

# LABOUR INSTITUTIONS AND ECONOMIC DEVELOPMENT IN INDIA

## Some Exploratory Hypotheses

K P Kannan

Fellow, Centre for Development Studies, Trivandrum

695011 (Ullor)

The link between labour institutions and economic development may be examined at two levels, micro and macro. At the micro level it may be examined in terms of economic and social forces which result in individuals undertaking productive work, their productivity and the working conditions. At the macro level the objective may be to comprehend the implications for economic growth (thereby bringing in considerations of efficiency) and distribution (to consider aspects of equity). This paper is concerned with the latter.

The discussion on labour institutions in the earlier literature sought to emphasize their role in labour market segmentation and the resultant inequalities in earnings. Classical economists like John Stuart Mill emphasized such nonlabour market institutions as class stratification as a deeply rooted barrier to mobility and as a source of intergenerational transmission of poverty. This acted as a severe constraint in investing in human capital - in human resource development as the current parlance goes - and reduced this segment to, what John Cairnes, a follower of Mill, called, 'noncompeting groups' (quoted in Cain 1987). Both modern neoclassical economists and radical economists have contributed to the understanding of labour market segmentation; the former view and emphasize the phenomenon as 'separate' labour markets while the latter emphasize the implication for inequality emanating from a fixed structure of earnings for jobs. That the labour market segmentation and discrimination are rooted in a larger set of historical and institutional factors, including labour market institutions, has by now been recognized.

Recent interest in labour institutions emanated not from the limited perspective of labour market segmentation but from a broader concern with linking labour institutions with the pace and pattern of economic growth and distribution (see, e.g., Rodgers 1991, Freeman 1992a and 1992b). The recent and spectacular experience in achieving high rates of economic growth in East Asian countries, where the social milieu differs in many respects from the advanced capitalist economies in Western Europe and North America including the individualistic motivations of economic agents, has also been responsible for the revival of interest in understanding the role of institutions, especially labour institutions, in economic development.

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What are labour institutions? This question has been addressed in much detail in the context of their role in economic development (see Rodgers 1991 and 1992). The scope of labour institutions has been widened to include those with a formal status (i.e. organizations such as unions or legally backed set of rules such as labour legislation) as well as those without formal status (i.e. socially embedded norms of behaviour as in certain attitude to work and implicit labour contracts and relations). Rodgers (1993) classified these labour institutions into five major categories viz., (i) organizations, (ii) formal labour market institutions, (iii) informal labour market institutions, (iv) underlying formal social rules, and (v) underlying informal social rules. Taking this as a starting point, we seek to reclassify them with a view to identify their origin and vintage in the Indian context. The idea behind the origin is to find out whether an institution emanated from the domain of labour or outside of labour but affect labour in significant ways. Examining vintage leads to categorizing labour institutions into (i) modern and (ii) traditional institutions. Such a distinction is relevant in the Indian context where both have come to exert a strong influence on labour as well as the process of economic development. Taking these four dimensions of labour institutions into account viz., their origin and modern/traditional character, the following typology has been arrived at. This could provide some direction as to the domains from where changes ought to be engineered on the one hand and the social character of the domain from where changes ought to emanate, on the other.

Figure 1

	Labour Institutions	Institutions that affect labour
Institutions	A1	A2
Modern A	E.g. Unions, Labour Ccops.	E.g. State interventions in labour
Traditional B	B1 E.g. Solely Caste-based occupations such as artisans	B2 E.g. Social Structure, attitude to work

#### A1 *Modern labour institutions*

Modern labour institutions may be identified on the basis of their formal character in terms of organizational structure, legally enforceable rules and regulations and the explicit nature of their functioning. Under this category there are such organizations of labour as trade unions and labour cooperatives. Other examples in this category are as employment contracts, rules for career progression, formal mechanisms for job search like employment exchanges and labour legislation.

## B1 *Traditional labour institutions*

Traditional institutions are those which have evolved over a long period of time and got embedded in the sociocultural milieu. Since they don't often have formal representations they are not easily amenable to precise characterization. Their enforceability need not be backed by legally binding mechanisms but by social norms and behavioural patterns. Organizations of workers in terms of their social characteristics, i.e. work based on caste identity as in many artisanal work in such occupations as traditional fishing, carpentry, blacksmithy and pottery belongs to this category. Here the role of the informal labour market institutions may be quite influential in deciding the status of workers. These could be implicit codes of conduct governing work, working hours, relationship with employers based on social deference or control; informal learning processes (say working under Master Craftsmen); and institutions regulating self employment. Labour supply mechanisms such as household strategies of labour supply in terms of child work, female work and non-household strategies such as labour contractors (e.g. jobbers), labour gangs, etc. will also come under this category.

