise the patronage they receive from the ruling parties to deliver public goods, but at the same time this has implied that the union does not directly oppose the restructuring policies. The ineffectiveness of the ‘traditional’ party-based unionism led to the emergence of new types of ‘independent’ unions such as the Girni Kamgar Sangharsh Samiti (GKSS) union, which was formed in 1996 as an organisation to represent workers of closed mills. The GKSS’s main activities include the take-over of closed mills by workers’ co-operative, various protests including hunger strikes and marches demanding the revival of mills, and the provision of legal support to workers.

If the ‘independent’ unionism of the MGKU or the GKSS in textile industry have ultimately been unable to mount a credible threat to the ‘traditional’ Congress-RMMS nexus, the more characteristic face of the labour movement in Mumbai has been the employees’ unionism¹³, which goes back to the early

¹³ The term employee’s unionism is used in confusingly various meanings, but in this thesis we follow Hensman and Banaji (2001) to indicate trade unions with “the words ‘Employees’ Union’ or ‘Workers’ Union’ or ‘Staff and Workers Union’ in their name”. In this thesis we distinguish between employees’ unionism and independent unionism, which implies independence from political parties. We also make distinction between these two and internal unionism, which refers to unions without outsiders as their President/ leader(s). In reality there are a large overlap between these three categories (Ramaswamy 1988: 17), but there are by no means identical.

1940s, and has constantly increased until the 1960s or early 70s. Employees' unions are almost exclusively based on large firms, many of which are in multinational companies. In the early stages, most of the leadership came from within the company staff, whereas the 1960s saw some employees' unions inviting external leaderships. Until this period, employees' unions in Mumbai had a relatively strong bargaining power to force employers to accept employees' unions and to hold bipartite collective bargaining with them, which sometimes required legal interventions, as we saw in Section 5.3.3.

This employer's attitude toward employees' unions started to change in the 1970s. Management started to seek the ability to alter work organisations without union restriction. Lockouts came to be commonly used as management's bargaining tactics. Another tactic that was employed, especially in the 1980s onwards, was to divide employee between contract and permanent workers, or between staff and workers. An example of this is found in Philips, where the strong enterprise-based Philips Federation was legally dismembered in 1986, and then the management attempted to split the Philips Workers Unions by setting up a staff union called the Peico Employees' Union. These management offensives in Philips occurred in connection to changes in senior management who explicitly takes an anti-union attitude, which was another characteristic feature of labour-management relations in Mumbai in this period. In response to these changes in the industrial relations environment, some employees' unions began to adopt a militant direct action based strategies, from the late 1970s to the 80s. For example, in Hindustan Lever young workers took control of the union and created a unionism of "direct action" in the early eighties with the *modus operandi* of resorting "to illegal strike, category-wise, in different sections of the establishment on different days and thereby paralyse the functioning of (other) sections/departments" (quoted in Hensman and Banaji 2001: 5-6).

TABLE 5-9 NUMBER OF UNITS AND MAN-DAYS INVOLVED IN
LABOUR DISPUTES IN MAHARASHTRA

	Strikes		Lockouts		Labour disputes (total)	
	Number of units	Man-days involved (in millions)	Number of units	Man-days involved (in millions)	Number of units	Man-days involved (in millions)
1961					274	0.576
1966					781	3.542
1971					690	2.053
1976					337	0.421
1981					636	9.505
1986					300	5.298
1988	163	1.807	53	4.676	216	6.483
1989	153	1.169	40	2.501	193	3.670
1990	146	1.680	47	2.328	193	4.008
1991	160	1.438	57	3.211	217	4.649
1992	144	0.976	64	3.757	208	4.733
1993	151	1.523	43	2.435	194	3.958
1994	109	1.529	47	2.163	156	3.692
1995	20	0.173	5	0.498	25	0.671

Source: Bharadwaj (1996: 284-286)

This historical experience of employees' unionism is reflected in the overall statistics of labour disputes in Maharashtra. From Table 5-9, we observe that the number of units involved in labour disputes saw its peak between the late 1960s and early 70s, and after a temporary decline around the period of the Emergency (1975-77), it rose again in the early 1980s. After the 1980s there is a continuous declining trend in the number of labour disputes. However, if we look at the composition of labour disputes, we see that while the number of units involved in strikes has declined, there has not been a clear declining trend of the number of lockouts.

At this point, we should remind ourselves that employees' unions are but only a small fraction within the Mumbai labour scene, in terms of their number or their membership. Also we should point out that the bilateral or legal route for dispute resolution is not always achieved, despite the time and effort union leaders spend in courts and tribunals, as we discussed in Section 5.3.3. Nevertheless, it is important to explain the employees' unionism in large

'modern' companies in Mumbai, not least because of their ability to influence the overall pattern of labour-management relations in the region¹⁴ much more than the industry-wise or national-level general union federations.

A possible argument is that the reason employees' unionism may have been popular in Mumbai is because the employers preferred them. It is true that at the early stage, when communist trade unionism was a major threat, many large companies did encourage employees' unionism because of their 'independence' from political rivalry and 'external' influences. However, if we look at the historical experience of employees' unionism, the rank-and-file control over union leadership often led to stronger bargaining power and at times militant union strategies, which was mirrored by company management employing various tactics to break the bargaining power of employees' unionism, especially since the 1970s.

Hensman and Banaji (2001: 2) take the view that employees' unionism flourished because of "the level of education and self-confidence of employees, especially white-collar groups within those companies". This again is an important factor. For example, the new generation of young educated labour leaders, such as Bennett D'Costa of Hindustan Lever Employees Federation and Thankappan of Kamani Tube Union, had a major influence in driving the upsurge of labour militancy in the 1980s onwards. But it can only provide part of the explanation as to why employees' unionism was successful in Mumbai and not in other parts of the country. After all, it is not very uncommon to have educated potentially inspiring labour leaders in places like

¹⁴ This was characteristically observed in the *bandh* (general strike) of 2001. For the first time in decades, major central trade unions ranging from the CPI(M)-backed CITU, the CPI-supported AITUC, the pro-Congress INTUC, up to the RSS-backed BMS and Shiv Sena unions, all dropped their ideological differences and political rivalry to protest against the economic policies of the government. This *bandh* was called by the Joint Action Committee of Trade Unions (JACTU), a loose coalition of independent unions, left-wing labour leaders, and various other social activists. The large mobilisation observed in this *bandha* was possible because the strike was organised around economic concerns by labour leaders who have battled fiercely over these demands. It is in this sense that we argue that the labour-management bargaining relations in Bombay is characterised by business unionism, despite its limited coverage.

Kolkata, but strong bi-partite bargaining led by rank-and-file workers is still exceptional, if not unique, in other parts of India.

The argument we developed in this chapter suggests that, together with employer's attitudes and workers' education, we must understand the emergence and dominance of 'independent' or employees' unionism by focusing on the wider social and historical context within which labour-management bargaining takes place. In particular, we have argued that the state's 'bureaucratic liberalist' approach to development management that emphasised the state's role in providing infrastructure and facilitating accumulation, rather than to directly intervene and manage productive activities, created space for bilateral collective bargaining and allowed 'independent' or employees' unionism to flourish. In the terminology defined in Chapter 2, we can characterise the collective bargaining in Mumbai as being predominantly driven by 'within-firm rents', that is, surplus generated from direct productive activities at the firm-level. However, our point was that this was a result of the emergence of a relatively stable political coalition of dominant castes and classes at the critical early phase of development, and not a product of policy 'choice' alone.

Let us next turn to labour-management relations in Kolkata. Labour unionism in Kolkata cannot be discussed without considering the nexus between the Communist Party of India (Marxist) or CPI(M) and its union federation the Centre of Indian Trade Unions (CITU). The CITU is an explicitly political organisation committed to the Marxist-Leninist ideology that views that unions must function under the directive and control of the radical political party and only then is it possible to overthrow the capitalist system. Although not all of unionists are party members of the CPI(M), many of them share the Marxist ideology, which is ensured by strategically locating party stewards in key offices in unions and through regular programmes of political education of industrial workers (Ramaswamy 1988: 175).

Until the mid 1970s, there was little contradiction between the ideological positions of the party and its labour wing. The CITU was committed to militant tactics including violence protest, agitation, and assaults on managers to force their demands, and this was defended and ideologically supported by the CPI (M). However once the CPI (M) was sworn in to power in 1977, this harmonious relationship between the party and unions started to change. We have already discussed the change in the strategy of CITU as declared in the 1980 State-level conference, in which strikes were deemed not to be 'essential' and instead to settle for modest wage gains but enhance employment. In order to diffuse labour disputes, "the government has played a major role in practically every important settlement since the late seventies" (Ramaswamy 1988: 191).

It is perhaps not surprising that some managers are satisfied with this nexus between the CPI(M) and the CITU, and prefer to deal with the CITU because they have the ability to impose settlements and control workers with minimum wage gains. This has to be understood within the particular context in which CPI(M) came to power. After the death of B. C. Roy and the disintegration of the Congress, West Bengal saw the emergence of the ultra left Naxalite movement. Labour relations were extremely violent to the extent that "the assault and murder of managers became an every day occurrence". In the early 1970s, some employers tried to swing the labour movement towards the Congress by providing higher wages and benefits in settlements with the INTUC, which did have an effect of eliminating radicalism. But the CPI(M)-CITU solution was a much better alternative for the employers not only to the extreme militancy of Naxalism but also to the bounty driven INTUC.

Having said that, the domination of the CITU is also considered problematic by many employers in the sense that, with everyday interventions into daily shop floor operations by unions and close monitoring by the state,

management has much less control over the work organisation. Particularly, the CITU has consistently resisted introduction of productivity-linked payments. This is understandable considering that the enhancement of employment and the spread of political support to the union (and the party) was the source of their bargaining power. However for the employers, the refusal to introduce incentive schemes and other work reorganisation implies inflexibility, and led to the acceleration of 'capital-flight' that already started in the 1960s, as discussed in Section 5.2.

TABLE 5-10 NUMBER OF UNITS AND MAN-DAYS INVOLVED IN LABOUR DISPUTE IN WEST BENGAL

	Strikes		Lockouts		Labour disputes (total)	
	Number of units	Man-days involved (in millions)	Number of units	Man-days involved (in millions)	Number of units	Man-days involved (in millions)
1973	204	2.6	158	3.4	362	6.0
1974	163	7.3	173	3.1	336	10.4
1975	111	10.8	166	2.8	277	13.6
1976	129	1.0	152	7.5	281	8.5
1977	206	1.1	191	7.8	397	8.9
1978	172	5.1	199	6.9	371	12.0
1979	146	15.5	144	2.9	290	18.4
1980	78	1.5	130	4.7	208	6.2
1981	43	0.6	117	9.9	160	10.5
1982	29	0.3	117	15.5	146	15.8
1983	32	1.0	139	15.1	171	16.1
1984						
1985	39	0.2	165	15.1	204	15.3
1986	29	0.3	178	13.3	207	13.6
1987	39	1.6	197	21.5	236	23.1
1988	34	3.3	212	28.5	246	31.8
1989	16	0.3	207	27.6	223	27.9
1990	16	0.3	179	20.7	195	21.0
1991	21	0.1	192	19.9	213	20.0
1992	29	9.3	214	20.3	243	29.6
1993	20	0.2	188	19.7	208	19.9
1994	12	0.1	121	12.7	133	12.8

Sources: Ramaswamy (1988: 178) and R. Sen (1996: 446).

Perhaps as a response to the inability to control labour at the shop floor level, management strategy became increasingly hostile. Tactics such as lockouts

and delays in signing settlements have become very common, especially in industries like jute. This can be confirmed from the overall statistics of labour disputes at the state level summarised in table 5-10, in which we can observe a general decline in the number of units involved in disputes as a whole, and more evidently a dramatic decline in the number of strikes after 1977, reflecting organised efforts to restrain labour militancy by the CITU. This is reflected in the change in the composition of labour disputes between strikes and lockouts. In the early 1970s, strikes accounted for more than 50 percent of total labour disputes in terms of the number of units involved in disputes and about 70 percent in relations to man-days involved. By the mid 1990s these proportions have declined to about 9 percent and 1 percent.

Against this backdrop, the reluctance of the CITU to take up direct action, together with slow wage and employment increases, have led to dissatisfaction with 'traditional' party-affiliated unionism amongst workers. In the jute industry, "a large number of small, ultra left and even unaffiliated unions have emerged" in the 1980s and 90s (Sen, 1992, p. 48). While there have been organisations such as NFITU which commit themselves to non-political unionism, unlike in Mumbai, these new forms of unionism have not come to dominate the labour scene in Kolkata. Paradoxically the decline of the credibility of the CPI(M) as a radical working class party, have contributed to the return of the INTUC by projecting a more radical image, but not to an extent to challenge the dominance of the CITU. However the CPI(M) government is increasingly finding it difficult to control their own affiliated unions at the grass-roots level, reflected in incidents such as the standoff between like the CITU-backed Great Easter Hotel union and the government over the privatisation of the hotel (Bhattacharjee 2001b: 451). In these disputes the CPI(M) government has tried to change the 'signal' by explicitly suggesting that the party will not support their unions. At one instance, it is reported that a CPI(M) minister stated that "in the name of trade unionism,

we have allowed many things. But enough is enough” (quoted in Bhattacharjee 1999: 27).

Although there has been some positive outcomes of the CPI(M) rule, such as securing stable wage increase and working conditions for unorganised and agricultural workers and achieving less extreme inequality amongst the working population, generally speaking the welfare of industrial labour has not improved, and this has led to the dissatisfaction of workers (Mallick 1993). This contradiction together with the general decline of Calcutta as an industrial centre has led some people to argue it as a case of “the failure of state controlled unionism” (Bhattacharjee *op cit.*:28).

Once again, the emergence and persistence of a highly politicised industrial relations regime in Kolkata, despite its problems, can be understood within the context of the ‘ad hoc’ development strategy that relies on central subsidies and direct state interventions, in the political condition in which the dominant political classes in West Bengal failed to incorporate the accumulating classes in the ruling coalitions. Instead the political stability of the CPI(M) rule has been based on the accommodation of middle and lower income groups in urban and rural areas. Therefore, politically created ‘outside-firm rents’ have dominated the collective bargaining, and the politically affiliated unionism in Kolkata reflects the macro political conditions, in which redistributive conflicts take a particular partisan form, and the broader patterns of accumulation in the region.

5.6 Synthesis and further hypotheses

This final section provides a synthesis of our arguments, not only in this present chapter, but also with discussions from the previous chapters in this thesis, particularly our observations from the typology of LMIs in Chapter 4. Let us first summarise the findings from our discussion in this chapter, which can be summarised in table 5-11 below.

TABLE 5-11 MACRO POLITICAL ECONOMY IN MAHARASHTRA AND WEST BENGAL

	Maharashtra (since the 1950s)	West Bengal (1977 to early 1990s)
Politically dominant caste/class	<i>Maratha (-kumbi)</i> caste	<i>Bhadralok</i>
Political alliance	'Elite' cluster of other castes, tribes and religion	Middle and lower income groups
Upper class/ caste hegemony	Strong	Weak
Political accommodation of the productive classes	Strong	Weak
Logic of political mobilisation	Caste/religion/language-based	Partisan
Labour legislation and regulatory framework	Broadly 'pro-employer' with 'legal' form of industrial relations	'Pro-labour' in rhetoric combined with direct state control over unionism
Development strategies	'Bureaucratic liberalist' state facilitating accumulation	Direct state intervention
Type of 'rents' for bargaining agents in LMIs	'Within-firm rents'	'Outside-firm rents'

We found that the so-called 'business trade unionism' in Mumbai can be explained by the collective bargaining predominantly focused on 'within-firm rents', which is reflected in the 'bureaucratic liberalist' accumulation strategy, characterised by 'legalistic' form of industrial relations and the general tendency for state resources to be directed to infrastructure provisions. Similarly, we described the 'state controlled unionism' in Kolkata as a reflection of collective bargaining dominated by 'outside-firm rents' generated as part of the state's 'ad hoc' interventionist strategy in sustaining accumulation and creating employment, while also maintaining its political legitimacy by accommodating a wide section of the society. We have argued that the critical difference in the patterns of accumulation mirrors the different types of redistributive coalitions in the two regions, which can be appreciated by analysing the balance of power of classes and social groups in

the early phases of industrialisation. Whereas in Maharashtra, the politically dominant *Maratha* castes were able to establish a relatively stable alliance with the 'elite' clusters of various castes and social groups, including productive classes, which then enabled stable class/caste hegemony, the politically dominant *Bhadralok* castes in West Bengal were unable to achieve such a coalition resulting in a clientelist accommodation of social groups with organisational power, particularly in the middle and lower income clusters.

The motivation of this chapter was to explain the differential types of LMIs in Mumbai and Kolkata identified in Chapter 4 within the wider context of the macro political economy of Maharashtra and West Bengal. Therefore, let us combine the findings from the discussion on the macro political economic contexts with our findings from the two dimensional mapping of LMIs obtained from our survey data, which we presented in figure 4-1 of our previous chapter.

In figure 4-1 we found that the types of LMIs can be broadly classified along two dimensions: the first being the extent of centralisation and state involvement in collective bargaining; and the second was the extent of political affiliation and involvement of external leaders in unionism. This is broadly consistent with our findings from Section 5.5 of this chapter in which these two factors were indeed two of the central issues in emergence, reproduction and transformation of differential types of bargaining relations and unionism in Maharashtra and West Bengal. For example, the 'traditional' state-patronage strategy to industrial relations led to emergence of LMIs characterised by centralised bargaining with tri-partite bargaining between the state, employer, and the party-affiliated unions, as we saw in the dominance of Congress-affiliated RMMS in the Mumbai textile industry and similarly the nexus of CPI(M)-CITU that dominates the industrial relations in Kolkata. The challenge to these state controlled industrial relations in many cases took the form of decentralisation of the bargaining structure as well as disclaiming

alliances with political parties, as seen in the 'independent' or employees' unionism in Mumbai.

Also at the end of Chapter 2, we hypothesised that the differential types of LMIs reflected the differential types of 'rents' available to bargaining agents in industrial relations. In particular, we argued that the typology of LMIs as mapped in figure 4-1 must be understood by focusing on the relative size of 'within' and 'outside-firm rents' available to bargaining agents. For example, we hypothesised that centralised LMIs with state involvement are likely to be found in sectors where the scope of achieving significant gains from increasing productivity to bargaining over company-based 'within-firm rents' is limited. In contrast, we hypothesised that in dynamic sectors and regions, there are likely to be stronger incentives for bargaining agents to organise LMIs to seek 'within-firm rents'. Similarly, we hypothesised in Chapter 2 that the party-based or external union leadership are more likely to be found when gains from 'outside-firm rents' either outweigh those of 'within-firm rents' or strengthen their bargaining power in redressing grievances or securing benefits.

From the context of the discussion in this chapter, the relative size of 'within' and 'outside-firm rents' are related to the location of bargaining agents within patron-client politics that dominate the redistributive conflicts at the macro political economy, and more broadly the particular patterns of accumulation. For example, we discussed that the macro political economic conditions in Maharashtra has been such that the dominant type of 'rents' took the form of 'within-firm rents', especially in the dynamic sector of the economy, as a backdrop to the state's bureaucratic and legalistic approach to development management and regulation, which was supported by the broadly 'pro-developmental' coalition of dominant social groups. Similarly, we suggested that industrial development based on subsidies (especially from the centre) and direct state interventions into production activities, combined with the need

of the ruling government to manage political stability by accommodating a wide section of the society, has meant that 'outside-firm rents' have dominated in West Bengal.

By bringing together these observations, we can provide further explanation on the determinants of LMIs in Mumbai and Kolkata as mapped in figure 4-1. First, the units in Kolkata jute manufacturing industry had similar types of LMIs, as reflected by their being positioned close to each other within a 'cluster' on the two dimensional mapping, characterised by the high degree of centralisation and politicisation. Similarly, the rest of the units based in Kolkata (with the exception of the banking unit) also were concentrated in another cluster, with the combination of decentralised bargaining and politicised unionism. The difference in the extent of centralisation between these two clusters reflects the relative size of 'within-firm rents' in these sectors. The jute industry has been characterised by low productivity and obsolete technology, which indicates limited scope for generating sufficient surplus at the point of production, and stronger incentives for bargaining agents to seek politically-created 'rents' by making the most of their links with political parties and their location with the redistributive coalition. In more 'modern' sectors where bargaining agents are more likely to extract gains by utilising their favourable product market conditions, bargaining agents are more likely to benefit from plant-level negotiation whereby the bargaining relations can be reorganised according to their local needs. However, the overall stagnation of economic growth in West Bengal may imply that the size of 'within-firm rents' are likely to be smaller compared to more industrially dynamic regions. More importantly, the Kolkata based units generally maintained politicised LMIs reflects the scope of 'outside-firm rents' in the region, based on the politically created resources from the state's reliance on subsidies and interventionist development management, combined with the accommodation strategy of the political classes which includes strong state control over unionism.