## A2 *Modern institutions that affect labour*

There are a number of modern institutions that emanate outside the domain of labour *per se* but affect labour and the functioning of labour markets in significant ways. An important set of institutions emanate from the intervention of the state such as regulatory bodies for enforcement of minimum wages and working conditions, tripartite bodies for resolving industrial disputes, arrangements for social security to workers, etc. Employers organizations are also modern institutions that affect labour. Formal social rules in this category have an intimate bearing on labour. These are the system of rights especially ownership of property, rights of individuals to income and public goods, rights of expression, association and political activity and the system of justice to enforce rights.

## B2 *Traditional institutions that affect labour*

Quite a few traditional institutions can be shown to influence labour and the functioning of labour market institutions especially in the Indian context. Some of the important ones are: social group identity such as caste (in many other contexts race and ethnicity) influence the employers in the recruitment of workers and allocation of work and its remuneration. In addition, there are the culturally embedded rules and/or norms of behaviour such as attitude to work, roles of particular groups - especially women - in the labour market, hidden wage relationships in such practices as homeworking and subcontracting. Most of these have contributed to the phenomenon of labour market segmentation and discrimination.

When we refer to labour institutions we have in mind these four sets of institutions. It is however necessary to go beyond this simple classification to one that will link up labour institutions with the process of economic development. The task is to conceptualise the linkage between labour institutions and economic development in a manner in which one could discern the role of different sets of institutions described above.

The link with economic development may be captured in terms of the role of labour institutions in determining the pace and pattern of economic growth and its distribution. Labour institutions may be perceived and evaluated in terms of their pro- or anti-growth and pro- and anti-distribution biases. Pro-growth, for example, does not imply the intended objective of a labour institution but its compatibility with the objective of economic growth. For example, the modern labour institution of trade unions evolved historically based on the distributional aspects of production. That, however, need not make them anti-growth by definition. It will depend on the role of this institution in particular contexts influenced by a number of other factors. Viewed in this way, one will have to try and examine the role of particular labour institutions in terms of their compatibility with the objectives of growth and distribution in given historical contexts. This will give us a four-way classification of the role of labour institutions in economic development (see figure 2). Evaluating labour institutions in this manner could be used to find out their character in terms of their origin (labour or non-labour) and vintage (modern or traditional) which will have implications for engineering change in the desired direction.

Figure 2

Labour Institutions that are →	Pro-distribution 1	Anti-distribution 2
Pro-growth A	A1	A2
Anti-growth B	B1	B2

*Pro-Growth and Pro-Distribution*

What kind of labour institutions function in a manner that they lead to enhancing both growth and distribution? It may indeed be difficult to isolate a set of institutions that fulfil this condition. However, much would depend on how labour institutions function within the larger context of the society and economy which underpin an institutional framework compatible with the objectives of both growth and distribution. The important factor here is the social underpinning of institutions which give rise to a given configuration of growth and distribution (see Boyer 1992). Thus the functioning of trade unions and the system of protective labour legislation after the Second World War and upto the early seventies in some countries and early eighties in some others could be characterized as compatible with the objectives of both growth and distribution. Hence the characterization of this period (especially till the early seventies in all the developed capitalist economies) as the 'golden age of capitalism' (Marglin and Schor 1990). During this period the important modern labour institutions such as trade unions and protective labour legislation (along with a broader social security system) evolved with a view to protect the economic interests and

security of workers and they were compatible with the objectives of both growth (i.e. through productivity increase) and distribution because the socio-political milieu underpinned their roles. The success of social corporatism in the Scandinavian countries and in Germany as well as the social incorporation of labour in the capitalist project within its own traditional cultural milieu in Japan (see Morishima 1980) are relevant examples in this context. In these cases, the presence of trade unions and protective labour legislation was not seen as prejudicial to growth.

In the Indian context, the question is whether the presence of such modern labour institutions as trade unions and protective labour legislation in the organized sector is compatible with the objective of growth or not. This we shall take up in Section II.

### *Pro-growth but not pro-distribution*

Labour institutions that help the process of growth but not distribution in terms of reducing inequality in earnings are not hard to come by (e.g. Brazil in the sixties). Many types of state interventions especially those without a democratic polity but with successful record on economic growth, but without protective labour legislation and/or right to organize could also be included in this category. (e.g. South Korea and Taiwan). In the Indian context, these would refer to all forms of non-protective labour legislation which restricts the degree of freedom available to labour especially for trade unions. But in the larger context this also refers to the absence of any meaningful labour legislation that are protective of the interests of labour especially those outside of the organized sector. An overwhelming majority of the workers in India do not enjoy either protective labour legislation or, whenever there are piecemeal legislation, enjoy the benefits of it. To that extent, state interventions support a process of unhindered growth but do not contribute to the objective of distribution. There is the underlying social attitude that all forms of labour need not be brought into protective labour legislation and consequently aspire for a higher standard of living through the working of such labour institutions. The society in India while underpinning the rights and protective labour legislation of workers in the organized sector is equally averse to such an societal underpinning for the majority of the workers outside of the organized sector.<sup>1</sup>

### *Not pro-growth but pro-distribution*

The other side of the argument in India is that the state is overprotecting labour in the organized sector. By its bargaining strength, unionised labour, mostly in the organized sector, has become a privileged section because of regularity of employment, wages, and non-wage benefits, and higher level of earnings (e.g. Dandekar 1978 and 1980; Lucas 1988; Fallon and Lucas 1989; World Bank 1989; and Ahluwalia 1992). There are also other aspects of labour in the organized sector which make them a class above the general run of labour in India. These are: liberal rules relating to the formation of trade unions, legal backing for considering bonus as deferred wage, state-subsidized insurance schemes for ill-health, social security schemes like PF and gratuity, retirement benefits and compensation in the event of retrenchment. It is often argued that these forms of protective labour legislation is inhibitive

of growth through a number of factors such as higher labour costs, greater problems in labour management that are restrictive of the freedom of employers and lesser incentives for investment in the organized sector. These labour institutions are characterized as protective of the interests of labour but not that of growth and accumulation.

### *Neither pro-growth nor pro-distribution*

Labour institutions that are neither supportive of growth nor distribution are also not hard to come by, certainly not in the Indian context. These are institutions that contribute to and strengthen segmentation and discrimination in the labour market. There is now an increasing array of literature on labour market segmentation that creates barriers to entry for labour due to historical class situation or social attributes such as race, ethnicity or gender (e.g. Gordon 1982; Loverridge and Mok 1979). Caste and gender based institutions are the two most important ones in the segmentation and discrimination in the Indian labour market. Caste as an age-old institution has, as its rationale, the occupational division of labour and has hence justified segmentation in all non-labour life activities.<sup>2</sup> Caste-based segmentation is also arranged in a hierarchical order attaching status-values to groups of occupations. Hence the labour market is characterized by both stratification and segmentation i.e. both vertical and horizontal separation. Since stratification is closely correlated with both asset and income at a broader level of grouping, there is a strong underlying economic ranking of occupations. Some loosening of this correlation between social ranking and asset/income has taken place especially at the middle level during the post-independence period. However, historically well entrenched inequality - both economic and social - is characteristic of the labour market in India.

An additional factor has contributed to the strengthening of this segmented nature of the labour market in India. This is the gender dimension which has been a segmenting factor in almost all economies. Advanced economies with higher levels of achievement in social development and participatory political institutions are no exception to this. To the extent gender-based segmentation is discriminatory to women, it has been strongly influenced by the sociocultural perception of the role of women in economic activities. This particular labour institution has, in the Indian context, reinforced the caste-based segmentation and discrimination, thus placing a sizeable segment of the labour force in a position of multiple disadvantage i.e. those who are poor, low caste and women.<sup>3</sup>

Our attempt here will be to argue that the institution of caste and gender-based segmentation of the Indian labour market is neither supportive of growth nor distribution and hence constitutes itself as a formidable constraint in the process of economic development. This will be taken up in Section III.

## Modern Labour Institutions and Their Role in Economic Development

Of the four sets of labour institutions we shall subject two of them to an examination of their role in economic development with a view to formulating certain hypotheses. The first set will be the modern institutions of trade unions and the protective labour legislation in the organized sector and their role in economic development. The second will be the traditional labour institutions of caste and gender. This section deals with the former.