Second, from figure 4-1, the units based in Mumbai, both in the 'traditional' and 'modern' sectors, have shown greater diversity in the types of LMIs, especially in terms of their affiliation to political parties and involvement of external leaders, compared to their Kolkata counterparts. In the Mumbai cotton textile industry, while the 'traditional' industry-level settlements signed by party-based unions were maintained in the public sector mills, private sector mills have removed themselves from the industry-wise collective bargaining, with differential outcomes. In a small number of 'progressive' mills, which have modernised their production capacities and diversified into higher quality products, bargaining agents negotiate over their share of 'within-firm rents' at the point of production at mill-level. In 'backward' mills characterised by low levels of productivity, management's focus has shifted to diversifying the mill land to speculative interments in real estate and other leisure facilities, which reflects dynamic economic growth in the rest of the economy. Similarly in the 'modern' sector units, the dynamic but 'uneven' nature of industrial development has meant that the types of LMIs have been diverse reflecting the particular technological, economic, and social conditions. The general observation that can be extracted from these case studies is the greater scope for differential types of LMIs to emerge and be transformed in Mumbai, which reflects the space created for diverse forms of bargaining relations and unionism, and the backdrop of the dynamic yet 'contradictory' nature of capitalist development and the 'bureaucratic' and 'legalistic' state regulation in Maharashtra, based on the relatively stable and broadly 'pro-developmental' political coalition.

Our findings in this chapter have important implications for theoretical and policy debates on LMIs. In Chapter 2, we saw that much of the modern economic literature on LMIs has increasingly turned its attention to the determinants of LMIs, with two contrasting hypotheses found in the literature. The first was the explanation based on transaction costs and policy failures, both factors that can be attributed to individual preference and ideology, a

view most explicitly developed by Douglas North (1981; 1990; 1999). The second political economic approach explained the emergence of and changes in institutions by placing greater emphasis on social and political structure. In the context of the discussion in this chapter, the former approach would argue that industrial performance in Mumbai was better because it enjoyed professional company-based unions compared to unions organised at industry-level and affiliated to political parties in Kolkata. In contrast, the second approach would argue that the causality is at least in the opposite direction, with the dynamic region providing strong incentives for unions to organise to seek company-based 'rents' rather than political rents that are more attractive in less industrially dynamic regions. Although there are insights to be gained from the former agency-based approach, our contribution in this thesis has clearly emphasised the latter structuralist argument on the basis of our observation that to understand the reproduction and transformation of LMIs in India, a greater emphasis must be placed on the role of 'outside-firm rents' as exogenous constraints to micro-level choices.

Having discussed the macro political economic determinants of the types of LMIs, in Chapter 6 we shall next turn our attention to the ways in which these differential types of LMIs reflect how labour process are managed and controlled at the point of production. By doing so, we shall examine the implications of the reproduction and transformation of LMIs for the mode of managing and controlling the labour process.

APPENDIX TO CHAPTER 5

5A.1 Types of state amendment on the Industrial Disputes Act

Table 4A-1 lists the state amendments by the Maharashtra and West Bengal government on the Industrial Disputes Act 1947. As can be seen there are some amendments where our interpretation of the nature of amendments (and hence its categorisation) differs from that of Besley and Burgess (2002). This appendix aims to provide justification to our interpretation where this is the case.

5A.2 Maharashtra state amendments

1981 amendment on Chapter I, Section 2, Subsection (a), Clause (kkk)

This clause, inserted in the central Act in 1953 (Act No. 43, S. 2, w.e.f. 24-10-1953), defines “lay-off” as:

“lay-off” (with its grammatical variations and cognate expressions) means the failure, refusal or inability of an employer on account of shortage of coal, power or raw materials or the accumulation of stocks or the break-down of machinery to give employment to a workman whose name is borne on the muster-rolls of his industrial establishment and who has not been retrenched. (Srivastava 1985: 56)

The Maharashtra Act 22 of 1981, Section 2 (w.e.f. 1-7-1981) inserts the following after the words “the break-down of machinery”:

or on account of discontinuance or reduction of the supply of power to the industrial establishment for contravention of any provisions of the Bombay Electricity (Special Powers) Act 1946, or of any orders or directions issued thereunder” (Srivastava *op. cit.*: 61)

Besley and Bergess (2002) interpret this amendment as “pro-labour/anti-employer” because “[d]iscontinuance or reduction of power supply to an

industrial establishment can be used [as] a reason for lay-off (for which workers will receive compensation). Under the central act only shortage of coal, power or raw materials or the accumulation of stocks or the breakdown of machinery are listed as valid reasons for lay-offs”.

However, the amendment can be interpreted in a different way if we focus on the fact that under the central Act where the “discontinuation or reduction of power supply” is not explicitly mentioned as a valid reason for lay-off, if employers were to lay-off workers, they would need to obtain “prior permission of the appropriate Government or such authority as may be specified by that Government by notification” (IDA, Ch. V-B, S. 25-M). As Besley and Bergess (*op. cit.*) correctly points out the amendment entail that workers laid-off due to discontinuation or reduction of power would receive adequate compensations. But also the amendment implies that employers can lay-off workers on the ground of discontinuation or reduction of power *without* obtaining prior permission from the authorities. In this sense, Besley and Bergess’s interpretation that this amendment is “pro-labour/anti-employer” is questionable. We would rather argue that the amendment is in fact “anti-labour/pro-employer”.

Chapter V-A, Section 25-C

Section 25-C provides the “right of workmen laid off for compensation” as:

Whenever a workmen (other than a badli workman or a casual workman) whose name is borne on the muster rolls of an industrial establishment and who has completed not less than one year of continuous service under an employer is laid off, whether continuously or intermittently, he shall be paid by the employer for all days during which he is so laid off, except for such weekly holidays as may intervene, compensation which shall be equal to fifty per cent of the total of the basic wages and dearness allowance that would have been payable to him had he not been so laid-off:

Maharashtra state amendment inserts after this the following proviso:

[...] Provided that, where the lay-off is on account of discontinuance or reduction of the supply of power to the industrial establishment for contravention of any provisions of the Bombay Electricity (Special Powers) Act, 1946, or of any order of directions issued thereunder, the compensation payable to the workman shall be equal to hundred per cent of the total of the basic wages and dearness allowance that would have been payable to him had he not been so laid off.” (Srivastava *op cit.*: 679)

Besley and Bergess interpret this amendment as being “pro-labour” on the ground that if being laid off is due to electricity problems then the workers receive 100% of their wage as compared to the normal 50%. Besley and Bergess’s interpretation is correct and justifiable if we read the amendment on this clause independently. As a result of this amendment, the state of Maharashtra indeed imposes a higher compensation payable to the workers when the workers are laid off due to power shortages. On the other hand, the context under which this amendment is made must be noted. As we pointed out above, the backdrop of these amendments were incidents of disconnection and reduction of electricity without clear legal procedure in Maharashtra at the time. The State amendments were made because of the employers’ need to be able to lay-off workers without government authorisation. Therefore, while this amendment on Chapter V-A Section 5-C permits laid off workers due to power shortage to gain higher amount of compensation, once we interpret it in combination with the amendment on Chapter I, Section 2 (a), Clause (kkk), we notice that the true intention of this amendment is hardly “pro-labour”.

Chapter V-B, Section 25-K

Chapter V-B which lists special provisions relating to lay-off, retrenchment and closure in certain establishments, was inserted by Act 32 of 1976, S. 2 (w.e.f. 5-3-1976). In the central Act, sub-section (1) states that the provisions applies to establishment that are not of a seasonal character or where work is performed only intermittently, and have more than 300 workers¹⁵ employed

¹⁵ This was later substituted with 100 by central Act 46 of 1982, S. 12 (with effect from 21 August 1984).

on an average per working day for the proceeding 12 months. The Maharashtra amendment (Maharashtra Act No. III of 1982, Section 2) adds the following provision:

without prejudice to the provision of the sub-section (1), the appropriate Government may, from time to time, by notification in the official Gazette, apply the provisions of Section 25-O and Section 25-R in so far as it relates to contravention of sub-section (1) or (2) of Section 25-O, also to an industrial establishment (not being an establishment of a seasonal character or in which work is performed only intermittently) in which such number of workmen, which may be less than three hundred but not less than one hundred, as may be specified in the notification, were employed on an average per working day for the preceding twelve months.
(Srivastava *op. cit.*: 742-3)

Section 25-(O) relates to the procedure of closing down an undertaking and section 25-(R) refers to the penalty for closure.

Besley and Bergess interpret this amendment as being “pro-labour” because the Maharashtra state amendment amounts to extending the rules of lay-off, retrenchment and closure to establishments with employee greater than 100 but less than 300, whereas in the central Act the provisions applied only for establishments with more than 300 employees (at 1981. Later in 1982 the number was amended to 100 in the central Act as well; see footnote 13). However, we should also note the fact that is done according to the discretion of the state government. In this sense this amendment is less “pro-labour” compared to what was agreed as a central amendment only a year later. Also, we should note that this amendment implies stronger ability of the state government to influence the labour market.

1983 amendment on Chapter V-B, Section 25-O

This section, which states the process for closing down an undertaking, was initially enacted by the Amending Act 32 of 1976. However, it was deemed

*ultra vires*¹⁶ by the Supreme Court in *Excel Wear v. Union of India*, and later substituted by Section 14 of Act 46 of 1982. The contention was mainly around sub-section (2) and (5) of the original Act. Sub-section (2) defined the procedure for the Government to order grading or refusing permission to close down an establishment. It stated that on receipt of a notice by an employer who intends to close down an establishment, the appropriate Government can direct the employer not to close down “if it is satisfied that the reasons for the intended closure of the undertaking are not adequate and sufficient or such closure is prejudicial to the public interest”. In effect the old Section 25-O grants Government with a strong right to dispose of the application for permission to close down the establishment simply by passing an order. Sub-section (5) provides that if there is no application for permission or if the permission for closure has been refused, “the closure of the undertaking shall be deemed to be illegal from the date of closure and the workman shall be entitled to all the benefits under any law for the time being in force as if no notice had been given to him”. Note that once the order from the Government is given there is no procedure to review it, and any act to refuse it is deemed illegal (although there is no criminal liability in such a case). The old Act permits the Government to have the last say over the issue of closure.

The key incident that led to state-level amendments in various states and ultimately a central amendment in 1982 was the court case regarding the closure of Excel Wear in 1978. When employers and stakeholders of the company applied for permission to the State Government for closure alleging a list of reasons including labour trouble and recurring losses, the State Government refused permission on the ground that “the reasons are not adequate and sufficient” (although they accepted that the facts listed for the reasons were correct) and that “the intended closure is prejudicial to the public interest”. The case went to the Supreme Court challenging the

¹⁶ “beyond the scope” or “in excess of legal power or authority”.

constitutional validity of Sections 25-O and 25-R. The Supreme Court accepted the petition and held that “the provision of Section 25-O are “constitutionally bad and invalid” For the first reason that the reasons are not adequate and sufficient although they may be correct, the Supreme Court deemed such order “unreasonable” and that “[t]he authorities can refuse permission to close down whimsically and capriciously”. For the second reason that the intended closure was prejudicial to public interest, the Supreme Court argued that such reason “will be universal in all cases of closure”. Further it was declared that “[a] right to close down as business is not a right appurtenant to the ownership of the property but is an integral part of the right to carry on the business”.

Maharashtra was one of the States (along with Gujarat, Madhya Pradesh, Orissa and Rajasthan) which substituted the original Section 25-O with State amendments. Two amendments made under the Maharashtra Act No. III of 1982, S. 3 should be noted in particular.

First, the Maharashtra amendment lists additional requirements for the Government to satisfy before granting or refusing permission of closure. Two changes made to the original Section 25-O are of particular importance. The first was to state that the Government is required to give reasonable opportunity of being heard to the employer and the representatives of the workmen. The second was to make mandatory that the Government records in writing the reason for refusal to the employer and also to send a copy of the decision to the representatives of the workmen.

Second change made under the Maharashtra State amendment is on subsection (5) of the original Act. In the Maharashtra amendment the order by the Government is subject to employer’s appeal to the Industrial Tribunal (within 30 days from the date of the order), and any order made by the Industrial Tribunal in such appeal is final and binding. Similarly, when the permission is deemed to be granted, workers may appeal to the Industrial

Tribunal (again within 30 days from the date which the permission is deemed to be granted).

Both of these changes can be seen as curbing the one-sidedness of the original clause and limiting the area of manoeuvring by the State. The question is whether such amendment is likely to benefit the employer or the workers. Bensley and Burgess argue that the Maharashtra amendment is “pro-labour” on the ground that it adds an additional clause which states that “any employer or worker affected by the decision to close down an enterprise is permitted for 30 days from the date of permission to close being granted appeal to an Industrial Tribunal to overturn the decision”. However, since both employer and the workers have rights to contest government decision to permit or not permit the closure, it seems more appropriate to interpret that the effect of the amendment is equally “pro-employer” and “pro-labour”. Further, if we consider the context behind the amendment, we should argue that the amendment is delivered from “pro-employer” considerations.

Chapter V-B, Section 25-R

This section, which defines the penalty for closure, was inserted by Act No. 32 of 1976. The section, as it stood before 1982, when it was amended at the centre, provided penalty for breach of the pre-1982 Section 25-O. However because the old Section 25-O was declared *ultra vires*, part of Section 25-R was also deemed *ultra vires*. Hence, in the 5 states that made amendment on Section 25-O, consequential amendments to Section 25-R were made as well (as with the old Section 25-O, 25-R was also later amended by the central Act of 1982, Section 15). Hence the state amendment on 25-R must be considered in connection to the amendment on 25-O, which, as we discussed above, was led by “pro-employer” motives.

5A.3 West Bengal state amendments

1974 amendment on Chapter I, Section 2, Subsection (a), Clause (kkk)

We saw part of this clause in the 1981 Maharashtra State amendment. After the words defining “lay-off”, the clause (kkk) in the central Act further explains that:

Every workman whose name is borne on the muster rolls of the industrial establishment and who presents himself for work at the establishment at the time appointed for the purpose during normal working hours on any day and is not given employment by the employer within two hours of his so presenting himself shall be deemed to have been laid off for that day within the meaning of this clause [...] (Srivastava *op cit*: 56)

That is, in order for a worker to be considered laid-off within the central Act, the worker must (a) be on the muster rolls AND (b) present for work during normal working hours AND (c) not given employment within two hours. In the West Bengal 1974, this ‘explanation’ of lay-off is replaced by the following:

No workman whose name is borne on the muster rolls of the industrial establishment and who presents himself for work at the establishment at the time appointed for the purpose during normal working hours on any day and is given employment by the employer can be laid-off for that day but if any such workman is not given employment by the employer within two hours of his so presenting himself, he shall be deemed to have been laid off for that day within the meaning of this clause [...] (Srivastava *op cit*: 61. Emphasis by the author)

The West Bengal amendment on clause (kkk) appears to be restating the same

1980 amendment on Chapter IV, Section 12

Chapter IV, Section 12 of the Act defines the “duties of conciliation officers”. As part of the duties, S. 12 of the Act mentions two types of reports that must be submitted by the conciliation officer. The first is the so-called settlement report, which the conciliation officer send to the appropriate government if a settlement of the dispute is arrive at in the course of the

conciliation proceedings (sub-section 3); and the second is the so-called failure report, which the conciliation officer send if no settlement is arrived¹⁷ (Maalhotra 1985: 1015). Sub-section (6) sets the period of submission of these reports as follows:

A report under this section shall be submitted within fourteen days of the commencement of the conciliation proceedings or within such shorter period as may be fixed by the appropriate Government: Provided that subject to the approval of the conciliation officer, the time for the submission of the report may be extended by such period as may be agreed upon in writing by all the parties to the dispute [...] (Stivastava *op cit*: 550)

West Bengal Act No. LVII of 1980, Section 6 amends this sub-sections as follows. First it changes the time period in which the report must be submitted from “within fourteen days” to “after completion of the conciliation proceedings within sixty days”. Second, it inserts the words “not exceeding six months” after the words “the report may be extended by such period”, imposing a limit to which the submission of report may be delayed.

Besley and Burgess argue that this amendment is “pro-labour” because it extends the deadline of the report of the outcome of the conciliation proceedings from 14 days to 60 days. However, it is not clear why the extension of the deadline of the report may benefit the bargaining position of workers. A more straightforward implication of this amendment is that under the West Bengal law, third party conciliation has a greater role in resolving labour dispute and is done within a more rigorous and transparent procedure. This amendment seems to increase the State government’s influence over resolution of labour disputes, and in this sense, we would rather categorize this amendment as “pro-government”.

¹⁷ On a consideration of the failure report, if the government is “satisfied that there is a case for reference to a Board, Labour Court, Tribunal or National Tribunal, it may make such reference” (sub-section 5).

Chapter IV, Section 20

Section 20, subsection (1) of the central Act states that the conciliation proceeding must start on the day the notice of strike or lockout is received in all industries. West Bengal state amendment (W.B. Act No. LVII of 1980, Section 10) separates industries into two categories, “public utility service” and others, and specifies that, while conciliation must start on the day the notice of strike or lockout is received in the case of industries declared as former, in the case of industries not declared as such, the conciliation must take place only after the conciliation officer issues the notice for a joint conference. (Srivastava *op cit*: 635-6)

Besley and Burgess categorise this amendment as “pro-labour”. It is clear that at least some section of workers, namely those in the “public utility service”, may benefit from this amendment. More importantly, this amendment increases the role of third party conciliation in labour disputes, particularly in the so-called “public utility service”, and hence strengthens West Bengal state’s ability to influence industrial relations. Hence we categorise this amendment as “pro-government” as well as “pro-labour”.

Chapter IV, Section 11-A

Chapter IV of the Industrial Disputes Act, 1947 defines the “Procedure, Powers and Duties of Authorities” and Section 11-A, inserted by Act No.45 of 1971, S. 3 (w.e.f. 15-12-1971), defines the “Power of Labour Courts, Tribunals and National Tribunals to give appropriate relief in case of discharge or dismissal of workmen”, which states that industrial disputes related to discharge or dismissal must be referred to the Labour Court, Tribunal or National Tribunals; and if the Court or the Tribunal find that the case for discharge or dismissal is not justified, it can set aside the order of discharge or dismissal and direct reinstatement of the workman.

The West Bengal amendment (W.B. Act No. LVII of 1980, Section 5) inserts the following section after Section 11-A of the principal Act:

11-B. Power of a Labour Court or Tribunal to execute its award by decree, etc. – A Labour Court or a Tribunal shall have the power of a civil court to execute its own award as a decree of a civil court and also to execute any settlement as defined in clause (p) or Section 2 as a decree. [...] (Srivastava *op cit*: 549)

This amendment empowers Labour Courts and Tribunals so that it can have the same power as the civil court to execute its award or settlement as a decree of a civil court. What is the implication of this amendment to the relative bargaining relations of labour and management? Besley and Burgess (2002) categorise this as an anti-labour/pro-employer amendment. While it is true that there may be cases where Labour Courts and Industrial Tribunals favour unions or labour, the reverse is also possible. As discussed in Section 5.5 there are evidence to suggest that employers use litigation as a tool for delaying settlements or provide legal justification to their strategies. In this sense, the implication of this amendment is likely to depend on the interests of the state, and therefore we interpret this amendment as “pro-government”.

TABLE 5A-1 CLASSIFICATION OF STATE AMENDMENTS TO IDA
IN MAHARASHTRA AND WEST BENGAL

(a) Maharashtra state amendments

Year of amendment	Section/ clause in the IDA	B&B (2002)'s category	Author's category
1974	7	Neutral	Neutral
1974	7A	Neutral	Neutral
1981	2	Pro-labour	Pro-employer
1981	25C	Pro-labour	Pro-employer ¹
1981	25K	Pro-labour	Pro-government/ pro-labour
1983	25O	Pro-labour	Pro-employer
1983	25R	Neutral	Pro-employer ²

(b) West Bengal state amendments

Year of amendment	Section/ clause in the IDA	B&B (2002)'s category	Author's category
1958	7A	Neutral	Neutral
1959	7C	Neutral	Neutral
1974	2	Pro-labour	No change
1980	2	Pro-labour	Pro-labour
1980	2	Pro-labour	Pro-labour
1980	12	Pro-labour	Pro-government
1980	20	Pro-labour	Pro-labour/ pro-government
1980	11A-11D	Pro-employer	Pro-government
1980	17A	Pro-labour	Pro-labour
1980	25C	Pro-labour	Pro-labour
1980	25E	Pro-labour	Pro-labour
1980	25FFF	Pro-labour	Pro-labour
1980	25H	Pro-labour	Pro-labour
1980	25HH	Pro-labour	Pro-labour
1980	25K	Pro-labour	Pro-labour
1980	25M	Pro-labour	Pro-labour
1980	33C	Pro-labour	Pro-labour
1980	9A	Pro-labour	Pro-labour
1981	19	Neutral	Neutral
1986	15	Pro-labour	Pro-labour
1989	7	Neutral	Neutral
1989	10	Pro-labour	Pro-labour
1989	38	Neutral	Neutral
1989	25O	Pro-labour	Pro-labour
1989	25P	Neutral	Neutral
1989	2A	Pro-labour	Pro-labour
1990	7A	Neutral	Neutral

Note: B&B stands for Besley, Timothy and Robin Burgess. ¹ Maharashtra state amendment on 25C is 'pro-labour' in nature if considered on its own. However, here we are considering it in connection to the amendment on 25.

LABOUR MARKET INSTITUTIONS, BARGAINING AGENTS AND
THE MODE OF MANAGING THE LABOUR PROCESS

6.1 Introduction

This final chapter of the thesis brings together the discussion in the previous chapters to provide alternative analysis of labour market reform properties. In Chapter 1 of this thesis, we proposed that labour market institutions (LMIs) in India can be better understood as a systematic consequence of how the society organises the process of accumulation, and how the labour process is managed and controlled. Following this hypothesis, in Chapters 4 and 5, we explained the typology of LMIs as reflections of the balance of power at the macro-level, which in turn is constituent to the particular patterns of accumulation in the region, using observations from our field research in Mumbai and Kolkata. An important implication of our hypothesis is that LMIs are ‘endogenous’ to the process of accumulation and therefore a broader set of reforms are required for sustaining growth.

To develop our discussion on alternative policy priorities for India’s LMIs, we must first return to the methodological issue we have been highlighting throughout this thesis. Recall that our hypothesis was presented as an intervention both in the on-going policy debates on labour market reforms in India and the wider theoretical debates on LMIs, whereby in both sets of literature, the tendency has been to implicitly assume that LMIs precede growth and misleadingly treat them as ‘exogenous variables’ that are *chosen* by micro-level agency, as we argued in Chapter 2. In particular some mainstream theories that inform policy, such as Banerji, Campos, and Sabot (1995) and Aidt and Tzannatos (2002), have focused on transaction costs and policy

failures as the main determinants of LMIs, in which individual cognitive beliefs and ideologies play important roles. Therefore, in Section 6.2 we analyse the mode of unionism and union leadership to examine whether there is significant difference in the perceptions, strategies and behaviour of union leaders under different types of LMIs. Our analysis of trade union leaders reveals a vast diversity in their self-perceptions and behaviour patterns, but which appears not to be strongly associated with the types of LMIs. This of course does not mean that 'choices' of individual bargaining agents do not have implications for LMIs. In reality, the relationship is a dialectical one, since political economic structure is not a metaphysical entity that directly creates trade unions and labour laws. LMIs are organised by bargaining agents in response to the opportunities, incentives and constraints determined by the historically specific way in which industrial development proceeded. It is in this sense that we have argued that the types of LMIs are explained in terms of the wider economic, social and political context in which labour-management bargaining takes place.

Section 6.3 of this chapter thus takes our analysis further to examine the implications of different types of LMIs for the way in which the labour process is controlled and managed. The idea that LMIs such as trade unions and labour legislation act as 'mediator' of capital and labour to impose discipline and facilitate productivity growth is of course not new. In Chapter 2, we saw modern economic theories such as the collective voice (Freeman and Medoff 1984) and the neo-corporatist models (Calmfors and Driffill 1988) which describe LMIs as arbitrator of information and transaction costs with potential efficiency-enhancing effects. In Marxist political economy, the idea that trade union is not an agent to overthrow capitalism but rather has interest in sustaining it has been developed, as expressed in Lenin's (1970: 80) critique that "the spontaneous working class movement is trade-unionism, [...] and trade unionism means the ideological enslavement of the workers by the bourgeoisie".

It is however our argument that the role of LMIs as ‘mediator’ of the labour process carries particular importance in developing countries such as India, where industrial capital and organised labour are not dominant both numerically and politically, and that this aspect of LMIs is not sufficiently analysed in the mainstream models. Therefore in Section 6.3 we shall analyse the mode of controlling and managing the labour process in the surveyed units from our field work in Mumbai and Kolkata under different types of LMIs. We point out that the decision making over issues of labour management vary, from on the one hand, Kolkata’s ‘traditional’ sector, where multiple trade unions together with a wide range of social actors are involved in the day-to-day decision of hiring, firing, job allocation and promotion, to on the other hand, Mumbai’s ‘modern’ sector, where the union involvement in such decision making is limited. Similarly, we shall analyse the pay-scale agreed in collective bargaining settlements as an indication for the earning distribution and the type of mobilisation strategies for surplus appropriation by bargaining agents. Once again, the pattern of pay schedule vary from a ‘flat’ pay-scale that homogenise earnings across the sector in the ‘traditional’ sector on the one hand, to the steep pay structure in the ‘modern’ sector units that differentiates earnings according to seniority and performance. Also we find significant diversity in the mode of managing the pay structure amongst the ‘modern’ sector units. Our hypothesis is that the different mode of managing the labour process reflects factors such as the work organisation, technological and market conditions, but is also in part explained by the bargaining power of other actors in the wider social context in which labour-management bargaining takes place.

This final point is particularly important when we consider how the types of LMIs change or do not change over time. In Section 6.4 we examine several case studies from our field research that lead us to hypothesise that the transformation of LMIs is associated with changes in the firm’s earning structure and work organisation. However, the trajectory and process of

institutional transformation is neither linear nor smooth, and are shown to be significantly affected by the bargaining powers of other actors in the wider social context in which labour-management bargaining takes place. We therefore argue that the reproduction and transformation of LMIs are ‘endogenous’ variables that reflect the balance of power and the particular patterns of accumulation at the macro political economy. We conclude the thesis by proposing the need for alternative labour market reform priorities.

6.2 Determinants of LMIs revisited: the role of agency

6.2.1 Methodological individualistic interpretation of LMIs

In Chapter 4 we used our fieldwork data to illustrate the diversity in LMIs amongst the surveyed units in Mumbai (Bombay) and Kolkata (Calcutta), from the ‘state-controlled’ industrial relations in Kolkata jute industry to the ‘business unionism’ of Mumbai ‘modern’ sector. In particular we found significant difference in the type of LMIs in the two cities, even in industries with comparable technological conditions. For example in Mumbai’s cotton textile industry, which has similar historical origins and technological characteristics to Kolkata’s jute industry, we found that the type of unionism was more diverse reflecting local conditions. The observations led us to focus on the opportunities, incentives and constraints for bargaining agents determined by technological and market conditions as well as the location of bargaining agents in the changing patron-client politics in the region.

Our argument contrasts to that of the popular perception in India which focuses on the difference in culture. For example, when the Kolkata high court restricted public rallies and processions on weekdays in October 2003, the mainstream media generally welcomed the order on the ground that it could help change the “Bengal’s work culture” (Mehta and Nanda 2003)¹. The popular image of Bengal’s work culture is that Bengalis like to complain, as

¹ “True to Calcuttan form,” the ruling was immediately met with marches organised by the Left Front activists (Reeves 2003).

the Mumbai-born journalist Vir Sanghvi (2003) wrote: “When I moved to Calcutta in 1986, I was briefed by long-term non-Bengali residents of the city. One Bengali, they said, was a chronic complainer. Two Bengalis were a trade union. And three Bengalis were two trade unions.”² This perception extends to an argument that politicians flourish by appealing to this “moan and groan” culture, and that this is reflected in the way trade union operates. Trade unionism in Kolkata is perceived to be used as machine to mobilise support for political parties, rather than constructively dealing with issues workers face at plant level. Public rallies (or *morchas*, *dharnas*, etc.), it is argued, are organised in order to cause disruption. Tactics like single file demonstration, where demonstrators would march in a single file with large gaps in between them to maximise disruption to traffic, are typically cited as reflection of the trade unionism in Kolkata, in contrast to the apparently more ‘responsible’ “business unionism” of Mumbai.

The focus on culture and tradition in the popular image of LMIs coincides with the mainstream economic theories inspired by the new institutional economics (NIE) which treats LMIs as ‘exogenous’ variables. For example, in Chapter 1 we reviewed Banerji, Campos and Sabot’s (1995) argument that the disparity in the economic performance between East and South Asia can be explained by the different types of unions in the two regions, which in turn reflected contrasting attitude of agency. They suggest that persistence of ‘distributional’ mode of labour market regulation in India is explained by informational and transaction costs as well as policy failure. On the one hand, the ‘elites’ in India were supposedly committed to state-led development due to their ‘intellectual heritage’ of Nehruvian ideology, while on the other hand, the leftist ideological stance of the organised labour had led them to belief that market forces would erode their gains (p.22-4). We pointed out that the NIE-inspired models ultimately lead to the hypothesis that focuses on

² Symbolically this editorial for the national newspaper *Hindustan Times* was subsequently reprinted in *BJP Today*, Vol. 12 No.21 (Nov 1-15 2003).

perceptions and belief as the key explanatory factors for the persistence of inefficient institutions³. In this section we critically examine the perceptions and behavioural patterns of union leaders as assumed determinants of LMIs.

6.2.2 Unionists' self perception on leadership

As part of the structured interview with union leaders, we presented them with a list of 20 different attributes of trade union leadership, and asked them to score their own capability or skills for each of the attributes⁴. The 20 attributes selected are listed in table 6-1. The structure and the variables of this questionnaire was based on Jaspal Singh's (1980) sociological study on the 'quality of leadership' in trade unions in Punjab; although we have added two extra attributes "Connections with politicians and state officials" and "Negotiation with managers" in order to incorporate our research interest on the union leaders' interaction with different types of bargaining agents. However, our interpretation of the data collected from this questionnaire differs from Singh's approach in that we are not using this as a measure the quality or the nature of union leadership. As discussed in Chapter 3, our interpretation is that the resulting scores obtained from this data collection help us understand their self-perceptions about what kind of leaders they are, or the way the unionists themselves want outsiders to perceive them.

³ This is of course a somewhat crude simplification of the methodological approach of mainstream models. In reality, many authors make reference to the historical and social contexts, but our critique is that the methodological tools such as the game theory (used for example by Banaji, Campos and Sabot) imply the underlying assumption that structures must be ultimately explained by individual agency.

⁴ It is commonly know that asking question about perception is difficult because it can lead to non-sampling error if the interviewer does not follow appropriate probing techniques. In addition to this, question involving ranking with large rank order, in this case order of 20, can be difficult compared to, say, rating scales Converse and Presser (1986: 27-29). For example, it is known that ranking can suffer from the primacy/ recency effect in impression formation; whereby the order of items can heavily influence the way respondents rank them. At the same time, ranking can provide meaningful values to study if the respondents are given a "show card", sufficient time to understand the logical contrast between the items, and appropriate amount of probing is applied. For more discussion on the possibility of non-sampling error, see Chapter 3.

As an ‘exploratory’ statistical method to examine the underlying patterns in our ‘self-perception’ scores, we have used the factor analysis. As discussed in Chapter 3, factor analysis is a mathematical tool to simplify the correlation between multiple variables into a few underlying factors. The details of the extraction procedure are explained in the Appendix of this chapter. The extracted factors are summarised in the rotated component matrix in table 6-1. Our task here is to identify what each of the extracted component represents. Since factors or principal components are derived directly from the correlation matrix, in theory the maximum number of components that can be extracted is the same as the number of variables in the original matrix (in this case 20). In practice, however, the first component explains more variance than the other components, and as we keep on extracting, the last few components will account for very little of the variance (i.e. they have small loadings). A common way to decide when to stop extracting is to choose components that contain at least an eigenvalue of 1. As shown in the Appendix 6A.1, in our example, there are 5 components that satisfy this ‘rule of thumb’. However, in addition to the statistical criteria of which component to use, it is also important to make sure that the component extracted can be interpreted in a meaningful way and does make sense in light of social science theories. In our example, it is difficult to meaningfully interpret the fifth component and therefore it is excluded from subsequent analysis despite having an eigenvalue greater than 1, as we discuss below.

The first component is most highly correlated with the “connections with politicians, political party or state officials”, the “connections with other trade union leaders”, and the “connections with members of the union”, and modestly correlated with the “dedication to the cause” and “organise agitation and demonstration”. All five of these variables are representative, because they have weak correlation with other 4 components. From the variables closely associated with this first component, we may interpret that the first

component captures the collection of characteristics of Indian trade union leaders as ‘political organisers’ or ‘agitators’.

TABLE 6-1 ROTATED COMPONENT MATRIX

	FC1 Political organiser/ agitator	FC2 Technocratic leader	FC3 Orator/ pleader	FC4 Articulate leader	FC5
Ability to control	0.355	0.740	-0.154	0.072	-0.009
Make decisions	0.181	0.880	0.069	-0.238	0.089
Make speeches	-0.033	-0.075	0.362	0.133	0.791
Negotiate with managers	0.517	0.454	0.349	-0.070	0.232
Organise agitations and demonstrations	0.678	0.141	0.446	-0.043	-0.154
Take initiatives	0.066	0.667	0.363	-0.323	0.183
Communication skill	0.316	0.177	0.713	-0.296	0.061
Connection with other trade union leaders	0.710	-0.028	0.447	0.171	0.071
Connections with members of the union	0.706	0.236	0.048	0.014	0.193
Connections with politicians, political party or state officials	0.820	0.137	0.239	0.001	-0.109
Dedication to the cause	0.682	0.347	-0.041	-0.004	0.121
Honesty	0.623	0.313	0.009	-0.336	0.159
Education	-0.202	-0.166	0.077	0.767	0.169
Intelligence	0.133	-0.028	-0.034	0.886	0.045
Leadership skill	0.451	0.313	-0.216	0.129	0.715
Persistence	0.270	0.827	0.160	-0.049	0.154
Persuasiveness	0.456	0.528	0.271	-0.145	0.145
Resourcefulness	0.128	0.833	0.052	0.013	-0.210
Self confidence	0.562	0.397	0.015	-0.339	0.047
Skill in court work	0.125	0.082	0.757	0.197	0.115

Note: (1) Extraction Method: Principal Component Analysis.

(2) Rotation Method: Varimax with Kaiser Normalization Rotation converged in 10 iterations.

(3) Cumulative variance explained by the 5 extracted components: 71.338%.

The second component is most highly correlated with the “ability to make decisions”, “resourcefulness”, “persistence” and the “ability to control”. Again, all four variables have very weak correlations with the other 4 components, and hence can be taken to represent the characteristics of the component. From the four variables correlated with the second component, we may interpret this second component to reflect the focus on the ‘technocratic’ aspects of leadership qualities.

The third component is most highly correlated with the “skill in court work” and “communication skills”, both of which are not correlated with other components. Because both of these variables are related to the ability to communicate arguments to the court or in general, we interpret this component to represent emphasis on aspects of union leadership as an ‘orator’. This component corresponds (negatively) to the leadership quality labelled as “*Vakil* (pleader)” in Singh (1980: 92).

The fourth component is most highly correlated with “intelligence” and “education”, and therefore we can interpret this component to highlight the aspect of being an “articulate leader”.

The fifth component is most highly correlated with “making speeches” and “leadership skill”. However, note that these two variables that are highly correlated with this component also have some correlation with other extracted components. “Leadership skill” is modestly correlated with component 1 (political mobilisation) and 2 (autocratic leader). “Making speeches” also has a weak positive correlation with component 3 (orator). Moreover, the two variables with which the fifth extracted component is correlated reflect general ‘qualities’ of trade union leaders, making it difficult to attach any specific label. Hence we will ignore this fifth component and proceed with our analysis on the basis of the four extracted components interpreted above.

The five factors or components extracted from our survey data reflect diverse and multidimensional characteristics of union leaderships in Indian industry. Interestingly our extracted factors do not necessarily correspond to those obtained from Singh’s study of trade union leaders in Punjab in the late 1960s on which our questionnaire was based. In Singh’s analysis, three factors were extracted, which he interpreted as three styles of union leadership: “*Sarpanch* (village leader)” which has high correlation with “honesty”, “self-confidence”, “persistence”, “intelligence”, “dedication” and “resourcefulness”; “*Jatbedar*

(agitator)” with high correlation with “making speeches” and “negotiations”; and finally “*Vakil* (pleader)” with *negative* association with “correspondence” and “court work”. Since we modified the wording and enlarged the list of leadership ‘qualities’ with several additional attributes, and also since the data analytical procedure in Singh’s factor analysis is not explained in his book, we cannot directly compare our results. The first “*Sarpanch*” factor, which Singh interprets to capture a broad-ranging leadership quality of Indian trade unionists, overlaps to some degree with our first ‘political organiser’ or ‘agitator’ component, but our additional attribute “connections with politicians, political party or state officials” dominates the variation in the correlation matrix. As we noted already, the third “*Vakil* (pleader)” factor is *negatively* correlated with the same variables (but with slightly modified wording) that was correlated with our ‘orator’ component, indicating similarity between the two dimensions. Interestingly, Singh comments that this third factor represents “a case of pseudo-leadership, i.e. persons holding offices in trade unions without being the real leaders”, and portray them as “bureaucratic qualities” (p.93).

Following from the analysis in Chapter 4, we are interested in examining the relationships between the principle components that characterise union leadership perceptions and the dimensions that represent the typology of LMIs. Table 6-2 presents the bivariate correlations amongst the two dimensions we obtained from multidimensional scaling (MDS) of the typology of LMIs in Chapter 4 and the four factors representing the (perceptions on) leadership types. Since factors are extracted in such a way that they are uncorrelated amongst them (see Appendix), not surprisingly they have a correlation coefficient of zero, and similarly the two MDS dimensions are uncorrelated. Therefore we are only interested in the 8 cells which are not shaded in grey. We find a moderate positive correlation between the first ‘political organiser/ agitator’ component and the second MDS dimension that represents the extent of politicisation and externalisation of union leadership.

However all other bivariate correlations are very weak, and are not statistical significant.

TABLE 6-2 CORRELATION MATRIX OF DIMENSIONS FROM THE MDS AND FACTOR ANALYSIS

	MDS dim1	MDS dim2	FC1	FC2	FC3	FC4
MDS dim1 Centralisation of bargaining	1.000					
MDS dim2 Externalisation of unionism	-0.032	1.000				
FC1 Political organiser/ agitator	0.056	.344*	1.000			
FC2 Technocratic leader	0.109	0.064	0.000	1.000		
FC3 Orator/ pleader	0.153	-0.036	0.000	0.000	1.000	
FC4 Articulate leader	-0.221	-0.005	0.000	0.000	0.000	1.000

Note: Figures are Pearson's correlation coefficient.

* indicates that the correlation is significant at the 0.05 level (two-tailed).

TABLE 6-3 MEAN AND STANDARD DEVIATION COMPONENT SCORES BY REGIONAL AND SECTORAL CATEGORIES

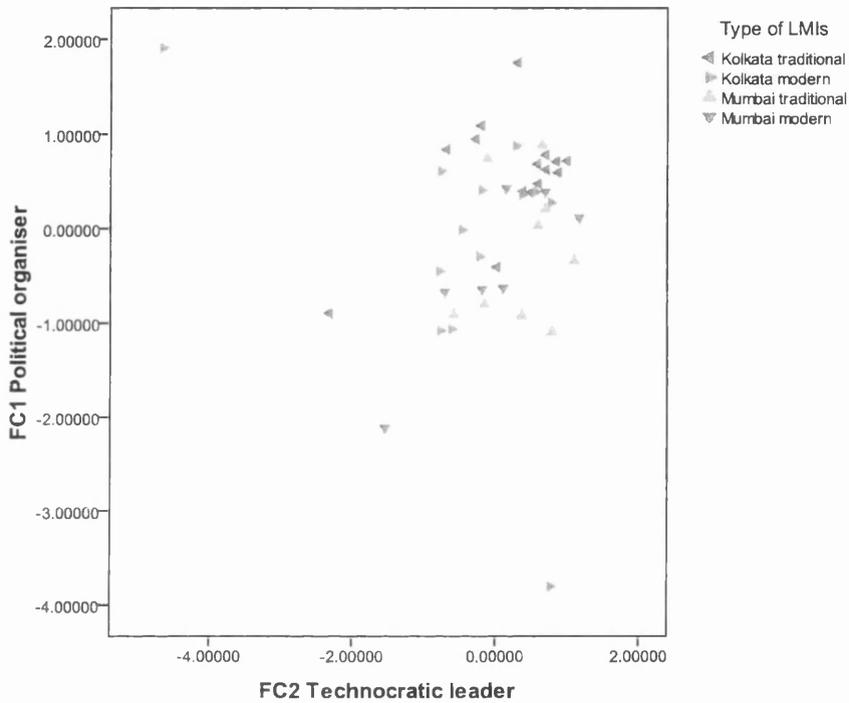
	FC1 Political organiser/ agitator		FC2 Technocratic leader		FC3 Orator/ pleader		FC4 Articulate leader	
	Mean	S.d.	Mean	S.d.	Mean	S.d.	Mean	S.d.
Kolkata traditional	0.582	0.608	0.200	0.845	0.288	1.168	-0.431	0.970
Kolkata modern	-0.143	1.358	-0.439	1.397	-0.354	1.122	0.429	0.421
Mumbai traditional	-0.343	0.707	0.276	0.531	-0.076	0.818	-0.048	1.501
Mumbai modern	-0.443	0.885	-0.047	0.893	0.160	0.410	0.202	0.529

Note: The number of observation is 46 (respondents from 18 units)

Similarly, in table 6-3 we have compared the component scores according to the four regional and sectoral categories we discussed in Chapter 4. Once again, it is difficult to find a clear association between our regional/sectoral categories and the extracted factors. If we simply examine the mean scores, union leaders in the Kolkata 'traditional' sector perceive themselves as 'political organisers' or 'agitators' rather than as 'articulate leaders'. This is contrasted with leaders in Mumbai who seem to have the opposite characteristics. On this basis, it could be suggested that our findings are consistent with the 'stylised images' about Mumbai and Kolkata unionism we

described earlier. However, it is important to note that the standard deviation (s.d.) scores are generally high, in almost all cases exceeding its mean scores. This implies that the leadership perceptions are diverse and cannot be attributed to the regional and sectoral characteristics alone.

FIGURE 6-1 SCATTER PLOT OF LEADERSHIP PERCEPTION SCORES



This observation is confirmed from the scatter plot of perception scores along the first two components. In figure 6-1, which plots the union leaders' perception scores with the 'political organiser' component on the vertical axis and the 'technocratic leader' component on the horizontal axis, we cannot find clear 'clusters' of leadership characteristics, apart from the tendency of leaders in Kolkata 'traditional' sector to have a higher score along the vertical 'political organiser' axis. In fact, a closer inspection of the data reveals that leaders in the same unit, or even the same union, may have very different perception about their leadership style. This suggests that the leadership

perception may depend significantly on the individual characteristics of leaders.