Since the early eighties when economic growth began to slow down in the advanced capitalist countries, one of the first sets of labour institutions that came under attack was the trade unions and protective labour legislation. It was argued that these two institutions do not provide the flexibility required for employers to restructure the industry with a view to cut labour costs and make it more competitive. Retrenchment becomes difficult, technological changes are resisted and these affect adversely on productivity and growth. There are strong and influential adherents to these views with respect to India (e.g. Lucas 1988; Fallon and Lucas 1989; World Bank 1989; and Ahluwalia 1992). Their arguments can be summarized as follows: The organized (mainly manufacturing) sector in India is characterized by the presence of strong unions and protective labour legislation aimed at increasing real wages (as well as non-wage earnings) and job security; these have constituted itself as a major labour market distortion leading to substitution of capital for labour and hence increased effective cost of labour, excess of labour due to past overmanning and stringent exit policies, increased real earnings resulting in a decline in the growth in employment and, implicitly, the efficient use of manpower. Taken together, these views constitute a strong indictment on the two most important modern labour institutions (unions and protective labour legislation) viz-a-viz their role in economic development especially in relation to employment and labour efficiency.<sup>4</sup>

While the fact that growth in employment in the organized sector has declined since the beginning of the eighties has been recognized, the causal factors have not been established unambiguously. The argument that the decline is due to, among other labour market 'distortions', an increase in real wage rate as put forward by Lucas (1988), Fallon and Lucas (1989), and Ahluwalia (1991) has now been disputed. A recent study has shown that "while earnings per worker in registered manufacturing increased at 3.2 percent in the decade beginning 1979-80, earnings per manday increased at only 1.6 per cent per annum which is less than the corresponding per capita GDP growth rate during the same period (2.7 per cent)." (Nagaraj 1993:5). This is because workers have evidently worked a larger number of mandays in the eighties compared to the seventies.

The above finding is quite revealing in the light of the claim of rising real wages as measured by earnings per worker. However, a rising real wage per se does not say anything about labour efficiency unless it is related to labour productivity. If it is argued that "unions, aided and abetted by the state, have raised wages ahead of productivity" (Lucas 1986 and Sengupta 1988 as reported in Deshpande 1992), then it points to a deserving indictment of labour institutions because it goes against dynamic efficiency considerations. It is this aspect of dynamic efficiency in the organized sector characterized by the presence of unions and protective labour legislation that we examine here.

From the point of labour institutions, the concept of dynamic efficiency takes into account both the growth and distribution objectives of economic development. The employers are concerned with the share of wages in value added because that determines the share of profits. From a dynamic point of view, what needs to be tested is the growth in per capita labour productivity and the growth in product wage representing the share of wages in value added. Deflating the current values of both by the Wholesale Price Index for Manufacturing, we have arrived at their real values. Three possible outcomes and their implications may be stated as follows:

- (a) If the difference between the growth in labour productivity (LP) and growth in real product wage ( $W_w$ ) is positive, then the industry concerned is efficient in the dynamic sense and that the presence of unions and protective labour legislation is not incompatible with the objectives of growth and distribution.
- (b) If the difference between LP and  $W_w$  is zero, then there is no change in the efficiency and the industry concerned is not able to make any additional contribution to accumulation. In this case, the presence of unions and protective labour legislation is neutral and preserves the status quo.
- (c) If the difference between LP and  $W_w$  is negative, then the industry concerned is not dynamically efficient and hence likely to experience a decline in its ability to compete and survive. In such a situation, the presence of unions and protective labour legislation may be said to be not compatible with the objective of growth.

We report here two sets of results. Table 1 presents the results for the Factory Sector as a whole. And this includes both large and relatively small enterprises in the organized sector. The results are quite revealing. For the organized sector as a whole, there is no evidence to show that the presence of unions and protective labour legislation has affected the dynamic efficiency and thereby the objectives of growth and distribution. Growth in product wage has been more than compensated by the growth in labour productivity. And since the difference is positive, the objective of accumulation and further growth has been served to a limited extent. Other things remaining the same, higher the difference the greater is the scope for accumulation and growth. A period-wise examination shows that the difference has been highest since the seventies although there has been a decline during the eighties. This is possibly the basis for the concern about the role of unions and protective labour legislation in the organized sector in the eighties.



The reported decline in total factor productivity should therefore be attributed to factors other than labour especially on such factors as capacity utilization and supply bottlenecks. It is important here to note that, while giving these as possible reasons, Chakravarty (1989:57) has also underlined the slow growth of domestic absorptive capacity for many of the consumer durables. And this is linked to the question of expanding demand arising out of the income of labour.

**TABLE 1**  
Average annual growth rate in labour productivity  
real wage in India: Factory sector, 1960-61 to 1987-88

Period	$\dot{LP}$	$\dot{Ww}$	$\dot{Wc}$	$(\dot{LP}) - \dot{Ww}$
60-61/71-72	2.80	2.29	2.01	+0.51
73-74/87-88	4.08	3.24	2.26	+0.84
80-81/87-88	5.22	4.90	3.02	+0.32
60-61/87-88	3.44	2.77	2.14	+0.67

Notes :

1. LP = Average annual growth rate in labour productivity, measured in terms of gross value added per employee deflated by WPI for manufacturing sector.
2. Ww = Average annual growth rate in product wage measured by earnings per employee deflated by WPI.
3. Wc = Average annual growth rate in consumption wage measured by earnings per employee deflated by CPI.