These findings suggest that the correlation between union leaders' self-perceptions and the type of LMIs is at best weak, and therefore we have to look for alternative explanations of why types of LMIs and bargaining outcomes differ across regions and sectors. Moreover, the weak relationship that is observed between self-perceptions of union leaders and institutions could just as well be interpreted with the reverse causality: that unionists' attitudes are dependent/ endogenous variables that are primarily determined by the nature of bargaining opportunities at the firm and extra-firm level.

6.2.3 Union activities

The type of union leadership can also be examined by looking at the activities of union leaders. It is of particular interest to examine with whom union leaders interact, communicate, and negotiate the most, given the stylised image of politicized unionism motivated by party agenda in India. Of course just because union leaders spend more time with state officials rather than plant-level management, it does not necessarily mean that political linkages have more weight in the bargaining process, nor does it indicate that these leaders represent a more politicised unionism. Nonetheless this dimension of differences in union practices gives us further information on union strategies that need to be taken into account

Table 6-4 shows the distribution of hours spent per week by union leaders on trade union work categorised by sector and region, following our typology of LMIs in Chapter 4. If as the NIE-inspired models postulate, the type of unionism is a strong explanatory variable that determines bargaining relations, we can expect to observe significant differences in the nature of union activities between the 4 categories. From the table, we immediately observe that there is a wide diversity in the amount of time union leaders devote to trade union activities as opposed to other activities, and as a result it is

difficult to claim that there is a systematic difference in activities of unionists in different sectors and regions. Statistical tests confirm that there is no clear pattern between the hours spent on union activities and the region or sector in which the union leader is operating (χ^2 test does not reject the null hypothesis of no association).

TABLE 6-4 UNION ACTIVITIES (HOURS PER WEEK) BY REGION/SECTOR

		Less than 5	5 < 15	15 < 20	20 < 30	30 < 50	50 <	Total	Mean	S.d.
Kolkata	Traditional	1	9	2	3	2	0	17	13.647	8.609
	Modern	4	5	0	3	0	1	13	15.891	21.875
Mumbai	Traditional	3	1	2	0	1	1	8	20.250	22.154
	Modern	0	0	2	1	1	2	6	40.000	25.675
Total		8	15	6	7	4	4	44		

Note: Pearson's chi-square test was computed as $\chi^2 = 23.624 < \chi_{0.05}^2(15)$, failing to reject the null hypothesis that the variables are statistically independent.

Source Author's fieldwork

In general, we observe that unionists in Mumbai tend to spend more time in union activities compared to those in Kolkata, regardless of whether they are located in the 'modern' or 'traditional' sectors. In Chapter 4, we argued that the type of LMIs in Mumbai was characterised by more decentralised bargaining relations compared to those in Kolkata. Especially in Mumbai's 'modern' sector, where collective bargaining takes place exclusively at the plant-level, bargaining issues are more localised and therefore local union organisers carry a heavier task load in dealing with them. In addition, many of the unionists represents 'employees' unions', as discussed in Chapter 5, which are characterised by limited involvement of external agency, the implication of which may be that local union leaders must work harder to force employers to negotiate with them. In Section 5.3.3 of the same chapter, we also highlighted the importance of court work in union activities in Mumbai, as reflected in the highest number of labour courts and industrial tribunals in Maharashtra. Bilateralism in Mumbai was always a contested terrain, which unions forced companies to accept through litigation, while employers have

also used courts and tribunals to give legality to their practices and objectives. In contrast, we have seen in Chapter 5 that unions in Kolkata, especially those in the jute industry, are seen to lend its existence around disputes and conflicts by mobilising workers for strike and political rallies. However, once again we must note the variation within the regions and sectors as reflected in the high standard deviation (s.d.). Our observation indicates that the regional difference is important in explaining the patterns of unionists' activities, although due to the degree of variation within regions, it is difficult to generalise with great confidence.

TABLE 6-5(A). AGENTS WITH WHOM UNIONISTS SPEND THEIR TIME (1ST CHOICE)

		Members	Top managers	Middle managers	State officials/court	Other leaders	Total
Calcutta	Traditional	10			2	1	13
	Modern	10	2	1			13
Bombay	Traditional	5		1		1	7
	Modern	3	1			1	5
Total		28	3	2	2	3	38

TABLE 6-5(B). (2ND CHOICE)

		Members	Top managers	Middle managers	State officials/ court	Other leaders	Total
Calcutta	Traditional	2	1	2	2	3	10
	Modern	2	1	2	3	1	9
Bombay	Traditional		1	3	1		5
	Modern	1	1		2	1	5
Total		5	4	7	7	5	28

Note: figures are rank in order of length of time union leaders spent time with.
Source: Author's fieldwork

Let us next consider the nature of unionists' activities. As part of the structured interview, union leaders were asked who they engage with on a regular basis in the course of their work and activities, and were asked to select from and rank the agency: members of the union; top-level management; middle management; state officials and court; leaders of other unions. The summary of the unionists' first and second choice is presented in table 6-5 against the region and sector in which they are located. We observe that the majority of unionists, regardless of the region and industry, spend

most of their time with the members of their union. If we focus on the agents that came second in the ranking, we see that there is no clear difference we can highlight. Apart from the fact that the majority of unionists prioritised meeting their own union members, we cannot find any particular pattern in the nature of unionists' activity by difference in region and sector.

The statistical analysis of union leaders' self perception and activities show a weak relationship between the type of unionism or union leadership and the different types of LMIs we find across sectors and regions. We argue that this relationship is generally too weak to support the assumptions implicit in some mainstream economic models that assume that types of LMIs and their bargaining outcomes can be attributed to individual perceptions and behavioural patterns of bargaining agents. Instead, our interpretation is that behavioural variables are easier to interpret if we see them as an outcome of a particular bargaining process.

Our observations in this section should not of course be interpreted as an indication that individual bargaining agents are not important in determining types of LMIs. It merely shows that the extreme version of methodological individualistic approach, which suggests that LMIs must be explained exclusively in terms of the perceptions and behaviours of individuals, is unlikely to be useful as explanation for the types of LMIs in Indian industry. Incidentally, our evidence also implies that the other extreme of the 'functionalist' interpretation of political economic/ structuralist approach, which postulates that individual behaviours must be explained by structures, is equally unconvincing, given the diverse patterns of unionists' perceptions and behaviours within regions and sectors.

Indeed, the history of India's trade unionism is a tale full of charismatic leaders, from the Girni Kamgar Union (GKU) in the 1920s that bred nationalist leaders such as N. M. Joshi and S. A. Dange, to Geroge Fernandes's socialist Bombay Labour Union, Datta Samant's Mumbai Girni

Kamgar Union (MGKU), and recently the cross-party Joint Action Committee of Trade Unions (JACTU) led by many prominent unionists today. There is no question that their ideology, strategy and leadership helped shape the different types of unionism and bargaining relations we observe across India, but it is our analysis that these are also formed in response to the particular political and economic processes, and not necessarily by their *ex ante* or 'innate' preferences alone. These unionists in leading positions form their perceptions and strategies in response to the opportunities, incentives and constraints determined by their position in the wider social relations and political processes. The position of this thesis is to argue that the type of LMIs must be understood within the context of the macro political economic structure, not because micro-level decisions and behaviours are not important, but because the structural position of bargaining agents in the particular patterns of accumulation must have primacy in explaining their actual decisions and behaviours.

6.3 Implications of LMIs for labour management

6.3.1 LMIs as 'mediator' of the labour process: concept and context

In the previous section, we proposed a dialectical approach in analysing the types of LMIs by specifying the structural opportunities, incentives and constraints, as well as capacity, for micro-level bargaining agents. This section extends this argument to analyse the ways in which different types of LMIs are reflected in particular modes of managing and controlling the labour process, which in turn reflect the different process of accumulation and redistributive politics that underpins it.

Of course, the role of trade unions and other extra-economic forces in establishing and sustaining labour discipline is not specific to developing countries such as India. Indeed, many mainstream economic models such as Freeman and Medoff (1984) and Calmfors and Driffill (1988) have focused on the role of LMIs in eliminating problems of informational asymmetry,

helping coordinate work organisation, and facilitating wage restraint. In contrast, our argument is therefore that the role of LMIs is not restricted to mediating informational or transaction costs.

As defined in Chapter 3, the labour process refers to the social relations of production which ensures that productive forces are brought together and the capacity of work is realised. However, how this process is controlled and managed varies depending on the historically specific social conditions. Since the labour process is subject to production relations, and more specifically to class struggle, capitalists are almost never fully in control over the labour process. Therefore, in general, capitalists are dependent on extra-economic forces and processes, most importantly but not exclusively the state, for controlling and managing the labour process. However, the particular mode of such intervention differs in important ways in different society. The task for our political economic analysis of LMIs and the labour process is therefore to specify the structural conditions that determine the mode of controlling and managing the labour process.

In Chapter 1 and elsewhere, we have pointed out that many developing countries including India can be characterised by the weak political legitimacy of the emerging industrial capital. The historical roots of the relatively weak bargaining position of Indian industrial capital can be traced back to at least the period of British colonial rule, when Indian capital was smaller (in scale and number) compared to the Europeans, and even the industrial establishments which were Indian owned were managed by European managing agencies. This weak political position of economically accumulating classes meant that company managers faced difficulties in imposing effective control over labour. Individual industrial entrepreneurs may control financial resources, but as a group, they often do not have the ability to impose new concepts of labour discipline or new political settlements that imply a resolution of distributive conflicts in their favour (Khan 1996; 1998; 2005). As

a result, it is commonly observed that in the early stages of industrialisation in industries such as cotton textile in Bombay (Mumbai) and jute textile in Calcutta (Kolkatta) the employers left all recruitment and virtually all disciplining (including discharge) of workers in the hands of intermediaries or foremen variously called jobbers, *daffadars* (freelance recruiters), *sardars*, and *arkatis* (village-level recruiters) (Morris 1955, pp.294-5; Robb 1993, p.19; de Haan 1993; 1999; Sen 1999). These intermediaries were described to maintain “cavalierly” and “capricious” regime of labour management whereby a large number of workers, with little loyalties to the mill and high turnover, were hired and discharged arbitrarily, often involving bribes and corruptions. This provided the scope for a tri-partite system of labour management whereby the state acts as conciliator of labour-management disputes and directly intervenes in the process of wage determination and other welfare provisions. In this context, trade unions are seen to serve a ‘peculiar’ role of “disciplinary institutions” to maintain stable political conditions necessary for industrial development (Morris 1955: 304), sometimes by taking over the role previously played by jobbers and sometimes operating alongside them.

In the context of our analysis of the comparison of LMIs in Mumbai and Kolkata, we argue that different historical processes lead to different types of redistributive politics, which is in part reflected in the mode of managing the labour process. Of course, this is not to suggest that other factors such as technology, production organisation, and other labour market conditions are not important in determining the mode of managing the labour process. Instead, our hypothesis is that the different types of LMIs and their implications for the specific ways in which the labour process is managed cannot be explained without reference to the different types of macro political conflicts.

In Chapter 5, we suggested that the combination of the redistributive politics in Maharashtra based on caste and communal identities, and the

upper class/caste hegemony based on the relatively stable, apparently 'pro-developmental', alliance of the 'elite' clusters, increasingly restricted the role of the emerging industrial capital and organised labour in the macro political economic conflicts over 'outside-firm rents', while the dynamic and 'uneven' accumulation in the region providing incentives for bargaining over company-based 'within-firm rents'. Our hypothesis is that these structural conditions in the region imply that the bargaining in many firms in Mumbai have tended to focus on increasing the share of the surplus in the form of 'wage-welfare' payoff while sustaining productivity growth, rather than on the day-to-day involvement in the management of the labour process.

On the other hand, the failure to establish such stable alliance of political elites and economically productive groups in West Bengal has led to the ruling coalitions to accommodate a wide section of the society, particularly in middle and lower income groups, which combined with less dynamic industrial development in the region, opened opportunities for industrial capital and organised labour to seek resources through their location in the patron-client networks that dominates redistributive conflicts. The implication for labour management in Kolkata-based firms is that bargaining agents and other social agency of different types are more likely to intervene in the day-to-day management of the labour process to secure benefits, rather than to bargain over long-term payoffs based on future surplus growth.

6.3.2 The mode of managing the labour process in Mumbai and Kolkata

As an empirical analysis of the different modes of managing the labour process, in this section we shall examine the role of different types of agency in influencing decisions on recruitment, restructuring and discharging of labour. One of the objectives of the field research was to investigate the role of different levels of management, trade unions and other agents in ensuring that production takes place and work capacity utilised. As part of the

interview with labour union leaders and factory managers at the plant level, they were asked who make decisions regarding hiring and firing of workers, job allocation and promotion⁵.

TABLE 6-6 AGENTS PARTICIPATING IN DECISION MAKING ON HIRING, FIRING, JOB ALLOCATION AND PROMOTION POLICIES

		Kolkata jute (Hastings Mill, Wellington Mill)	Mumbai textile (Podar, INDU Nos.3&4, Sitram)	Kolkata 'modern' (Orient, INDAL Belur)	Mumbai 'modern' (INDAL Taloja, INDAL Kalwa, Philips Kalwa)
Hiring workers	Top	●	□	□	□
	Labour office	□	□	○/●	○
	Supervisor	□			
	Jobber	○			
	Trade union	○	(○)	●	(○)
Firing workers	Top	●	□	□	□
	Labour office	□	□	□	□
	Supervisor			(○)	
	Jobber	●			
	Trade union	●	(○)		○/●
Job allocation	Top	●		○/●	(○)
	Labour office	●		□	□
	Supervisor	□	□	(○)	(○)
	Jobber	○			
	Trade union	●		(●)	(●)
Promotion	Top	○		(○)	□
	Labour office	□	○	□	(○)
	Supervisor	□	□	○	
	Jobber				
	Trade union	●	○	●	○/●

Note: □: main agents in decision making; ○: other agents participating in decision making; ●: agents who have influence over the decision-making process; (○) and (●) indicates that the involvement was observed in some units but not in all; ○/● indicates that the level of involvement varied in different units.

Source: Author's fieldwork

⁵ It is known that this type of question must be used with care because a concept like 'control' is ambiguous and often left to respondents' own subjective definitions (Converse 1986). Probing has been used to attempt to eliminate potential sampling error, but obviously subjectivity cannot be eliminated entirely from this type of data. It is perhaps realistic to understand the observations as union leaders' perception of control on labour discipline rather than necessarily the 'facts' that refers to reality.

Table 6-6 summarises the findings on 4 aspects of labour employment and allocation issues: hiring, firing, allocation and promotion. While there are differences in their extent of involvement, in general, trade unions across the surveyed units in Mumbai and Kolkata appear to have some influence over labour employment and allocation issues. However, it is immediately apparent that there is significantly greater number of agents involved in the decision making in Kolkata jute mills compared to other sectors. Trade unions have some involvement in all 4 of labour employment and allocation issues, and jobbers are involved in hiring and labour allocation decisions and some influence over firing decision as well, which is not observed in other sectors. We have already pointed out the multiple unions prevalent in Kolkata jute industry, whereby as many as 14 trade unions may be recognised as bargaining agents in a single mill, competing for mobilisation of workers at time of industrial conflicts and political events. The finding that a multitude of social actors beyond the narrowly defined bargaining agents are involved in the labour process in Kolkata 'traditional' sector is consistent with our field observation during the factory visit as well as interviews from mill managers. For example, in a particular jute mill, workers in the whole of the weaving section was recruited from a single village area in the neighbouring State of Orissa, and a jobber from the region was able to exercise strong control over the labour process to the extent that an absent weaver could not be replaced by a substitute or temporary worker (*badli*) on the day without the jobber's consent. In a separate case, an interview with a particular union leader required approval of a 'religious leader' who was said to have strong influence over the workers. The importance of jobbers and other social actors in recruiting and controlling workers in Kolkata jute mills is also consistent with other studies such as Das Gupta (1976), de Haan (1993; 1995; 1999) and Sen (1999).

In addition, our observation is that in Kolkata jute mills, the decision is made at relatively lower level of the managerial hierarchy, with relatively little

involvement from the top management. In most labour management issues, the labour office and supervisory ranks are the main decision makers. This is in contrast to the other 3 sectors, where hiring and firing are essentially decided by top-level management together with the labour office. Our observation is that in jute mills, the labour office operates independently from other branches of top level management and is more directly responsible for establishing labour discipline at the shop floor level together with jobbers and labour unions. In other industries, the labour office operates in much close connection with (and in many cases as part of) the top level management and labour control is more strongly subjected to financial and budgetary planning. This is again consistent with field observations, as revealed by the candid statement by a mill owner:

Multiplicity of trade union reflects poor human resource management. It reflects the lack of commitment in building management-workers relations. Management at the mill level would do anything to secure their position. They would even submit false report to me to pretend that industrial peace is kept at the mill. This is understandable considering the very high compensation these executives receive. [Also] There are two types of trade unionist. The first is [party-] affiliated unions. The second type is caste based or village based unions. Babu [clerks] would bribe [these trade union] officers. The society accepts this type of bribery. Bribes take the form of wages or kind, for example, employing his friends or recording him present when he is absent.

Interestingly, table 6-6 suggests that there is less involvement of trade unions or jobbers in the Mumbai cotton textile industry. This is at variance with Morris's (1955) argument that Bombay textile was the "laboratory" of Indian factory system, where management control over labour discipline supposedly failed and all recruitment and disciplining was left in the hands of jobbers and labour unions in the early 20th century. Also this is contrary to observations from our field research, whereby trade union leaders appear to have active role in imposing labour discipline in certain cases. In one textile mill, we came across a situation in which local union leaders were called into the labour officer's room together with workers who had been seen to have problems in

terms of absenteeism and low work moral, and union leaders assisted management in disciplining these workers. Once again, our observation that the representative union can be an effective tool for the management and government is consistent with other existing studies such as van Wersch (1992); Pinto and Fernandes (1996) and Krishnan (2000).

One possible interpretation is that the observations in table 6-6 are based on union leaders 'perceptions' of labour control, and not necessarily reflecting the 'reality'. It is possible that trade union leaders in Kolkata jute mills have vested interest in presenting themselves to be actively involved in labour control, given the multiplicity of unionism and rivalry amongst them, whereas union leaders in Mumbai textile industry may prefer to put a more 'business-oriented' face. However, our interpretation is that the observation at least partially captures the different mode of involvement by trade unions and other agency. Our hypothesis is that bargaining agents in Kolkata jute industry *regularly* intervene in the labour process at almost *all* levels, whereas in Mumbai textile industry, the involvement of unions appears to be kept under stronger control by the mill management.

In addition, it is our argument that this difference in the mode of managing the labour process cannot be explained by informational or transaction costs alone. While there may have been some changes in production technology and market conditions in the Mumbai textile industry, particularly in a small number of privately-owned mills, which could be interpreted to have led to differing monitoring costs and requirements for coordination, we find such changes insufficient as explanatory factors. Instead, we argue that the multiplicity of interventions in the labour process of the Kolkata jute industry, both in terms of the type of agency and the level of involvement on one hand, and the 'disciplined' involvement of unions in the labour process of the Mumbai textile industry on the other hand, cannot be understood without reference to the opportunities for different type of rent-seeking under

different mode of patron-client politics in the wider social context in which labour-management bargaining takes place.

Table 6-6 also suggests that the labour process in the 'modern' sector units in Mumbai and Kolkata was mainly controlled by the top-level management, but with varying degrees of involvement by lower-level management and unions, as indicated by symbols (○) and ○/● in the table. From our field observation, one of the areas in which union involvement is wide spread is the issue of voluntary retirement scheme (VRS). In an interview with workers who have taken up the VRS and left the Phillips Kalwa factory in Thane (greater Mumbai), it has been suggested that union leaders played an important role in persuading workers to accept the scheme in the early 2000s, which was also confirmed by union leaders and personnel managers. However, some media reports suggest that there were various intimidation used by management to force workers to take up the VRS⁶. Similarly, in the BOC factory in Kolkata, although the trade unions do not openly advocate the VRS, personnel managers admit that the scheme is implemented through 'discussion' with trade unions, where union leaders informally suggest some workers to take up the VRS. These observations are in line with Ramaswamy's (1988: 75) observation that in Mumbai "a new kind of 'responsible trade unionism'" has developed whereby "unions are aggressive and demanding and refuse to accept that management have the final word, but team up with the management to ensure that workers perform as promised", and thus "have become the honorary personnel and industrial relations managers of the organization". Symbolically, the President of the Philips Workers' Union had his desk in the personnel office. Once again, our interpretation is that the degree of trade union involvements, and the issues on which they are involved, in the management of the labour process vary significantly reflecting the opportunities, incentives and constraints for appropriating different types of 'rents'.

6.3.3 Analysis of the 'wage-welfare' payoff

In this section, we examine the pay-scale in our surveyed units. Pay-scale or schedules is a grade-scales matrix of wages and is typically determined within the formal collective bargaining settlements between trade unions and the management. It specifies worker's wage increment typically by the length of service and therefore informs how the firm rewards seniority and experience of workers. Our hypothesis is that the pay-scale reveals important information about (i) the incentives and disincentives for long-term investment by workers in firm-specific skills, and (ii) the importance given by the union to mobilising workers for long-term firm-specific action, as opposed to mobilisation of the maximum number of workers for actions that are likely to seek rents beyond the firm.

A 'steep' pay schedule may indicate the value to the firm of long-term investment in skills by the worker, whereas a firm in a sector that did not require much investment in skills on the part of labour, other factors being equal, would not want to increase pay over time. The latter may particularly be important if skills acquisition is less important than labour discipline in ensuring production, and the management of the labour process relies on trade unions, jobbers and other social agency. At the same time, for a given technological and production condition, a particular pay structure may reflect union power in negotiating such package for their members. If there is sufficient scope for productivity growth and space for bargaining over 'within-firm rents', unions may also want to tie in workers to a long-term commitment to the union by going for 'steep' wage schedules. A 'steep' schedule would then indicate successful bargaining by a strong union. On the other hand, if the scope for productivity growth is limited, unions may prefer 'egalitarian' flatter pay schedule that would enable large number of workers to be mobilised in order to improve their position in the redistributive conflicts over 'outside-firm rents'.

⁶ *Maharashtra Times*, 27 September 2000, pages 1 and 8.

Existing studies such as Piore and Sabel (1984), Aoki (1988), and Calmfors et al. (2001: 63-4) suggest that 'flat' wage progression tends to be found more in public sectors or in producers of 'up-stream' goods (i.e. relatively distant from customers) and in centralised bargaining where the cost of rent-seeking can be passed on relatively easily. In contrast, seniority wages are found in organisations with more complex division of labour and team operation. Thus, conventional models have tended to focus mainly on technology and production organisation as determinants of pay schedule. In this context, our hypothesis is that the pay schedule is influenced by social and political context in which the bargaining takes place, as much as being determined by the technological and organisational factors.

Pay or remuneration⁷ package in the organised sector of Indian industry consists of: basic wage; dearness allowance; house rent allowance; and other allowances. Here we are interested in the *composition* as well as the *type* of worker's pay, particularly the relative importance of basic wage (BW), which is the basic component of the earnings, distinguished from various allowances, and dearness allowance (DA), a cost of living allowance to compensate for inflation and typically calculated using consumer price index (CPI) of the locality, and is characteristic to Indian industry.

'Steepness' of the pay schedule

To compare incentives for bargaining agents to engage in long-term firm-specific collective action, we shall look at two measurements. The first is the average pay-scale per grade in the surveyed factories. Pay-scale per grade is the extent to which the span of progression in direct wage due to annual increment extends within a grade. This can be interpreted as the measurement of the range of seniority increments (Banaji and Hensman 1990: 60-61). In

⁷ According to the Equal Remuneration Act 1976, "remuneration" is defined as "the basic wages or salary, and any additional emoluments whatsoever payable, either in cash or kind to a person employed in respect of employment or work done in such employment, if the terms of the contract of employment, express or implied, were fulfilled".

other words, a pay-scale with a longer range in a given grade can be interpreted as an indication that there is more scope for workers to move up the pay-scale ladder while remaining in a particular grade or job grouping. Of course, the grade does not necessarily have to be a grouping of jobs with similar worth but generally, movements up a scale are much more frequent than movements between grades.

Another measurement of the willingness to reward seniority is the ‘steepness’ of the pay increments with respect to scale. I measure this by considering the elasticity of direct wage to seniority. In general, if we have wage scheme of N grades and T scales, where wage can be denoted by w_{it} , $i = 1, \dots, N$, $t = 1, \dots, T$. If we assume that w_{it} is a function of parameter i attached to individual grades and scale t , i.e. $w_{it} = f(i, t)$, we can define the elasticity of w_{it} with respect to scale t to be the proportional change in w_{it} for a given proportional change in t , assuming that there is no change in the grade, that is $\frac{\partial w_{it}/w_{it}}{\partial t/t}$ or $\frac{\partial w_{it}/\partial t}{w_{it}/t}$.

Let us call this the scale elasticity of wage⁸.

⁸ Elasticity is a better measure of the importance of long-term skill acquisition and firm-specific collective action than simply calculating $\partial w_{it}/\partial t$, the marginal change in wages that is expected for a unit change in the pay-scale (workers moving up one ‘spine point’). The problem with this measurement is that pay-scale may be designed differently depending on the local condition at the plant level. For example, let’s say in one firm workers move up a scale after one year of tenure whereas in another it takes two years to move up a scale. In such a case, even if the calculated $\partial w_{it}/\partial t$ is the same, for the first firm it in fact measures reward for one year tenure while for the second it gives the reward for two years seniority. In addition to this, we must also be aware that we are comparing pay-scale of firms in diverse settings both in terms of location as well as industrial sectors. Therefore even if $\partial w_{it}/\partial t$ is the same, the same wage changes per scale may have different implication as reward to seniority. Workers may not be concerned with the absolute changes in the wages but more concerned with relative changes in wages. For these two reasons we compare elasticity of wage to seniority, which can be compared across the observations to get a sense of the relative magnitudes.

TABLE 6-7 SCALE PER GRADE AND SCALE ELASTICITY OF EARNINGS IN SURVEYED ESTABLISHMENTS

Industry/ firm	Year	Pay-scale (by job categories)	Grade	Scale	Scale per grade	Scale elasticity of wage	
						Basic wage	Basic wage + DA
Jute mills in WB	1995	Production workers	7	75	10.7	0.056	0.008
		Support workers	20	285	14.3	0.076	0.012
Public sector engineering in WB	1997	Factories employing 50 to 249 workmen, Production workers	4	36	9.0	0.038	0.024
		Factories employing 50 to 249 workmen, Support workers	7	76	10.9	0.062	0.039
		Factories employing 250 workmen and above, Production workers	4	36	9.0	0.037	0.023
		Factories employing 250 workmen and above, Support workers	7	76	10.9	0.061	0.038
Philips Taratalla, WB	2000		6	24	4.0	0.028	0.003
Phillips Kalwa, Mah	1998		20	282	14.1	NAV	NAV
BOC, WB	1999	Factory and general staff	5	106	21.2	0.370	NAP
		Office staff	3	65	21.7	0.409	NAP
HMV/Saregama, WB	2000	Production workers	2	90	45.0	0.305	0.122
		Support workers	4	133	33.3	0.288	0.110
Indal Belur, WB	1999	Daily rated	18	432	24.0	0.120	NAP
		Monthly rated	10	250	25.0	0.137	0.034
Indal Kalwa, Mah	1993	Daily rated workmen	13	325	25.0	0.493	NAP
		Monthly rated workmen	10	250	25.0	0.535	0.163
	1996	Daily rated workmen	13	455	35.0	0.564	NAP
		Monthly rated workmen	10	350	35.0	0.615	0.199
Indal Taloja, Mah	1995	Daily rated workmen	11	539	49.0	0.638	NAP
		Monthly rated workmen	7	343	49.0	0.645	0.156
	1999	Daily rated workmen	11	671	61.0	0.691	NAP
		Monthly rated workmen	7	427	61.0	0.700	0.133
Ind-Auto/Fiat, Mah	1999	Monthly rated production workmen	5	110	22.0	0.360	NAV
		Security staff (daily rated)	3	48	16.0	0.398	NAV
		Daily rated support workers	3	50	16.7	0.232	NAV

Note: NAV = not available; NAP = not applicable. The classification of DA in some units varies: Philips Taratalla includes DA and Additional DA; INDAL Belur includes DA, Extra DA, Standard Allowance, Special incentive, Special allowance, Additional standard allowance, and Growth incentives. Source: Author's fieldwork.

Table 6-7 shows 24 sets of pay-scale from 9 units or industries, which we used for calculation. 11 pay-scales are from 3 units based in Mumbai, and the rest are from factory-level or industry-level settlements in Kolkata or West Bengal. 6 pay-scales in West Bengal are taken from two industry-level settlements, an industry-level settlement that applies to jute mills affiliated to the Indian Jute Mills Association (IJMA), and an industry-level settlement that applies to public sector engineering firms in West Bengal.

The number of units from which the data is taken in this analysis is less than the number covered in the author's field survey (23 units). As discussed in Chapter 3, in some cases firms and unions did not have settlements agreed for years. Notable omissions include the cotton textile mills in Mumbai under the public sector National Textile Corporation (NTC) where there have been no settlements agreed since 1992, and even this did not involve drawing up a new pay-scale. Pay in the Mumbai textile mills appears to be negotiated on an 'ad-hoc' or personalised basis, as we discuss in section 6.4 below, and the pay progression based on grade and scale appears to have been eroded.

The lack of pay-scale data in some key firms and industries makes it difficult to make a full comparison between different types of industries, particularly between what we called 'traditional' and 'modern' sectors. What stands out instead is the difference in the pay-scale of firms located in Mumbai contrasted to those located in Kolkata.

If we first focus on the scale per grade in table 6-7, we can see a wide range of increments, from 4 'spine points' per grade in the 2000 settlement of Phillips's luminaire plant located at Taratolla in Kolkata to 61 scales per grade in the 1999 settlement of INDAL Taloja factory in Mumbai. It is particularly interesting that the settlements of units under the same company organisation have very different pay schedule. In contrast to the small number of scale per grade in Taratolla, the 1998 settlement at the Phillips Kalwa light factory in

the Thane-Belapur district of Greater Mumbai had a much higher 14 increments per grade. Similarly INDAL's Belur plant in Kolkata had the 1999 settlement with 25 'spine points', which is in variance with 61 in Taloja, despite both factories involved in a similar production process, namely remelting and rolling of aluminium

Similarly if we turn to the scale elasticity of wage in table 6-7, again we find a range of values, from 0.3 percent increase in the sum of basic wage (BW) and dearness allowances (DA) by moving up the 'spine' of the pay schedule by 1 percent in the 2000 settlement for Phillips Taratolla in Kolkata, to 19.9 percent in INDAL Kalwa factory in Mumbai. Once again, the comparison of the settlements in the three INDAL units is interesting. The two INDAL plants with similar production technology have very different scale elasticity of pay, between 3.4 percent increase in pay in the Belur unit in Kolkata and 13.3 percent in Taloja of Mumbai.

Our finding that units in Mumbai and Kolkata under the same company, and with similar technological and production conditions, have very different pay schedule is in line with our focus on social and political contexts in the two regions. Our hypothesis is that the limited scope for bargaining agents to impose political settlements in their favour in redistributive conflicts at the macro political economy, and the relatively dynamic accumulation in the region, provided greater incentives as well as compulsion for bargaining agents in Mumbai to seek long-term company-based collective action in order to extract a greater share of 'within-firm rents'. In contrast, we suggest that bargaining agents in Kolkata faced greater opportunities to seek 'outside-firm rents' from their location in the patron-client networks of various political and social actors, and therefore unions' strategy have tended to focus on attracting resources through their ability to mobilise workers.

This is of course not to suggest that technological and production conditions are not important in determining pay structure. It is insightful to note that

INDAL's Kalwa factory, which had the highest scale elasticity of pay amongst our surveyed units, produces aluminium foils and packages, and therefore involved in a more 'down-stream' operation compared to the production process in the other two INDAL plants. In Chapter 4, we pointed out that the production process in the Kalwa unit requires greater technological and skill acquisition on the part of the workers, which enables workers to exercise greater threat to the profitability of the firm compared to the other two 'downstream' units. The 'steep' pay schedule in the Kalwa plant therefore implies a greater willingness on the firm's side to award long-term skill development and greater success on the union's side in getting regards for long-term collective action, where there are favourable conditions of bargaining agents to extract a greater share of 'within-firm rents'. Thus we conclude that to explain the emergence of very different pay structures, we need to look more closely at the unions' negotiation of pay-scales with management in line with different mobilisation strategies.

Types of Dearness allowances (DA)

As another aspect of the 'wage-welfare' payoff is the dearness allowance (DA) paid in the surveyed establishments. DA is a form of payment linked to workers' cost of living, typically measured by the consumer price index (CPI). Payments linked to price inflation are not unique to Indian industries⁹, as seen in "price compensation" payments in Holland (Banaji and Hensman 1990: 63) but what is peculiar about the DA in India is the fact that workers receive an amount of DA which is typically way above the amount earned as their direct wage, sometimes as high as 90 percent of the total earnings. Because DA often accounts for a major part of workers' earnings, although it is termed 'allowance', it is treated differently from other types of allowances, such as canteen allowances or housing allowances. For example, to be a member of

⁹ However this type of payment linked to consumer price index do not appear in ILO's categorisation of workers' earnings (or labour cost from the management's point of view). C.f. "Resolution concerning statistics of labour cost" adopted at the Eleventh International Conference of Labour Statisticians, October 1966.

India's Employee Provident Fund Scheme (that covers workers need in case of Retirement, Medical Care, Housing, etc.), employers and employees contribute 12% of the workers' 'pay', whereas 'pay' includes "basic wages with dearness allowance, retaining allowance, (if any) and cash value of food concessions admissible thereon"¹⁰. Hence clearly DA is considered to be part of the basic and main component of organised workers' earnings in Indian industries.

The use of DA in Indian industries goes back to the period of the First World War and was established around the 1940s as a measure to compensate for the rapid price inflation. According to one of the leading authorities on wages in India:

[t]he basic principle behind DA payment is one of correction adopted to neutralize [the] fall in the value of money, so as to keep the workers' real wages constant at a given level. This being so, it naturally follows that the payment of dearness allowance should be based exclusively on the cost of living index [...] (Papola, 1970: 111).

Yet in reality, the forms and roles of DA are quite diverse and are far from being "exclusively" based on the CPI. The fact that there are diverse types of DA in Indian industries is important because, despite the popular perception that DA is a need-based wage, the way in which DA is paid may or may not be designed to satisfy workers' needs.

To see this, let us focus on the type of dearness allowances (DA) paid in Indian establishments. Here, following Banaji and Hensman (1990), we categorise DA into three types: flat rate schemes, double linkage schemes, and salary group schemes. In flat rate scheme, the amount of DA is linked only to the CPI and not to the basic wage. Under this scheme, all employees will receive the same amount of DA regardless of their rank, seniority or their performance. Double linkage schemes allow the amount of DA to be linked

¹⁰ Cf. Employees' Provident Fund Scheme 1952 (<http://www.epfindia.com/epf.htm>; accessed 05/09/09).

to both basic wage and CPI. Salary group schemes links DA to basic wage, but instead of directly linking the amount of DA to the exact amount of individual basic wage, as in the case of percentage or double linkage schemes, here, a fixed amount of DA is paid for employees whose basic wage is within a certain range.

It is, of course, not correct to assert that flat DA schemes are more needs-based or 'egalitarian' than variable DA like the double linkage and salary group schemes. Flat DA may look 'egalitarian' from the viewpoint that the same amount of pay increase is given to all worker regardless of grade and scale. But in the context of seniority wage, it is possible to argue that pay that is linked to age or length of service is more needs-based from the point of view of a worker's life cycle.

Apart from having implications for the amount of DA employees receive, the three types of DA schemes have important implications for the employers' capacity to control wage increase. Under a flat rate DA scheme, due to its nature, employers do not have any direct control over the amount of DA. Management can negotiate the size of DA payment associated with changes in price, but once the amount is settled, since consumer price is exogenous to individual firms, the employers have little control over the increase of DA. In the case of double linkage schemes, the DA payment to employees is linked to the exact amount of basic wage as well as the CPI, and hence there is scope for the employers to curb wage increase. While employers do not have control over the inflation rate, they are able to influence or negotiate the weight with which the amount of DA is linked to the basic wage, as well as the amount of basic wage at each pay-scale, and the distribution of employees within the grade-scale structure. The third method of DA payment, salary group scheme also offers employers with scope for influencing wage changes. It is therefore our hypothesis that different types of DA reflect patterns of firm-union bargaining resolution over 'rent' redistribution, and indicate the

extent to which importance is given to mobilisation of workers to increase productivity and seek 'within-firm rents' in the long-run, as opposed to seeking 'outside-firm rents' through homogenising pay within the sector and maximising their organisational power.

TABLE 6-8 TYPES OF DEARNESS ALLOWANCES

Settlement	Bargaining level	Location	Type of DA
Jute industry (1995), WB	Industry	Kolkata	Flat
Public sector engineering industry (1997), WB	Industry	Kolkata	Flat ⁽¹⁾
National Textile Corporation (Maharashtra North) (1992)	Industry	Mumbai	Flat
Saregama India (2001)	Plant	Kolkata	Flat
Philips Taratolla (2000), WB	Plant	Kolkata	Group (54 slabs)
Phillips Kalwa (1998), Mah	Plant	Mumbai	Group (27 slabs) + Double ⁽²⁾
INDAL Belur (1999), WB	Plant	Kolkata	Flat + Double ⁽³⁾
INDAL Talaja (1995), Mah	Plant	Mumbai	Double (75-110%) + Group (7 slabs)
INDAL Talaja (1999), Mah	Plant	Mumbai	Double (75-110%) + Group (7 slabs)
INDAL Kalwa (1993), Mah	Plant	Mumbai	Double (25-150%) + Group (7 slabs)
INDAL Kalwa (1998), Mah	Plant	Mumbai	Double (15-150%) + Group (8 slabs)

Notes: Flat stands for flat rate schemes, Double refers to double linkage schemes, and Group is the salary group schemes.

- (1) The DA in public sector engineering is different for different grades but is not linked to scale of the basic wage. The same rate of the DA is paid for all workers in the same job category regardless of their seniority or merit.
- (2) The DA of Phillips Kalwa is paid by salary group schemes. In addition to this, workers receive additional dearness allowance which is paid proportional to the basic wage.
- (3) In addition to the traditional flat rate DA, Indal Belur has the Additional Dearness Allowance scheme that is paid proportional to the basic wage.

Source: Author's fieldwork.

In our sample, 5 wage settlements employed flat dearness allowances scheme. Flat DA is implemented in all three industry-wide settlements studied: jute textile industry in West Bengal, West Bengal public sector engineering, and cotton textile industry in Maharashtra. Flat DA is also found in two plant-level settlements. One is Saregama India, a music cassette tape producer operating since 1929. INDAL Belur, an aluminium-processing factory producing sheet aluminium, pays different types of DA with the basic DA paid in flat scheme and additional DA linked with the amount of basic wage. Both of these establishments which had plant-level settlements with flat DA were located in Kolkata.

On the other hand, DA linked to basic wage payment, either in the form of double linkage or in the form of group payment, is found in 'modern' sector establishments where bargaining takes place at plant-level. For example, in Philips' Kolkata plant, salary group scheme is used, and therefore the amount of DA paid to employees is linked to the salary category to which they belong.

It is our hypothesis that the flat DA in industry-wide settlements in 'traditional' sectors such as textile and jute industries, as well as in public sector engineering industry, indicates a rent extraction based on mobilisation of workers to be part of a wider social and political process, whereby the capacity to capture rents beyond the firm depends on the unions' ability to mobilise the maximum number of workers across firms and sectors on solidaristic grounds. In contrast, the variable DA in some of the 'modern' sector firms in our sample is consistent with bargaining by unions for a share of 'within-firm rents', which is likely to result in key groups of workers being able to extract higher incomes.

This hypothesis can be further elaborated by examining the types of DA in the three INDAL units in Mumbai and Kolkata. In all establishments of INDAL we surveyed, DA is proportionally linked to basic wage (BW). However, the rate of linkage to BW is slightly different. While the proportion is the same across employees in INDAL's Belur factory, the two factories in Mumbai employ both double linkage and salary group schemes, where the rate of linkage to basic wage differs depending on workers' scale and grade. In addition, we can observe that the double linkage in the Kalwa unit allows potentially greater variation in pay compared to that in Taloja. Recall that the main operation in INDAL Belur and INDAL Taloja are sheet rolling processes with seemingly similar technology, while the operation at INDAL Kalwa is foil rolling and converting, which is a more technically advanced and 'down-stream' process. Our observation therefore leads us to hypothesise that the type of DA appears to be associated with technological and market

conditions, as well as with broader social and political conditions in which labour-management bargaining takes place, which provide different opportunities, incentives and constraints for the mobilisation strategies of bargaining agents.

6.4 Reproduction and transformation of LMIs and their policy implications

6.4.1 Trajectories of institutional transformation

In this final section of the thesis, we will draw inferences on the potentials or otherwise of transformation of labour market institutions (LMIs) in Kolkata (Calcutta) and Mumbai (Bombay). Types of LMIs as identified in Chapter 4 of this thesis are constantly reproduced or transformed in response to their location in the changing patron-client politics, which is continuously contested by other actors in the wider social context. The objective of this section is therefore, to analyse the trajectories of institutional changes drawing on case studies from our field research.

The question of how institutions change is important especially in light of the on-going debates on labour market reforms in India, which we reviewed in Chapter 1. The emerging policy consensus emphasises (i) the removing of protective labour legislation and institutional restrictions on the labour markets, as well as (ii) encouraging the localisation of bargaining structure, combined with (iii) micro-level reforms that 'empowers' rank-and-file workers by improving the democratic accountability and transparency of LMIs in order to focus bargaining agents' strategies on issues closer to the economic 'reality' of the firm, rather than for them to be motivated by political issues (Banerji, Campos and Sabot 1995; Hossain, Islam and Kibria 1999; Aidt and Tzannatos 2002; Debroy 2005).