There could be variations in dynamic efficiency at the level of individual industries. We have results for 18 industry groups that constitute the manufacturing sector in India within the organized sector. Table 2 gives the results. During the period 1973-74 to 1985-86, for which we have been able to compile the data, the condition for dynamic efficiency has been satisfied by 15 out of the 18 industry groups. The three industry groups, which showed a negative difference in dynamic efficiency viz., cotton, jute and paper are the ones which have been lagging behind in terms of modernization of plant and equipment. We also examine the results for the period in the eighties, 1980-81 to 1985-86, to find out whether the eighties offer a different picture. It is here that we see a pattern which could be characterized as a process of polarization in competitiveness. 40 percent of the industry groups (i.e. 7 out of the 18) show a negative difference indicating a decline in profitability while another half (9 out of the 18) show an acceleration in dynamic efficiency. The remaining 10 percent of the industry groups, while maintaining dynamic efficiency, show signs of decline.

The picture that emerges during the eighties is therefore a mixed one. The fact that half the industries are increasing their competitiveness goes to show that the presence of unions and protective labour legislation is not incompatible with the objectives of growth and accumulation. Those that have lost the dynamic efficiency include the ones (cotton and jute) lagging behind in modernization and those that may be said to be facing shortage of raw materials arising out of the scarcity of such environmental resources as wood. Capacity utilization in these industries could have come in the way of increasing labour productivity. That the picture emerging in the eighties is a mixed one does not need any emphasis but the pattern in terms of 'high performers' and 'low performers' suggests that the presence of unions and protective labour legislation cannot be held responsible, *prima facie*, for the results is evident. Moreover, the longer term trend is certainly one which does not support any argument against the presence of unions and protective labour legislation on the efficiency of industries.

We have also presented, in Tables 1 and 2 the growth in consumption wage i.e. current earnings per employee deflated by the consumer price index for industrial workers. It is important to note that the growth in consumption wage (which represent the real earnings of workers) is uniformly lower than the growth in product wage. That is to say, the relative prices of wage goods (mainly food) are higher than the goods produced by the workers in the industries. This points to a more basic constraint in industrialization, i.e. the ability to increase the real *consumption* of workers along with their increase in productivity. The point is that wage as a *cost* element is increasing faster than as one representing *income*.

Our hypothesis therefore is that the presence of modern labour institutions such as unions and protective labour legislation are not incompatible with the objectives of growth and distribution. On the contrary, there is enough evidence to show that faster growth in dynamic efficiency is achievable given the presence of other favourable conditions. The onus for the decline in dynamic efficiency in some industries should therefore be sought in some other factors such as lack of modernization and supply bottlenecks. If the viewpoint against the presence of unions and protective labour legislation is gaining currency, voiced loudly and repeatedly by employers and their organizations, the explanation for that cannot be based on considerations of efficiency. From an institutionalist point of view as represented by the Regulationist School, the reasons are more likely to be based on the concern for control of labour so that it becomes flexible enough to suit the changing strategies of employers.

From the point of economic development, the link between considerations of dynamic efficiency and growth on the one hand and distribution on the other are clear enough. Increasing labour productivity faster than earnings contribute to investment and growth. Increases in real earnings lead to increases in effective demand from a broader base of the population (workers and their families) and gives rise to a demand regime conducive to growth. The constraint in the Indian context is the narrow base of this demand because of the small size of the organised sector in the total workforce. Instead of posing the protective labour legislation as a barrier in expanding employment in the organised sector, the emphasis ought to be on extending progressively the protective labour legislation to the unorganised sector with such interventionist strategies as to help increase the labour productivity in that

sector. Such a 'levelling up' approach is required to reduce the wide gap between the earning levels and working conditions between the two sectors. This could lead to a demand regime more favourable to the growth process that caters to meeting the wage goods requirements of a wider segment of the population.