We have also pointed out throughout this thesis that the emerging policy consensus on labour market reforms has significant overlap with the

theoretical arguments of the new institutional economics (NIE), most notably that of North (1990; 1999), who have focused on the role of *economic* opportunities that leads to changes in perceptions of political and economic entrepreneurs. The NIE-inspired models assume that the difference between LMIs that supposedly enhance and those that hinder productivity growth lies in the extent to which they enable or restrict the effective functioning of labour markets. They hypothesise that certain LMIs are inefficient or unproductive because unions focus on short-term gains from rent-seeking, rather than to use their ‘voice’ effect or ability to reduce transaction costs and increase productivity to realise long-term payoffs (Freeman and Medoff 1984; Calmfors and Driffill 1988; Aidt and Tzannatos 2002). Therefore, the implication is that institutional change that enhances efficiency or productivity is achieved by providing stronger *incentives* for unions to seek company-based mobilisation so that institutional restriction to markets can be reduced.

The political economic approach, especially the so-called ‘transition’ debates¹¹ in Marxist political economy (Brenner 1976; 1985; Wood 2002; Khan 2005), offer contrasting insights into the subject of institutional change that leads us to hypothesise that market-based incentives may not be sufficient for the emergence of productivity-enhancing institutions. Our hypothesis is that to explain trajectory of institutional transformation, we need to examine the *structural* ‘compulsions’ and ‘imperatives’ for bargaining agents to organise LMIs differently, rather than to reduce it to *economic* opportunities and incentives alone (Wood 2002: 54). In this sense, the political economic analysis differs from, as Baker et al. (2004) critically labelled, the exercise of conventional studies to find the “right mix” of LMIs or to simply specify ‘compatibility’ of LMIs with certain technological and governance conditions. Rather than to simply assume that by removing state and other political

¹¹ The ‘transition’ debate were of course concerned with transition from pre-capitalist to capitalist society, whereas our concern here is about different concrete *forms* of capitalist production relations. However, the insights that emerged from the debates offer a framework for our analysis of institutional change.

interventions in LMIs and make them democratically accountable to the rank-and-file workers, the type of unionism and bargaining relations would be 'liberated' and be guided by the market impulse, we must empirically study the experiences of institutional changes, or lack of them, by focusing on the structural conditions that *compel* and *enable* bargaining agents to organise their mobilisation strategies differently.

We shall therefore use case studies from our field research to argue that trajectories of institutional transformation are not as simplistic as assumed in some of the mainstream theories of institutional change. We show that the collapse of more 'encompassing' bargaining system and the shift to localised LMIs was associated with significant changes in wage structure, work organisation, and patterns of capital investments. However, we point out that the trajectories of institutional changes cannot be explained by the changes in *economic incentives* alone, and must also be understood in the context of *structural imperatives* faced by bargaining agents. We argue that transitions between different types of LMIs are contested making the path open to a number of outcomes, and the process often involves conflict and violence.

6.4.2 Institutional change in 'traditional' sectors: cases of Mumbai textile and Kolkata jute industries

We have already discussed in Chapters 4 and 5 that in Mumbai's cotton textile industry, the 'traditional' industry-wide state-dominated collective bargaining is maintained by public sector mills, at least on the surface, today. However after the prolonged Mumbai textile strike of 1982-83, privately-owned mills broke away from the industry-wide employer association and started to hold separate collective bargaining at individual mill-levels. Even in the public sector mills, decision making over many important issues such as changes in work organisation, modernisation and labour restructuring in the form of voluntary retirement scheme (VRS) have been localised to the mill-level. In

Chapter 4, we showed that this was manifested in the diverging typology of LMIs in the Mumbai 'traditional' sector.

The purpose of this section is to provide an analysis of the implications of the this 'localisation' of bargaining, which led to 'personalisation' of pay in the textile mills. We also examine competing hypotheses on the trajectories of this institutional change. The case of Mumbai textile industry is of particular interest for our comparison with the Kolkata jute industry, which leads us to consider the relevance of the hypotheses in explaining why similar types of institutional transformation did not take place in the Kolkata jute. We argue that the different patterns of accumulation and political mobilisation in the two regions offered different opportunities and incentives for the bargaining agents in the two industries.

One phenomenon observed as a result of the localisation of bargaining level in Mumbai's textile industry since the 1980s is the increasing importance of 'personalised' or 'ad hoc' wage¹², as opposed to the conventional 'basic wage' which is defined in pay-scale and determined by collective bargaining. It is important to note that this change in the pay patterns happened not only in private sector mills, which opted out of the industry-wide collective bargaining, but also in public sector mills, where the industry-wide collective bargaining is still legally imposed under the Bombay Industrial Relations (BIR) Act of 1946, at least on the face of it. As an example, let us consider the pay patterns in Podar Mill, a public sector National Textile Corporation (NTC) mill in Mumbai, using the data from the mill-level union-management settlement in 1999.

From table 6-9, we can confirm that the proportion of personal pay in relations to the basic wage has increased in all 4 departments of the mill. In this textile mill as a whole, the average proportion of personal pay increased

¹² I would like to acknowledge Suchita Karkani for suggesting this trend in pay patterns in the textile industry.

from 0.027 prior to the settlement to 0.058 in the post-agreement wage level. The figure, at the same time, shows that despite its increased influence in shaping the wage distribution, the effect of personal pay in the overall wage composition is limited. Thus the short-term immediate impact of the introduction of personalised payment is not great.

TABLE 6-9 AGREEMENT ON CHANGES IN WORK ORGANISATION AND WAGES IN NTC PODAR MILL (MUMBAI), 1999

	(I) Blow Room Department	(II) Frame Department	(III) Ring Department	(IV) Ring Maintenance Department	Total (I - IV)
Present complement of workers	34	112	244	42	432
Proposed complement of workers	27	92	194	36	349
Changes in post	-7	-20	-50	-6	-83
Mean of present basic wage	337.847	382.026	387.377	387.617	379.292
Mean of present personal pay	1.909	5.407	18.177	9.598	10.433
Mean of proposed basic wage	346.398	390.305	392.802	390.631	385.227
Mean of proposed personal pay	3.273	16.071	35.607	25.714	23.586
Present proportion of personal pay	0.006	0.014	0.045	0.024	0.027
Proposed proportion of personal pay	0.009	0.040	0.083	0.062	0.058
Changes in mean of basic wage	8.551	8.278	5.425	3.014	5.935
Changes in means of personal pay	1.364	10.664	17.430	16.117	13.154
Standard deviation of present wages	26.953	170.759	139.336	79.021	124.378
Standard deviation of proposed wages	29.915	180.666	149.491	86.116	132.833
Standard deviation of changes in mean of basic wage	5.135	10.003	10.096	3.484	8.442
Standard deviation of changes in means of personal pay	4.523	12.822	14.945	14.466	14.077

Source: Memorandum of Agreement Under Section 44(1) of the Bombay Industrial Relation Act 1946, Podar Mill, 1998-99

However the long-run impact may be different. For example, in the frame department (II), ring department (III) and ring maintenance department (IV), the average increase of personal pay was higher than in the increase in the basic wage. In other words, in these three departments, wage increase took the form of increase in personal wage instead of the increase in basic wage. The consequence of this is the increased standard deviation of wage after the

agreement relative to the pre-settlement wages. As the mill as a whole, the standard deviation of the sum of basic wage and personal pay rose from 124.378 in the pre-agreement wage scheme to 132.833 in the post-agreement scheme. This can be explained by the higher standard deviation in the wage increase in the form of personal wage relative to the basic wage. Standard deviation of wage increase in the form of basic wage was 8.442 whereas in the form of personal pay it was 14.077.

The data from Podar mill therefore shows an increased importance placed on 'personalised' or 'ad hoc' pay, even in a public sector mill with supposedly legal commitment to industry-wide bargaining, which compared to the traditional pay-scale based wages and benefits, allows greater ability for the mill management to control the pay patterns. Our hypothesis is that this change in pay patterns was possible because of the collapse of the more 'all-encompassing' collective bargaining system, whereby pay tends to be homogenised for similar work categories, and therefore reflects the changing mobilisation strategies of bargaining agents. It is however too simplistic to assume that such change in pay patterns alone was the main incentive that led to the institutional change. Rather our interpretation is that this emerging pattern in pay structure reflects wider changes in the labour management as an outcome of the trajectory of institutional transformation in the Mumbai textile industry.

In his study on the Mumbai textile strike of 1982-83, van Wersch (1992: 497) suggested that "economic demands and not political objectives were foremost in the mind of the workers" during the strike, which he attributes as the main reason for the failure to remove the Congress-affiliated Rashtriya Mill Mazdoor Sangh (RMMS) and ultimately the collapse of the industry-wide bargaining. As we have discussed in Chapters 4 and 5, the dispute initiated in September 1981 over bonus payments, and the growing dissatisfaction to the RMMS's inability to resolve the issue, led to workers inviting Datta Samant of

the Maharashtra Girni Kamgar Union (MGKU) to lead the struggle to demand wage increase and permanency of *badlis* (casual labourer) in addition to the higher bonus. Despite the widely held understanding that ousting the RMMS was a precondition for realising these demands, the strike failed to generate 'all-encompassing' alternative institutions to the nexus between the Congress, employers association and the RMMS. Van Wersch attributes this to the weakness of "class solidarity or class consciousness" amongst workers, who preferred mill-level negotiation to the industry-wide bargaining from the belief that they could extract higher returns. However, if this is the case, the task for a political economic analysis is to examine the particular process and relationship that mediates the class-in-itself (objective, economic/sociological) and the class-for-itself (subjective, political), and problematise the weak 'class consciousness' (Thompson 1963; Wood 1995; Bensaïd 2002).

Bhattacharjee (1989; 1994) argues that the main factor that determined the textile strike of 1982-83 and the subsequent institutional changes was the dynamic but 'uneven' development in the textile industries since the 1970s. As discussed in Chapter 4, an increasing gap emerged between a small number of 'progressive' companies who have invested in costly new technology and diversified to higher-end of the market focusing on quality products for the rich and middle classes and export on the one hand, and the 'backward' mills with obsolete technology who faced competition from the unorganised small-scale power-loom and hand-loom sectors on the other. We have argued that this particular pattern of industrial development created opportunities for bargaining agents to appropriate 'rents' at the local mill-level.

We have also suggested in Chapter 4 that in many of the 'sick' mills, real estate speculation has become a profitable venture since the 1990s. Prior to the 1990s, mill lands in Mumbai were classified as 'comforting zones' for industrial activity, which meant that land use for other purposes were illegal. However the revision of the Development Control (DC) rule in 1991 opened

possibility for land use to be switched subject to certain conditions. In the case of cotton textile mills the proviso was for the proceeds to finance the modernisation of the mills, although “the process of the sale and the sale proceeds go unmonitored” (Pinto and Fernandes 1996: 11-2). As a result, many mills were either closed or running with limited capacity, leading to further relocation of production to the power-loom sector. Another consequence of this was the increase in unemployed mill workers, which is said to have provided a recruiting ground for organised crimes, and some of the most notorious criminals, such as Romesh Sharmam who is known to have been one of the key fixer of deals in political corruption and business, started their life as migrant mill worker. Some even estimates that “a third of the members of the new gangs which have grown in the city are from former mill-workers’ families” (Krishnan 2000: 12-13). It is also known that some mill managers have secretly dealt with mafias and gangs in various activities, most prominently in labour disputes and land deals.

These diverging patterns of accumulation in the Mumbai textile industry can be interpreted as providing *economic* incentives for bargaining agents to reorganise their strategies to seek local ‘rents’ at the mill-level. The ‘uneven’ pattern of growth may also explain the difficulty for collective action to develop alternative all-encompassing institutions or political projects, as suggested by van Wersch (1992). However, our hypothesis is that, in addition to all these, the trajectory of institutional changes in the Mumbai textile industry was also subjected to *structural* opportunities and compulsions from the particular patterns of political economic redistribution conflicts in the region. As discussed in Chapter 5, the emergence of a stable and loosely ‘pro-developmental’ coalition of ‘elite clusters’ from a wide section of the society in the Maharashtra, and the patterns of redistributive politics that led to political clients mobilising their organisational power along caste and communal lines to capture resources through land speculations and criminal activities, have meant that the opportunities and capacity for bargaining

agents in industrial relations to mobilise and appropriate 'outside-firm rents' was limited. Our hypothesis is therefore that such structural conditions created opportunities as well as compulsion for bargaining agents to reorganise their institutions to focus on the struggle over 'within-firm rents'.

The significance of the role of structural compulsions in institutional changes can be explained by asking why a similar transformation did not happen in the Kolkata jute industry, despite the desire on the side of some section of the industry to change the 'traditional' clientelist politicised bargaining relations. The LMIs in Kolkata jute since 1977 was characterised by a strong state-controlled bargaining dominated by the ruling Communist Party of India (Marxist) or CPI(M) on the one hand, and multiple unionism led by the CPI(M)'s labour wing, the Centre for Indian Trade Unions (CITU), and factional mobilisation of workers on the other.

If we extend the 'class consciousness' hypothesis, is it possible to suggest that the institutional transformation happened in Mumbai textile but not in Kolkata jute, because the labour or union movement was not sufficiently strong in Mumbai, whereas in Kolkata workers were able to resist such a change? This hypothesis does not fit with our observations from our field research as well as previous studies such as Ramaswamy (1988) and Sen (1992). As discussed in Chapter 4, and further elaborated below, our observation is that the diversity of the types of LMIs in Mumbai textile industry signal the vitality (and volatility) of unionism in the sector, whereas the unions in Kolkata jute is often characterised by rivalry and division along party and factional lines, dividing loyalty amongst the organised workers.

Moreover, the inability of unions, both in Mumbai and Kolkata, to meaningfully engage with unorganised or casual workers even within the mills, makes the hypothesis that attributes different trajectories of institutional changes to 'class consciousness' unconvincing. We can illustrate the point by citing the incident of Baranagore Jute Mill on 13 January 2001, where two mill

executive officers were burnt to death after one worker was shot down¹³. The media coverage of the case, largely parroting the official report of the incident authored by the IJMA (2001), pointed their finger at trade unions, and the chief minister was reported to have asked trade unions “to refrain from any kind of irresponsible trade unionism and violent activity”¹⁴. However, during the field research, the author has been told by both unionists and mill managers (not at Baranagore itself, but in neighbouring mills) that the Baranagore incident was not caused by trade unions but by non-unionised casual workers who were dissatisfied with their pay and conditions, and in fact unions were “nowhere to be seen”.

It is also questionable whether the lack of institutional change can be attributed to the power of unions, even of the ‘traditional’ party-affiliated unions (as opposed to the newly emerging faction-based unions which are typically small in size) in Kolkata jute. This can be illustrated with another rather violent incident in the Kolkata jute mills, whereby on 8 January 2002, nearly 100 workers of the Wellington Jute Mill in Rishtra, Kolkata, attacked the house of the AITUC leader Debashis Dutta. According to newspaper reports¹⁵ the reason for the attack was over the tripartite agreement between the jute mill owners, the State government and several trade unions, which stated the wages of one-third of jute mill workers to be linked to the productivity of a mill. This agreement was arrived at in order to avert a looming strike in the jute sector across the State. Dutta was one of the signatories. The labour minister Mohammed Amin, condemning the attack, commented that this incident was a burst of workers’ anger against a union leader who did not properly brief “the details of the agreement”. But also, according to the report, we should also note that the workers felt that their salary may be reduced as a result of being linked to productivity. These

¹³ *The Hindu Business Line*, Sunday 14 and 18 January 2001.

¹⁴ *The Hindu Business Line*, Thursday 5 April 2001.

¹⁵ *The Telegraph*, Wednesday 9 January 2002.

observations seem to indicate that the difference in the degree of 'class consciousness' or union power, on their own, cannot explain the trajectory of institutional changes in Mumbai and Kolkata.

It is of course possible to argue that different patterns of LMIs can be explained by the technological change that led to the dynamic industrial development in Mumbai cotton textile industry along the line argued by Bhattacharjee (1989), which was not available to the jute industry. However, if technological development was lacking in jute machinery, we must explain why there was no compulsion for productivity growth despite the industry performing poorly in comparison to jute producers in Bangladesh and China, and more broadly in competition with synthetic alternatives. Also, there are jute mills such as the Hastings Jute Mill, whose owner acquired a jute machinery company with the publicised aim to make technological progress in jute machinery. Some mills, including Hastings, have introduced incentive schemes in an attempt to link pay to productivity, although the margin of incentive scheme is very small compared to the overall wage structure, and the peculiar conditions or 'eligibility' for the incentive payment¹⁶ making the scheme difficult to work effectively. The desire in some section of the industry to break away from the 'traditional' state-controlled LMIs is evident from the statement from our interview with a senior Indian Jute Mills Association (IJMA) officer, who spoke about the industrial disputes in the 1990s, as below:

We intended to create a 'disaster' in Calcutta jute mills, a disaster comparable to the cotton textile mills in 1980s Bombay. We in fact

¹⁶ There are two 'entry limits' to be eligible for incentive payment. First, in order for a worker to be eligible for receiving incentive payments, the person's productivity must exceed the "participation point" predetermined at each department. Second, in order for a worker in any department to be eligible for receiving incentive payment, the packing production of the plant must reach 26 kg per man-day during the incentive period. Some labour management officers have commented that because production fall below either of the two entry limits can be caused by any reasons that is "beyond the control of management", such as raw material non-availability and machine breakdown, and due to the large fluctuation in the production of jute products, the scheme has not provided the intended effect.

tried it twice. In both cases, the dispute was short lived and the mill reopened operating just as it was before.

Therefore, our argument is that, while the lack of technological development and the slow productivity growth signalled weak incentives for bargaining agents to seek 'within-firm rents', this must be understood within the totality of the particular patterns of accumulation in the region. Once again, returning to our argument from Chapter 5, the 'elitist' political base of the CPI(M) in West Bengal, who were detached from the productive groups, were unable to establish a coalition of 'elite clusters' of a wide social groups in the way it was achieved in Maharashtra in the early period of industrialisation. This meant that the state had to appeal to the middle and lower income groups by engineering redistribution of resources, while also sustaining industries and generating employment through direct state interventions and subsidies. This political condition created opportunities for bargaining agents in industrial relations to focus on mobilisation of workers to extract a greater share of the political created 'outside-firm rents' in Kolkata, while the general industrial stagnation in the region has meant that opportunity and compulsion to shift the mobilisation strategy to seek 'within-firm rents' was weak.

Another important observation that emerges from the case study of the Mumbai textile industry is that the transformation of LMIs was not necessarily smooth, nor was it necessarily the only trajectory of change. We have already indicated that the collapse of the industry-wide bargaining was triggered by the Mumbai textile strike of 1982-83, which ended with a devastating number of job losses estimated to be about 75,000 workers (both *badlis* and permanent workers) according to van Wersch (1992). But the 1982-83 strike was not the first time workers in Mumbai textile stood up to challenge the state-dominated industrial relation system. Since the birth of the Gimi Kamgar Union (GKU) in the 1920s, and emergence of charismatic leaders such as N. M Joshi and S. A. Dange, the Mumbai textile industry was a stronghold of left-wing union political and social actors. Although, the

communists were alienated during the struggle for Independence, due to their support to the British during World War II, the establishment of the RMMS in 1947 by the Congress as the sole recognised bargaining agents for the industry can be seen as an attempt to marginalise the “Red menace” (Krishnan *op cit.*: 19).

However, the nexus between the Congress, the employer associations and the RMMS was not unchallenged, sometimes manifested as split within the RMMS, sometime by the left parties appealing to the Industrial courts to contest the representative status of the RMMS, and generally by continued agitation and labour unrest throughout the 1970s and 80s (van Wersch 1992: 66-75). The latest of such challenges to the RMMS have come from the Girni Kamgar Sangharsh Samiti (GKSS), which started as the “Closed Mill Workers Action Committee”¹⁷ in 1989 and was formed as a union in 1996, led by mill workers such as Datta Iswalkar and labour lawyers such as Gayatri Singh. Although unrecognised by mill managers, the GKSS in 2001 claimed to have membership of 15 thousand workers from 12 closed mills. Since the majority of its members are workers whose mill has been closed down, normal tactics such as strikes cannot be employed. The GKSS does not make demands on salary, or work hours, leaves, or facilities. Instead the GKSS demands the rehabilitation of workers and their family by using tactics such as hunger strike, workers take over mills, and other creative public campaigning methods (Pinto and Fernandes 1996; Krishnan 2000). While these challenges have so far failed to resolve the clientelist politicised industrial relations in the sector as a whole, and may be ultimately unsustainable because they typically rely on personality and commitment of core activities, they nevertheless show that the collapse of the ‘traditional’ state-dominated bargaining had potentially a number of outcomes in the Mumbai textile industry.

¹⁷ Translated from the name of the group of the time: Bandh Girni Kamgar Sangharsh Samiti (Punto and Fernandes *op cit.* 1996: 30).

6.4.3 Implications of decentralised LMIs: Case studies from ‘modern’ sector units

In this section, we shall examine Philips India as another case study of decentralisation of LMIs, this time in the ‘modern’ sector. As discussed in Chapter 4, in our field research we have visited two Philips India plants, a luminaire factory in Taratolla, Kolkata, and a light bulb factory in Thane-Belapur district of Mumbai. It is therefore of interest for us to examine the implications of institutional transformation in the two units. In Philips, collective bargaining was always organised at the plant-level, but from 1969 to 1986 there was Philips Workers’ Union that acted as a union ‘federation’ for a number of Philips plants, including the Taratolla and Kalwa units. This federation was legally dismembered in 1986, following the formation of a splinter union, with the management playing a significant role in destabilising the employees’ union. We provide analysis of the patterns of wage determination in the company before and after the managerial changes that followed the dismembering of the federation to examine the impact of the localisation of LMIs. We also show that this institutional transformation led to restructuring of labour in the company, but with differing patterns in the two units. Once again, our argument is that the implications of institutional changes to the labour process must be understood within the wider process of accumulation and redistributive conflicts.