TABLE 2

Annual Average Growth Rate in Labour Productivity, Product-wage, and Consumption-wage in the Factory Sector

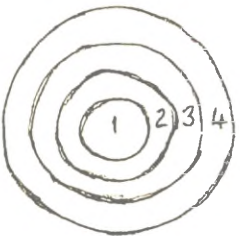
Industry Group	73-74/85-86				80-81/85-86			
	LP	Ww	Wc	LP-Ww	LP	Ww	Wc	LP-Ww
1.Food products.	8.98	7.08	3.79	+ 1.9	15.67	11.45	7.94	+4.22
2.Beverages, Tobacco & Tobacco products.	6.38	4.72	4.45	+1.66	10.82	8.71	6.87	+2.11
3.Cotton Textiles.	2.44	4.00	1.83	-1.56	3.35	5.73	1.54	-2.38
4.Wool, Silk & synthetic Fibre Textiles.	5.03	4.89	2.91	+0.14	6.71	4.86	2.07	+1.85
5.Jute, Hemp & Mesta Textiles.	1.53	5.20	2.92	-3.67	-1.28	10.93	2.28	-12.21
6.Textiles products.	5.30	3.37	1.61	+1.93	7.97	5.65	1.43	+2.32
7.Wood & Wood products, Furniture & Fixtures.	0.85	0.15	2.55	+0.70	1.76	2.62	2.83	-0.86
8.Paper & Paper products: Printing, Publishing etc.	1.40	1.43	2.63	-0.03	2.48	3.57	2.10	-1.09
9.Leaner & Leather & fur products	2.52	0.23	1.37	+2.29	3.25	2.93	-0.43	+0.32
10.Rubber, Plastic, Petroleum & Coal Products.	6.71	-2.01	2.63	+8.72	14.70	1.95	4.78	+12.75
11.Chemical & Chemical products.	-0.65	-0.7	2.33	+0.05	2.27	2.53	2.90	-0.26
12.Non-metallic Mineral products.	3.69	-0.85	2.49	+4.54	7.42	1.14	2.09	+6.28
13.Basic Metal & Alloy Industries.	2.24	-0.91	1.82	+3.15	3.41	-0.4	1.15	+3.81
14.Metal products.	0.83	0.39	3.03	+0.44	-0.03	0.86	2.19	-0.89
15.Non-electrical Machinery.	4.25	2.18	3.38	+2.07	6.63	4.82	3.94	+1.81
16.Electrical Machinery.	3.71	3.36	2.81	+0.35	6.85	6.36	2.45	+0.49
17.Transport Equipments & parts.	3.23	1.92	3.45	+1.31	4.36	4.74	3.57	-0.38
18.Other Manufacturing Industries.	12.73	5.32	3.56	+7.41	20.34	10.14	3.84	+10.20

- Notes: 1. The wholesale price index used for deflating the current values of labour productivity and earnings per employee are the ones for the specified industry-groups.  
The WPI base is 1970 = 100.
2. The consumer price index used is for the industrial workers (all India) with 1970 = 100.

## Traditional labour institutions and their role in economic development

Here we are primarily concerned with examining the role of caste and gender based labour market segmentation and their impact on economic development. There is likely to be very little disagreement in pointing out the role of caste and gender as the most important bases of segmentation and discrimination in the Indian labour market. This has also been associated with the notions of 'good jobs' and 'bad jobs' or a hierarchy of jobs in terms of their social status. But this is also not devoid of economic content. Often the earning levels also reflect a hierarchical structure corresponding to the social status attached to occupations.

From a macroeconomic point of view the labour market segmentation is manifested in terms of three underlying factors viz., vulnerability, protection and autonomy and it ranges from a small segment which are most favourably placed to the most unfavourably placed. The correspondence of this ranking to the organization of production in the economy is not incidental; in fact, the multi-structural character of the economy is integrally related to the status of labour in various segments. This has even led to such implications as whether some segments of the labour force are recognized as workers proper or not. It is possible to view the entire working population in India, as in many other developing economies, in terms of concentric circles beginning from the smallest circle representing the workers in the organized sector.

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- 1 = Workers in the 'organized sector' enjoying protection and regularity in employment.
  - 2 = Workers in the unorganized sector, a large proportion of which enjoy very little of protection and/or regularity in employment and hence vulnerable.
  - 3 = Workers in the self-employment category and more akin to 2. Formal autonomy does not make much difference to their vulnerable status.
  - 4 = Unpaid workers both in and out of the household. Not considered as workers proper.

It is not inconceivable that as the circle expands, the intensity of segmentation, especially based on caste and gender, increases. Caste and gender being age-old institutions, their segmenting role in the labour market have not been easy to reduce, let alone eliminate. There are different ways in which they operate. Discrimination is the most obvious form and this refers to a strategy of exclusion from certain labour markets and jobs. Thus both pre-entry and post-entry labour market discrimination operates.