Let us first examine the implications of institutional change on wage determination strategies by using the company-level data on employment costs, net fixed assets, net sales and profits from 1986 to 1999. We are interested in the relationship between the employment cost and other financial indicators at the company-level before and after the collapse of the national-level union federation. Consider an additive linear wage or employment cost function:

$$w_t = \beta_0 + \beta_1 K_t + \beta_2 S_t + \beta_3 \pi_t + \beta_4 L_t + \varepsilon_t \quad (1)$$

$$\text{or} \quad \frac{w_t}{L_t} = \gamma_0 + \gamma_1 \frac{K_t}{L_t} + \gamma_2 \frac{S_t}{L_t} + \gamma_3 \frac{\pi_t}{L_t} + u_t \quad (2)$$

where w_t is wages or employment costs; K_t is capital or fixed assets; S_t is sales; π_t is profits; and L_t is labour input. Also, $\gamma_0 = \beta_0/\beta_4$, $\gamma_1 = \beta_1/\beta_4$, and so on.

Table 6-10 presents the estimated result of a simple linear regression model (2) with employment cost per employee, w_t/L_t , as the regressand (i.e. dependent or explained variable) and net fixed asset per employee, K_t/L_t , annual net sales per employee, S_t/L_t , and profit (after tax) per employee, π_t/L_t as the main regressors (independent or explanatory variables). A time trend variable T is also included to account for the common trend amongst variables. Since we are interested in the changes before and after the institutional change, we have introduced an intercept dummy variable, D_t , which takes a value of 1 for the period after the institutional change, as well as slope dummy variables, $D_t \times K_t/L_t$, $D_t \times S_t/L_t$, and $D_t \times \pi_t/L_t$. Unfortunately we were only able to obtain comparable data from 1986, which was the year the union federation was dismembered, but instead we have used 1991 as the cut-off point for the institutional change on the ground that the collapse of the union federation instigated a series of managerial changes, which according to our interview with managers, are said to have been completed in 1991. Therefore the dichotomous variable D_t is defined as:

$$\begin{aligned} D_t &= 0 \quad \text{for } t = 1986 - 1991; \\ D_t &= 1 \quad \text{for } t = 1992 - 1999. \end{aligned}$$

The model was estimated using the ordinary least square (OLS) method, and diagnostic tests do not reject the assumption of normally distributed, spherical disturbances, as shown in Appendix 6A.3.

TABLE 6-10 ESTIMATION RESULT OF EMPLOYMENT COST FUNCTION USING PHILIPS INDIA ANNUAL DATA, 1986-1999

Regressor	Coefficient
Net Fixed Asset per employee (K_t/L_t)	1.561** (0.475)
Annual Net Sales per employee (S_t/L_t)	0.133** (0.035)
Profit (after tax) per employee (π_t/L_t)	0.043 (0.241)
D_t ($D_t=0$ for 1986-1991 $D_t=1$ for 1992-1999)	0.226** (0.069)
D× Net Fixed Asset per employee ($D_t \times K_t/L_t$)	-1.000* (0.414)
D× Annual Net Sales per employee ($D_t \times S_t/L_t$)	-0.091* (0.039)
D× Profit (after tax) per employee ($D_t \times \pi_t/L_t$)	0.009 (0.286)
Intercept	-0.123** (0.044)
Time trend (T)	-0.019** (0.006)
Adjusted R^2	0.991

Note: OLS is used as the estimation method. Diagnostic tests (not reported here) do not reject the assumption of normally distributed, spherical disturbances. The regressand is Employment cost (w_t/L_t) = Salary, bonus and staff welfare (excluding VRS) per employee. 14 observations are used for estimation from 1986 to 1999. ** denotes that the coefficient is statistically significant at 5% level, * denotes that it is significant at 10% level. Figures in parentheses are standard errors.

The high adjusted coefficient of determination, $\bar{R}^2 = 0.991$, indicates that the model represents the variation of the data well. All regressors except the profit variables, π_t/L_t and $D_t \times \pi_t/L_t$, are statistically significant at least at the 10 percent level. The signs of the coefficients are consistent with standard economic theories, with all three of the economic variables, K_t/L_t , S_t/L_t and π_t/L_t having positive coefficients. For the purpose of our analysis, we are interested in significance of the dummy variables, which implies a statistically significant change in the relationship between the variables analysed. The positive coefficient on the dummy variable indicates that there was an upward shift in the *level* of employment cost function after

1991, *independent* of the regressors, which suggests an average increase of employment costs by Rs. 226,000 per employee. However, the negative coefficients on the slope dummy variables, $D_t \times K_t/L_t$, $D_t \times S_t/L_t$, and $D_t \times \pi_t/L_t$, indicates that the *overall* impact of institutional change on employment costs was likely to have been negative. This can be verified by estimating what the employment costs would have been had the relationship between the variables remained as in the pre-1991 period, i.e. in the absence of the managerial changes that coincided with the collapse of the union federation. Table 6-11 compares the observed and estimated or simulated employment costs.

TABLE 6-11 CHANGES OF OBSERVED AND SIMULATED EMPLOYMENT COSTS

	(a) Observed employment cost	(b) Estimated employment cost	(c) Simulated employment cost when D=0	(c)-(b)	Net Fixed Assets per employee	Annual Net Sales per employee	Profit (after tax) per employee
1986-87	0.046	0.045	0.045	0.000	0.090	0.347	0.001
1987-88	0.052	0.052	0.052	0.000	0.101	0.417	0.004
1988-89	0.077	0.077	0.077	0.000	0.117	0.566	-0.015
1989-90	0.069	0.068	0.068	0.000	0.127	0.512	0.004
1990-91	0.075	0.074	0.074	0.000	0.126	0.714	0.036
1991-92	0.089	0.088	0.088	0.000	0.127	0.944	0.023
1992-93	0.099	0.101	0.124	0.023	0.154	1.038	0.018
1993-94	0.077	0.081	0.100	0.019	0.161	0.932	0.016
1994 (9 months)	0.119	0.114	0.234	0.120	0.192	1.692	0.064
1995	0.146	0.140	0.352	0.212	0.240	2.168	0.033
1996	0.165	0.159	0.441	0.281	0.310	2.171	0.012
1997	0.199	0.193	0.581	0.388	0.361	2.782	-0.025
1998	0.201	0.210	0.667	0.457	0.381	3.321	0.024
1999	0.292	0.289	0.938	0.649	0.457	4.588	0.074

Note: All figures are measured in million Rs.

From table 6-11 we can observe that the difference in wages or employment costs before and after the institutional and managerial change increased rapidly in the second half of 1990s, implying that the employment costs

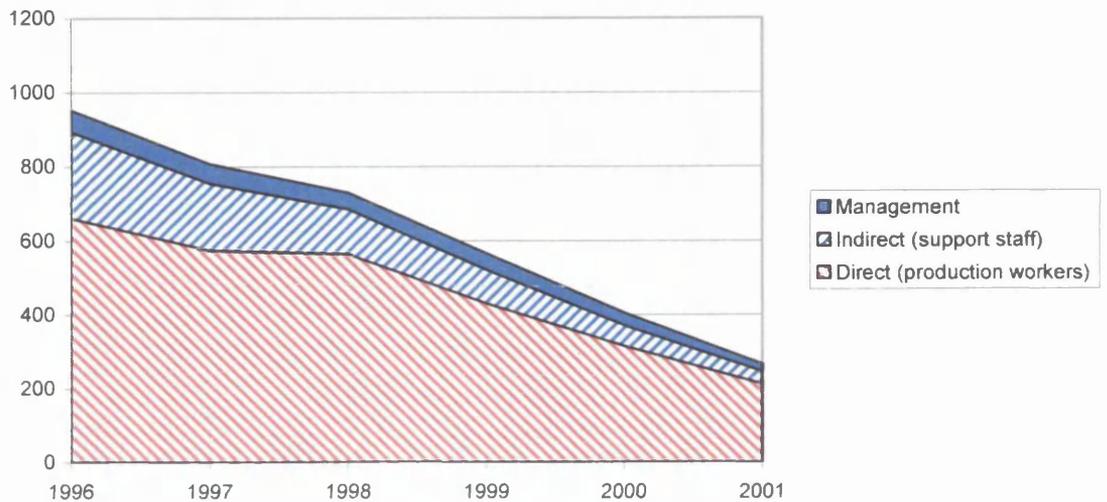
would have been much higher had the managerial and institutional changes not taken place. A closer inspection of the table reveals that this 'deviation' was due to the rise of net fixed capital per employee and annual net sales per employee since 1994. It appears that this was part of the new initiative by the management to restructure Philips India in the 1990s. In response to the poor sales and profit performance in the late 1980s and early 90s, Philips management made "conscious investment in further strengthening the Company's brand equity – the image the customer has of the products and services that Philips offers" and invested heavily in information technology. Further, the management started the construction of "the Rs. 300 crore state-of-the-art plant at Kota" in Punjab for manufacturing glass and lamps (*Philips India Annual Report 1995*).

Another aspect of the managerial initiatives in the 1990s has been the restructuring of work organisation and reduction in employment. Especially important was the use of the voluntary retirement schemes (VRS), designed to reduce employment by inducing staffs and workers to accept retirement 'voluntarily' with an attractive parting package in a form of lump-sum benefit. As already discussed in Section 6.3.2 there are question as to what extent we can assume that this process is 'voluntary' especially in light of openly recognised role trade unions play in selecting and 'persuading' certain workers to take up the VRS, and intimidation tactics that are reported to be used by the management. The effect of the VRS is partially reflected in the trend of employment in the two Philips factors from our fieldwork data, which is presented in Figure 6-2. Although the VRS was introduced at the company-level, and therefore employees in any Philips units could potentially apply for the scheme, the impact on employment in the two factories appears to be different. In the Taratolla luminaire (luxurious lamp) plant in Kolkata, the manpower (the sum of production workers and support staffs) declined from 254 in December 1996 to 144 in March 2001, when the field research was conducted. In contrast, the decline of manpower was more rapid in the Kalwa

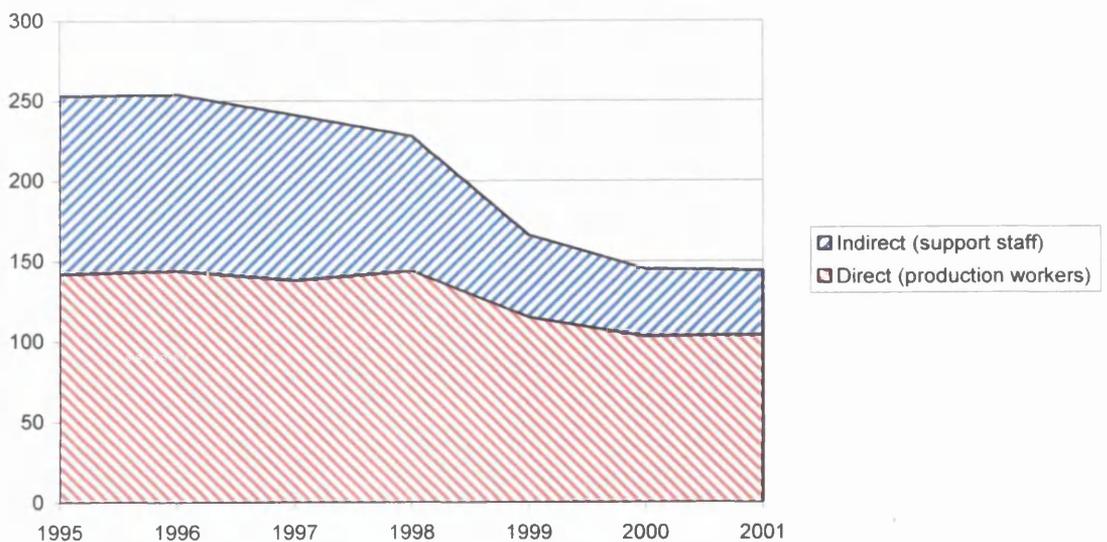
light factory in Mumbai, from 894 production workers and support staffs in 1996 to 246 in March 2001.

FIGURE 6-2 EMPLOYMENT IN PHILIPS KALWA (MUMBAI) AND TARATOLLA (KOLKATA)

Manpower in Philips Kalwa (Mumbai), 1996-2001



Manpower in Philips Taratolla (Kolkata), 1995-2001



Note: Data for management in Taratolla was not made available and therefore not included.
Source: Author's fieldwork.

Given that the two factories produce different products (while the Kalwa factory has a product portfolio that includes lamps, filaments, fluorescent powder and glass, the Taratolla plant focuses mainly on lamps and other domestic appliances), it is possible that different trends in employment during the 1990s reflect the overall company strategy of resource redistribution to shift the production, in relative terms, away from Mumbai and to Kolkata, either because of different market conditions or different labour costs. Indeed the rapid manpower reduction was made possible, in part, by outsourcing the fluorescent powder and glass operations away from Kalwa. It is also possible that the manpower reduction in Kolkata happened through other means, such as the closure of Philips' Salt Lake 'videocom' factory in 1999.

However, our interview with managers in the two factories suggests that the newly installed managers in 1991 faced different challenges and went on to employ different tactics to instigate the changes in Mumbai and Kolkata. In the light factory in Kalwa, Mumbai, a dispute occurred regarding flexibility and rationalisation policies negotiated during the 1992-93 plant-level settlement. Despite the majority Philips Workers Union refusing the settlement, the management in Kalwa signed the settlement with the Peico Employees' Union, the union allegedly set up by the Philips management to engineer a split in the union movement and ultimately the collapse of the union federation in 1986. Philips Workers Union separately signed the settlement later on. This 1993 settlement set the basis for the major rationalisation programme that was implemented in the Mumbai union throughout the 1990s, of which the unions are said to be "supportive".

In contrast, in the luminaire unit in Kolkata, a new personnel management came in with the objective to "change the work culture". According to the personnel manager, prior to 1991, management was unable to decide or implement policies regarding contract labour, overtime, canteen, transport allowances etc. After 1991, the management argues that they gradually started

to gain control over these issue in such a way that the management felt no longer need to consult the union to decide on policies regarding workers. This however did not mean that the changes did not face resistance. In fact the Peico Employees' Union, which was said to take a pro-management position in Mumbai, was controlled by the CITU and affiliated to the CPI(M) in Kolkata, and therefore the restructuring of work organisation was subjected to a series of labour disputes and court cases throughout the 1990s. In an interview with an ex-manager at Philips' Taratolla unit, we were told that:

In Philips, management played games by creating conflicts between two unions. The management wanted to gain control over the trade unions, but lost out in the conflict. The management went to the Government for intervention but it was too late.

While we have to be cautious about over-extrapolating the observations from a case study, the comparison of the two Philips units located in Mumbai and Kolkata suggests that the process and outcome of institutional change is likely to be different depending on the mobilisation strategies of bargaining agents, which in turn reflects the wider process of accumulation and redistribution politics. Our hypothesis is that the more rapid employment restructuring in Kalwa was made possible because of the unions' strategy in Mumbai to maximise the pay-off for the remaining members, in part, as a consequence of a greater incentives and compulsions to focus on 'within-firm rents', given the limited scope for them to gain from participation in the redistribution conflicts in the wider political economy.

The Philips' experience suggests that the impact of an institutional change is likely to involve different processes and outcomes depending on the local economic, social and political conditions. Institutional transformations often involve coercive means, and its trajectory is subject to complex, dynamic and contradictory social and political processes. This is significant for our discussion about labour market reforms, since the implication is that an implementation of the same policy may have diverging implications for LMIs

depending on their location conditions. Furthermore, it is important to note that in none of the cases where institutional change was observed did we find evidence that improvement in accountability and transparency preceded or accompanied the changes. It is also doubtful if we can necessarily argue that with localisation of collective bargaining, unions are better able to act as 'voice' of workers, considering the acceptance of the VRS that led to loss of jobs for those who left and intensification of work for those who remained. Once again, it is important to recognise that the precise effect of institutional change is likely to depend on a set of economic, social and political conditions within which the LMIs operate.

6.4.4 Concluding discussion: implications for theory, policy and politics

This final chapter brought together a number of issues discussed throughout the thesis by focusing on the micro-level processes of labour-management bargaining. Following from our discussion in Chapters 4 and 5 on the determinants of the type of LMIs, in which we argued that LMIs reflect the patterns of accumulation and redistributional conflicts at the macro political economy, Section 6.2 of this chapter examined the perceptions and behavioural patterns of bargaining agents. Using our fieldwork data, we found that the self-perceptions and behaviours of union leaders are only weakly associated with the types of LMIs, at best, which is contrary to the methodological individualistic models which assumes that the type of unionism and bargaining relations can be reduced to perceptions and ideology of agency. On the other hand, we also argued that it is too simplistic to assume that the behaviour of individual bargaining agents can be explained by the structural factors alone. The discussion led us to hypothesise that the type of LMIs is a systematic consequence of the structural constraint and capacity of the bargaining agents, which in turn reflects their position in the wider process of accumulation.

Section 6.3 then turned to our hypothesis of LMIs as ‘mediators’ of the labour process, as discussed in Chapter 1 and 2, by examining bargaining agents play in controlling and managing the labour process and surplus appropriation. We pointed out that the different modes of controlling and managing the labour process and different pay-off structures in bargaining reflects particular mobilisation strategies by bargaining agents, which reflects the opportunities as well as compulsion determined by the process of accumulation and the redistributive politics. Our observation has important implications to the theory of LMIs. Conventional models in economics and political science have traditionally viewed the types of LMIs as given and focused on their efficiency implications, where as more recent models have described the LMIs as being ‘chosen’ by bargaining agents in response to different bargaining strategies or “demand functions” (Bhattacharjee 1989: M-67). The contribution of this thesis is to explain different types of LMIs across sectors and regions by specifying the structural opportunities and constraints by focusing on different types of macro political conflicts.

The final section focused on how LMIs change (or do not change) in a dynamic context. The issues raised from selected case studies from our field research, that the trajectory of institutional changes are determined, not only by *economic* incentives, but also by *structural* opportunities and compulsions, are significant whether we believe that the decentralisation of LMIs is necessary for economic growth and/or the reorganisation of labour movements in the long-run. Our case studies imply that micro-level reforms that focus on improving the democratic accountability and transparency of LMIs, as discussed in Chapter 1, may not ‘liberate’ or ‘empower’ workers to *choose* unions that enable productivity growth and greater payoff to workers. In fact, our case studies suggest that any such reforms are neither *necessary* nor *sufficient* for institutional transformation. Instead we argue that the policy debates around LMIs need to be refocused on a broader set of reforms required for sustaining economic growth.

The 'stylised' image and perception about LMIs in India, and many mainstream models that inform policy assume that LMIs precede growth and misleadingly treat them as 'exogenous' variables. An important implication of the discussion of this thesis is that LMIs are 'endogenous' variables determined within the historically specific patterns of accumulation and economic development. Therefore, we have suggested that the causality assumed in some models, which attribute the economic performance to the type of LMIs, is at least partially in the opposite direction. While democratically accountable unions may be an important social and political goal on its own, and may form an important part of governance capabilities of the state or social system, there is very little evidence to suggest that such micro-level reforms are *sufficient*, or even *necessary*, for a sustained economic development (Khan 2005b). Instead what our analysis seems to suggest is that long-term economic development depends on the capacity of the state to *legitimately* instigate and manage rapid structural change in the economy, which depends on the balance of power of political entrepreneurs of different types within a society. Clearly this is a question of social transformation, and while the scope and possibility of external intervention in such process may be debatable, any meaningful initiatives and instruments required are likely to be complex and interlocked, and most importantly context-specific.

In terms of the labour movement, our analysis raises question on the role of trade unions and other labour organisations as effective agency to organise workers, either in terms of representing the 'voice' of workers in their workplace, or acting as class organisation in the wider political economic process. However, once again it is doubtful whether making union procedures transparent or accountable to the rank-and-file, necessarily enables unions to act differently. The findings of this thesis are therefore broadly in agreement with the argument by RoyChodhury (2008: 29) who attributes the decline of the political significance of industrial conflicts in India to the lack of an appropriate agency and politics for its particular "modalities of industrial

conflicts”. It is ultimately the position of bargaining agents in the wider social relations of production that determines their mobilisation strategies, which is the *objective* condition of the class struggle, and therefore such *structural capacity* to organise effective labour movements cannot be reduced to labour laws or governance reforms.

APPENDIX TO CHAPTER 6

6A.1 Factor analysis of 'self-perceptions' of the union leadership

In Section 6.2.1 of this chapter, we empirically analysed the data obtained from the structured questionnaire on unionists' 'self perceptions' on leadership attributes. Table A6-1 presents summary statistics of the perception scores on 20 leadership attributes that was collected from our survey based on interviews with 46 trade union leaders in 18 units.