Since aggregate data on caste-wise occupational distribution are not available, no precise empirical substantiation (except for the lower end categories of Scheduled Castes and Tribes) can be provided at that level for the correspondence between caste status and labour status. Broadly speaking three categories are used both in official and other studies and these refer to a three-tier classification of upper, middle and lower social classes. It is the middle stratum which has the most complexity because some social groups have been able to advance economically mainly through agriculture and related occupations. But from the point of labour market segmentation, such a classification is not altogether irrelevant.

Accordingly, persons belonging to the lower social class i.e. Scheduled Castes, find themselves confined to a limited number of occupational categories. This is despite affirmative action policies in the labour market. It should however not come as a surprise because the affirmative action policies apply to only a part of the smallest concentric circle i.e. public sector jobs in the organized sector. Most of them find themselves in rural (agricultural) occupations, casual in status, unskilled and low paid. Gender-based discrimination fall on women. And this also runs across all categories of employment. Table 3 presents four broad occupational distribution for workers belonging to non-scheduled Castes/Tribes. Only 18 percent of the non-SC/ST workers are in the category of agricultural labourers while it is 48 per cent for SC and 33 per cent for ST. However the distribution has a clear gender dimension shifting these proportion to 39,68 and 46 per cent for women workers. The distribution within the ST population as cultivators and agricultural labourers should be understood in the light of the fact that traditionally this group cultivated their own land, owned communally. The proportion of agricultural labourers is an indication of the process of proletarianization among them.

**TABLE 3**  
Percentage distribution of main workers  
among Non-SC/ST, SC and ST population in India, 1981.

Category		Total Main workers	Culti-vators	Agr. Labou-rers	H H, mfg, etc. *	Other workers
1. Population other than SC & ST	P	100	43	18	4	35
	M	100	44	14	3	39
	F	100	36	39	6	19
2. Scheduled Castes	P	100	28	48	3	21
	M	100	32	42	3	23
	F	100	16	68	4	12
3. Scheduled Tribes	P	100	54	33	1	12
	M	100	60	26	1	13
	F	100	44	46	2	8

Notes: \* consists of household industry, manufacturing, processing, services and repairs.  
P = Persons; M = Males; F = Females

Source : *Computed from Census reports, 1981*

Under the other categories of workers, a high proportion of those belonging to SC and ST are likely to be in low status and low earning jobs. While there is reason to believe that gender-based discrimination at the upper end characterized by higher education, household income and social status are likely to be less sharp than at the bottom, it is not difficult to find discrimination manifesting in terms of job-typing reflected in women's opportunities confined to certain type of jobs. Thus in Kerala, a state characterized by much less inequality in social development indicators as between men and women - as for instance, in sex ratio, literacy, school education and morbidity - evidences of labour market segmentation in white collar services are not hard to find (Simon 1993).

What makes caste and gender-based discrimination inhibitive to economic growth and distribution is its implications on earning capacity and thereby income levels. Labour market segmentation characterized by discrimination in jobs and remuneration also imply a pattern of stratification in terms of income, among other dimensions. Thus one may discern a structuring of the labour market in terms of labour status with the low caste, poor, rural women at the bottom and the high caste, better off men at the top. This is not confined to the rural areas only because of the socially stratified nature of land ownership; it has been carried over to the urban areas as well although most occupations there are not land-based. This certainly denies a simple dualistic conception of the labour market and tends to support a continuum of labour markets based on caste and gender and its corresponding economic characteristics. Thus, a methodological study of urban workers in an industrially dynamic city in South India (Coimbatore in Tamil Nad) came out with at least eight status groups for labour reflecting the stratified and segmented nature of the labour market (Harriss, Kannan and Rodgers 1990). These status groups consisted of those who may be said to be in the least vulnerable and most protected category to the most vulnerable and least protected categories. Table 4 given below shows the correspondence of these labour statuses with poverty (income), gender division, caste/community, family background, education, etc. When these characteristics have been classified in terms of "inherited characteristics" (gender, caste, urban/rural background, and father's education) and "acquired characteristics" (own educational attainments), it was found that a large proportion of those with favourable conditions (89 percent) found themselves in the highest status group i.e. the least vulnerable and most protected group.

Similar findings which emphasize that discrimination is not confined to labour market functioning based on subjective preferences of employers but embedded in the institutional configuration of the society are not difficult to come by. This is especially so in the rural context with regard to workers belonging to low caste groups who are caught in the vicious circle of low earnings, low consumption, low education, low skill reinforcing their low earning capacities.