TABLE A6-1 DESCRIPTIVE STATISTICS OF VARIABLES USED IN THE FACTOR ANALYSIS OF THE LEADERSHIP SELF PERCEPTIONS

	Mean	Std. Deviation
Ability to control	0.611	0.094
Make decisions	0.643	0.079
Make speeches	0.591	0.129
Negotiate with managers	0.637	0.086
Organise agitations and demonstrations	0.610	0.141
Take initiatives	0.631	0.096
Communication skill	0.642	0.065
Connection with other trade union leaders	0.574	0.148
Connections with members of the union	0.667	0.046
Connections with politicians, political party or state officials	0.574	0.150
Dedication to the cause	0.642	0.069
Honesty	0.678	0.040
Education	0.383	0.263
Intelligence	0.517	0.198
Leadership skill	0.626	0.070
Persistence	0.637	0.086
Persuasiveness	0.637	0.059
Resourcefulness	0.617	0.101
Self confidence	0.666	0.058
Skill in court work	0.509	0.192

Note: The number of observation is 46 (respondents from 18 units)

TABLE A6-2 EIGENVALUES AND ACCOUNTED FOR VARIANCE

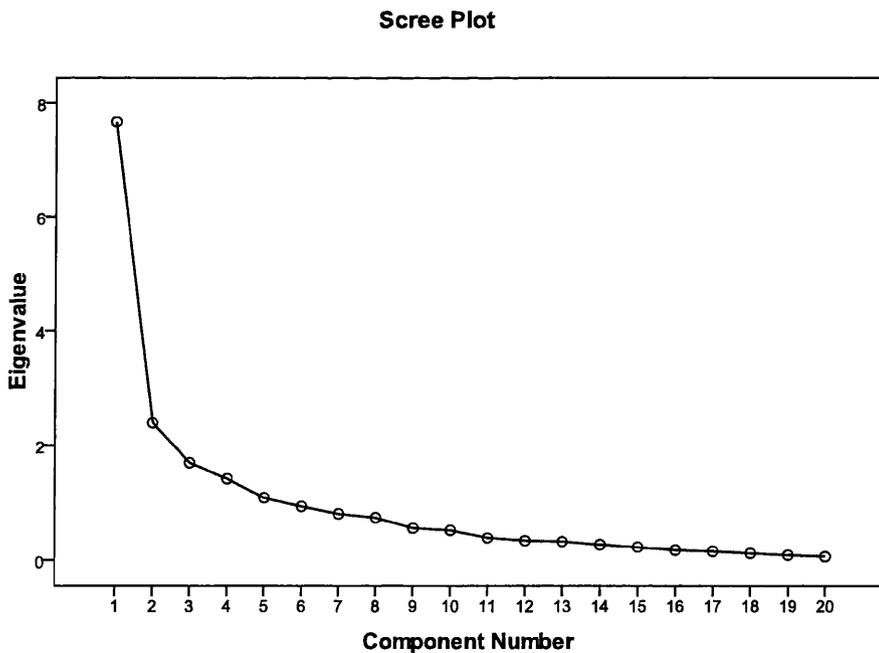
Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	% of			% of		
	Total	Variance	Cumulative %	Total	Variance	Cumulative %
1	7.667	38.334	38.334	4.409	22.047	22.047
2	2.395	11.973	50.308	4.271	21.354	43.401
3	1.698	8.490	58.797	2.111	10.555	53.955
4	1.420	7.100	65.898	1.988	9.939	63.895
5	1.088	5.441	71.338	1.489	7.444	71.338
6	.940	4.698	76.036			
7	.806	4.032	80.068			
8	.742	3.710	83.778			
9	.558	2.791	86.569			
10	.524	2.618	89.187			
11	.389	1.943	91.130			
12	.340	1.702	92.832			
13	.323	1.616	94.448			
14	.271	1.353	95.801			
15	.229	1.145	96.946			
16	.178	.891	97.837			
17	.154	.772	98.608			
18	.122	.608	99.216			
19	.091	.454	99.670			
20	.066	.330	100.000			

As discussed in Chapter 3, a sample size of 50 observations is often cited as the minimum requirement to carry out the factor analysis. While our sample size of $n = 46$ falls short of this 'rule of thumb', we justify the use of factor analysis for this data on the ground that (a) the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy (MSA) is 0.771, and (b) Bartlett's Test of Sphericity rejects the null hypothesis that all eigenvalues or 'roots' of the

covariance matrix Σ are equal of our data, suggesting that sufficient correlations exist among the variables ($\chi^2 = 550.627 > \chi^2_{0.000}(190)$).

The objective of the factor or principle component analysis is to find small number of factors or components that account for a large percentage of the total variation in the data. Table A6-2 presents the eigenvalues (total variation) and cumulative proportion of the total variance explained by our factors. If we follow the “root greater than one” criterion (Dillon and Goldstein 1984: 48), we should select the first 5 components. Note that about 71.338 percent of the total variance is accounted for by the first 5 eigenvalues. An alternative criterion often used is the graphical heuristic approach by looking for ‘an elbow’ in the curve of a scree plot, presented in A6-1. From the diagram, no obvious break can be found, except at the second component, and hence the test is inconclusive.

FIGURE A6-1 SCREE PLOT



In Section 6.2.1 we selected four components for the analysis of unionists' perception on leadership characteristics. This was motivated from the viewpoint of meaningful interpretation of the factors, and not necessarily adhering to statistical criteria, although from table A6-2 we can still verify that the four components explain about 65.898 percent of the total variation in the variance-covariance matrix.

6A.2 Comparison of pay-scale and actual pay in Cipla

In Section 6.3.3, we provided an analysis of the 'wage-welfare' payoff of workers by focusing on the pay-scale provided by the collective bargaining settlements of surveyed units. The use of pay-scale is second best compared to analysing the actual wage or pay. Due to the reasons discussed in Chapter 3, we were not able to examine the actual wage data, nor were we able to specify the distribution of workers amongst scale and grades. Since the objective of our analysis in Section 6.3.3 was to examine the pay-scale as a reflection of different mobilisation strategies of bargaining agents, this problem does not invalidate our analysis in the section. But, it still obviously raises interesting question on the possible discrepancy between the published pay-scale and the actual pay received by workers.

Table A6-3 provides evidence to suggest that the distribution of wages according to the pay-scale is roughly related to the actual wage distribution, by considering the case of Cipla, a pharmaceutical company based in Mumbai. We can see that the distribution of grading scheme and actual payment of workers since the 1980s were roughly linked. Standard deviations of both the grading distribution and the payment distribution have increase during the period. For both distributions, the shape has changed from right skewed distribution to near normal or left skewed distribution. A possible explanation for this shift in the distribution is that the speed for wage increase is faster for higher grade/scale workers than for lower grade/scale workers. However, considering that the number of workers in payroll has gone down from 325 in

1980 to 138 in 1994, an alternative interpretation that works in lower scale are either contracted out from the plant or removed from the bargainable category seems more plausible. This second interpretation also corresponds to our discussion in Section 6.4.3 in which we discussed the changes in pay patterns in the 'modern' sector.

TABLE A6-3 GRADING STRUCTURE AND DISTRIBUTION OF ACTUAL PAYMENT OF WORKMEN IN CIPLA, 1980-1994

		1980	1983	1987	1990	1994
Number of grades		5	5	5	5	5
Total number of scales		105	130	130	130	130
Distribution of grading structure	Mean (Rs.)	220.190	271.308	318.038	380.538	443.038
	Median (Rs.)	210.000	256.000	305.000	368.000	426.500
	Standard deviation	88.537	121.598	149.831	184.339	219.878
	Skewness	0.711	0.618	0.481	0.342	0.255
Distribution of actual payment	Number of workmen	325		261	241	138
	Mean (Rs.)	186.708		384.199	509.884	731.971
	Median (Rs.)	180.000		385.000	543.000	848.500
	Standard deviation	50.889		104.797	160.388	237.429
	Skewness	0.791		-0.906	-1.112	-0.746

Note: Since we do not have information of the number of scales in 1987, 1990 and 1994, we assumed that it is constant since 1983.

Source: Calculated by the author on the basis of the memorandums of settlement 1980, 83, 87, 90, and 94.

6A.3 Estimation of the wage function for Philips India

In Section 6.4.3 of this chapter, we estimated the wage or employment cost function using the annual company-level data of Philips India from 1986 to 1999 ($n = 14$), in order to explore the implications of changes in LMIs and management strategies. Table A6-4 lists the main quantitative variables used in the regression analysis, while table A6-5 presents the correlation matrix of the same variables. We note positive statistically significant correlations between the employment cost per employee (w_t/L_t) and net fixed asset per employee (K_t/L_t) as well as between w_t/L_t and annual net sales per

employee (S_t/L_t). The correlation between w_t/L_t and profit (after tax) per employee (π_t/L_t) is found to be statistically insignificant, which is consistent with the statistically insignificant coefficient on π_t/L_t from the regression output in Table 6-10. We may also note the strong correlation between K_t/L_t and S_t/L_t which indicates a possibility of an imperfect multicollinearity.

TABLE A6-4 DESCRIPTIVE STATISTICS OF VARIABLES USED IN THE ESTIMATION OF THE WAGE FUNCTION

Variable(s)	w_t/L_t	K_t/L_t	S_t/L_t	π_t/L_t
Maximum	0.292	0.457	4.588	0.074
Minimum	0.046	0.090	0.347	-0.025
Mean	0.122	0.210	1.585	0.019
Std. Deviation	0.071	0.119	1.275	0.027
Skewness	1.069	0.867	1.050	0.492
Kurtosis - 3	0.313	-0.658	0.142	-0.121
Coef of Variation	0.580	0.568	0.804	1.407

Note: w_t , K_t , S_t and π_t are measured in million Rs.

TABLE A 6-5 CORRELATION MATRIX OF VARIABLES USED IN THE ESTIMATION OF THE WAGE FUNCTION

	w_t/L_t	K_t/L_t	S_t/L_t	π_t/L_t
w_t/L_t	1.000			
K_t/L_t	0.982 **	1.000		
S_t/L_t	0.992 **	0.981 **	1.000	
π_t/L_t	0.412	0.318	0.459	1.000

Note: Figures are Pearson's correlation coefficient.

* indicates that the correlation is significant at the 0.05 level, and ** indicates that the correlation is significant at the 0.01 level (two-tailed).

With multicollinearity, the OLS estimators are still best linear unbiased, i.e. BLUE, although it makes precise estimation difficult. This is because "multicollinearity is essentially a sample (regression) phenomenon" (Gujarati 1995: 326), and therefore only affects the variances, without violating the assumptions of the classical linear regression model (CLRM). To see the possible effect of collinearity statistics, the variance-inflating factor (VIF) and

the tolerance, are reported in table A6-7. The high VIF in K_t/L_t and S_t/L_t , as well as in the slope dummy variables, indicate that the variance of the estimators are inflated by the presence of multicollinearity. A possibly consequence of multicollinearity is a large standard error on estimated coefficient, which makes the t ratio statistically insignificant. To put differently, the consequence is that the probability of failing to reject a false null hypothesis increases (i.e. type II error). In our case, from table 6-10 we can see that the coefficients on variables with possible multicollinearity, such as K_t/L_t , S_t/L_t , $D_t \times K_t/L_t$ and $D_t \times S_t/L_t$ are all statistically significant, and therefore multicollinearity is unlikely to be a problem.

TABLE A6-7 COLLINEARITY STATISTICS

	Tolerance	VIF
K_t/L_t	0.001	909.057
S_t/L_t	0.002	564.341
π_t/L_t	0.083	11.992
T	0.005	192.563
D_t	0.003	357.122
$D_t \times K_t/L_t$	0.001	1342.103
$D_t \times S_t/L_t$	0.001	964.195
$D_t \times \pi_t/L_t$	0.061	16.428

TABLE A6-8 DIAGNOSTIC TESTS

Test Statistics	LM Version	F Version
Serial Correlation ^(a)	$\chi^2(1) = 0.0799$ [0.777]	$F(1,4) = 0.0230$ [0.887]
Functional Form ^(b)	$\chi^2(1) = 1.2906$ [0.256]	$F(1,4) = 0.4062$ [0.559]
Normality ^(c)	$\chi^2(2) = 3.2048$ [0.201]	NAP
Heteroscedasticity ^(d)	$\chi^2(1) = 1.5159$ [0.218]	$F(1,12) = 1.4571$ [0.251]

Note: (a) Lagrange multiplier test of residual serial correlation; (b) Ramsey's RESET test using the square of the fitted values; (c) Jarque-Bera test of normality based on skewness and kurtosis of residuals; (d) Microfit test of heteroscedasticity based on the regression of squared residuals on squared fitted values. Figures in square parenthesis are the p-values.

We have used diagnostic tests for other potential violations of the assumptions of the CLRM, which are listed in table A6-8. In all tests, the null hypotheses are that the assumptions of the CLRM hold, and therefore the failure to reject the null hypotheses suggest the validity of our estimation result presented in Table 6-10.

CONCLUSION

Summary of the findings and hypotheses

Labour market institutions (LMIs) such as trade unions and labour legislation are systematic consequences of the process of accumulation. Diversity of LMIs can be found reflecting different ways in which the society organises the process of capitalist development and ways in which the labour process is controlled and managed. This is the main hypothesis of this study. This hypothesis challenges the perception prevalent in many theoretical literature as well as policy debates on LMIs, which share the assumption that LMIs are amongst the main causes of economic performance both at the firm-level as well as the economy as a whole. Instead we have argued that LMIs are 'endogenous' to the process of development, and therefore a broader set of policies and political processes that goes beyond labour market reforms are required for sustaining economic growth.

Chapters 1 and 2 have cast this argument by making critical interventions in both the on-going policy debates on LMIs in India and some theoretical models that inform these policies, and thereby proposed an alternative political economic framework for analysing the reproduction and transformation of different types of LMIs. We argued that LMIs should be treated as particular *forms* of capitalist social relations rather than as an object that is 'chosen' by individual agents, without denying the role of agency in political struggle against the prevalent social relations. The existing type of LMIs is therefore a manifestation of structural opportunities and constraints for bargaining agents to organise unions and labour-management relations differently. Although we agree with the prevalent policy consensus that LMIs are important components of institutional and governance capacities of society, we argued that it is misleading to treat them as exogenous variables. Policy prescriptions that focus on labour law amendments

and governance reforms with regards to unions and other collective bargaining institutions as means of changing existing types of LMIs therefore fail to address structural problems underlying them. Also we argued that while the existing theories of LMIs are important scholarly attempts to describe unions and labour-market relations in different countries and industries, they are nevertheless inadequate as models for guiding policies without placing them in the particular social and historical contexts.

The political economic approach requires us to explain the existing types of LMIs by probing beneath their appearance and specifying the social relations within them. This poses a number of dilemmas and challenges in the empirical research of trade unions and labour-management relations, which was discussed in Chapter 3. The antagonistic relationship between labour and capital gives rationale for bargaining agents to act as 'gatekeepers' of information, and to obscure the unequal social power that underpins their relationship, which challenge the fiction of researchers as neutral and 'partial' observers. We have argued that the dilemmas encountered in the field research, which resulted in 'uneven' data, can provide important insights into the social relations that underlie perceptions and behaviours of agency and the type of institutions by carefully interrogating the data and interpreting them within the specific social and historical contexts.

In Chapters 4 through 6, we provided analyses of empirical data collected from our field research. Using collective bargaining settlements in our surveyed units, in Chapter 4 we have provided an analysis of the typology of LMIs in Mumbai (Bombay) and Kolkata (Calcutta). We found significant differences in types of LMIs between 'traditional' sector units such as jute and cotton textile industries and 'modern' sector firms in engineering and consumer goods manufacturing, especially in terms of their bargaining structure. However, we also found

significantly different institutional characteristics within each of these two sectors between those units located in Mumbai and those based in Kolkata. In particular, we found greater diversity in the types of LMIs in Mumbai compared to Kolkata for both 'traditional' and 'modern' sectors. This prompted us to hypothesise that types of LMIs cannot be explained exclusively by differences in technology and production organisation, and that social and political conditions within which labour-management relations take place may be significant factors.

The latter observation is important because of the divergence in economic performance in the two regions after the mid-1960s, with Maharashtra (Mumbai) representing an industrially more dynamic region compared to West Bengal (Kolkata) which, at least until recently, lagged behind in growth rates. It has been common to attribute this difference in the patterns of economic development to contrasting 'investment climates' or 'governance capacities', with the types of LMIs being important components of them. Our hypothesis is instead that the causality is at least partially in the opposite direction, with the existing types of LMIs reflecting the particular balance of power of other actors in the wider social context, which in turn is an expression of the historically specific process of accumulation, rather than being autonomously 'chosen' to determine the latter.

Therefore in Chapter 5, we have explicated the regional macro political economy in Maharashtra and West Bengal, outlining the differences in patterns of accumulation and types of distributional conflicts that have determined structural opportunities and capacities for bargaining agents to adopt different mobilisation strategies. We argued that the structural conditions in Maharashtra was such that they led to an emergence of a loose but relatively stable coalition between the pro-rural dominant class/ castes and the emerging urban industrial and commercial capitalists in the early period of industrialisation, which allowed the state to adopt economic policies that focus on providing infrastructures and

institutions that facilitate accumulation. These policies further mediated the process of dynamic but contradictory process of accumulation in the region providing strong incentives for bargaining agents to focus labour-management bargaining on local conditions and unions to mobilise workers to seek long-term company-based 'within-firm rents'. In contrast, in West Bengal the structural and historical conditions did not allow political 'elites' to form stable coalition with dominant productive classes, and the political legitimacy of the ruling regimes depended on redistributive accommodation of a wider section of the society from lower and middle income groups. As a result, the state policy has been characterised by direct state interventions in productive activities in an attempt to sustain industrialisation and deliver secure employment and wages. The strategy of various social actors and political entrepreneurs in the regions were to mobilise organisational power in order to attract resources to industries and obtain kickbacks from industrialists, which created greater scope for bargaining agents to gain by being part of this redistributive struggle at the macro-level and seek politically created 'outside-firm rents'. Thus by focusing on the contrasting patterns of capitalist accumulation and political mobilisation, we have attempted to provide an alternative explanation of the different types of LMIs and the diverging economic performance in Mumbai and Kolkata that does not reduce them to cultural differences or ideologies.

Chapter 6 has brought together various discussions in our thesis to illustrate micro-level responses to and implications of different types of LMIs in our surveyed units. Using statistical analysis of data on self-perceptions and activities of leaders drawn from interviews, we have argued that these variables are only weakly correlated with types of LMIs, which is contrary to the empirical expectations of some mainstream models of LMIs that focus on the role of agency's perceptions and ideologies in determining the type of LMIs. Instead we hypothesise that ideology and strategy of bargaining agents are formed in

response to the particular political and economic processes, and not autonomously determined by their innate preferences alone. We also examined the modality of controlling the labour process and the structure of pay scale under different types of LMIs, and explained them as reflections of mobilisation strategies by bargaining agents in response to structural opportunities and compulsion determined by the process of accumulation and the bargaining powers of other actors in the wider social context. Finally, we evaluated several case studies to show that the trajectory of institutional transformations crucially depended on structural opportunities and capacities of bargaining agents, and that localisation of bargaining structure was associated with various changes in the mode of controlling and managing the labour process, including personalisation of pay, restructuring of labour, intensification of work, and capital investment.

Possible areas for future research

Let us conclude this thesis by highlighting the limitations of the present research and possible future area of developments. The analysis of transformation of LMIs at the end of Chapter 6 implies that institutional change is unlikely to be instigated by micro-level reforms but rather occurs in response to particular political settlements at the macro-level. In the present research on the comparison of Mumbai and Kolkata, we compared two regions which were two of the oldest industrial centres of India, but followed different paths in terms of their types of distributional politics, growth trajectories, and modality of LMIs. Drawing inferences and hypotheses from a comparative studies of two regions, especially those which are perceived to represent contrasting fortunes in capitalist transformation, may lead to overemphasising the differences in the concrete forms through which the process of accumulation is established. It would therefore be of interest to extend our research to other regions within India. For example, Gujarat, which was a 'late' developer compared to Maharashtra, is seen to have been similarly successful in achieving relatively dynamic accumulation and

social transformation, may offer interesting point of reference to our comparative analysis (Singha 2005). Similarly, Kerala, which shares the perceived left-leaning political regimes with West Bengal, but again had distinctively different growth trajectory to our cases may be of interest. Further, it would be interesting to ask similar questions of other countries where transformations of LMIs occurred through processes of political settlements, such as Japan in the 1950s, or China and Vietnam in recent years. Such comparison with other regions may be one possible area of extending this research. Another related limitation of this research was the focus on organised manufacturing sectors, and also the limitation of study on public sector companies. Public sector, which was traditionally the driving force of industrialisation, still plays important roles in the labour movement in India, and it was unfortunately that we were unable to find a better balance of private and public sector units in our survey, as discussed in Chapter 3. Also as discussed in Chapters 3 and 4, given the increasing financialisation of the economy, it would be interesting to research the labour-management relations in banking and financial sector, which is an area with limited research.

Another possible area for future research that the present thesis has opened up is the role and impact of political entrepreneurs who are not directly involved in productive activities but are influential in organising patron-client networks of various social actors that dominates distributional conflicts in countries such as India. In recent decades there have been studies on this topic such as Jeffrey and Lerche (2000; 2001), Harriss-White (2003), and Veron, Williams, Corbridge and Srivastava (2006), but our research has provided a perspective from the side of organised firms and showed that distributional conflicts organised by these social actors have significant implications to LMIs. This area of how to analyse and problematise these unconventional forms of accumulating activities and their

relations to more conventional accumulation in the organised industrial sector needs to be explored further.

Finally, the perceived decline of trade unionism both as bargaining agents to reflect the 'voice' of workers, and in terms of their effectiveness in the wider political processes, raises question on how to problematise the antagonistic capital-labour relations and the working class politics under changing forms of accumulation on a global scale. The present study has focused primarily on the national economy of India and the regional diversity within the country, but it is recognised that these observations are concrete forms of wider processes in the world historical moment. It is hoped that this thesis offers a starting point for a future research that contributes to a better understating of the changing global political economy and the implications for the livelihood of working people.

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