Our argument here is that such a deeply segmented labour market is inhibitive of the objectives of economic development in terms of both economic growth and distribution. The arguments based on distribution are well known. The most important of this is that segmentation and distribution excludes people in entering certain types of occupations as well as moving from one occupation to another. This leads to exclusion from opportunities for maximization of income and economic welfare. This is often the basis for introducing affirmative action in the labour market. However, in the Indian context there are severe limitations for affirmative action in the labour market for two reasons. One is that the size of the labour market where affirmative action is introduced is limited to one segment of the organized sector i.e. public sector jobs. This constitutes only around 3 percent of total employment. Although this is important because of the prospect of higher security and standard of life for workers, its impact on alleviating labour market segmentation and discrimination would be only marginal. Secondly, the affirmative action in the labour market applies to persons with equal work-oriented capabilities. That is to say, job seekers are the same in every respect except say, caste. This is rarely the case

because of the nexus between caste and gender on the one hand and other disabling characteristics as illustrated in Table 4. This further restricts the scope of affirmative action in the labour market in reducing labour market segmentation and discrimination. From a policy perspective, this implies extending the scope of affirmative action beyond the labour market. This is especially so in a context of economic growth because the incremental benefits of growth in terms of 'better jobs' will be shared among a narrow segment of the population leading to further accentuation of the inequality in the society. Evidence to this has been found in the context of the economic policies in the USA and UK in the eighties (reported in Rodgers 1993). In the Indian context this is not without relevance because of the new economic policy emphasizing privatization, competition and technological change.

**TABLE 4**  
Labour market segmentation characteristics in Coimbatore  
(Percentage distribution in selected characteristics)

Labour Status	% of jobs	Caste		Gender		Secondary Ed: & above Father's Own		Those with Rural back-ground.	Those Below Poverty Income Consum:		'Favourable' endowments
		Low	High	M	F						
PR Protected regular wage work. (permanent jobs with a written contract & legal or union protection)	31	26	39	26	31	50	49	46	5	8	44
SC Capital owning self-employed (capital threshold Rs.200 in 1987)	14	3	18	13	6	9	16	50	25	15	39
URL Unprotected, regular long term wage work. (apparently permanent or long term in nature but have less contracted or union protection than PR)	24	29	22	27	24	21	24	40	23	26	6*
URS Unprotected, regular short term wage work. (jobs paid on a daily or piece-rate basis without written contract or other protection)	9	7	3	9	7	--	3	60	48	33	--
UI Unprotected Irregular Wage Work. (distinguished from the previous categories by irregularity of work)	11	21	1	9	15	3	3	50	75	60	6
IW Independent Waged Work. (a category of workers without a single employee entering into a sequence of wage relationships of short duration)	5	6	3	6	4	6	1	50	6	40	--
SM Marginal self-employed, without capital	6	8	10	6	10	12	1	60	67	33	6
All Categories	100	100	96	98	97	100	97	--	--	--	100

- Note:
- \* indicates that wherever the total does not added upto 100 the remaining percentage of workers belonged to the category of family workers.
  - The percentage distribution of these below the poverty line refer to the principal earners. The poverty measures have been given in terms of both income and household consumption. Household consumption here represents a composite index in terms of consumption and assets, such as house size, availability of drinking water, electricity, expenditure on clothing, no: of rice meals per day, etc. For details see Harriss, Kannan and Rodgers (1990 : ch.5)
  - 'Favourable' endowments is a combination of favourable inherited characteristics such as gender (male), caste (upper), urban/rural origin (urban) and father's education (educated) and acquired characteristic namely own education (secondary and above).

The growth implications of labour market segmentation and discrimination are not as easily appreciated as the argument based on distribution. Policies aimed at accelerating economic growth could be constrained by labour market segmentation and discrimination by a number of ways. One is the limited scope for expanding the effective demand in the economy. A segmented labour market in the Indian context also implies exclusion of a majority of the labour force from higher income earning occupations. This results in insufficient growth in purchasing power of the majority. Consequently it affects the economy's potential for increasing the demand for wage goods which could have acted as a stimulant to further growth of the economy. A national surplus of foodgrains (in terms of

buffer stocks) and hunger of a significant proportion of the population is a reality in India and the latter is basically a reflection of the lack of purchasing power of the poor who perhaps toil more to earn less. It is quite probable such an internally stimulated growth process -increasing purchasing power of the poor who are also discriminated - could contribute to a better management of external balances in an economy faced with foreign exchange constraints. This is because the import content in satisfying the increased wage-goods demand is likely to be less than the increased demand emanating from the relatively better off sections. By the same logic, a structure of demand in favour of wage goods imply a structure of production for wage goods and this will have greater linkages with domestic sectors and resources.

Economic development is not merely one of growth and its distribution in the mechanical sense. It also involves qualitative changes in the labour force via human resource development resulting in increased productivity on the one hand and technological change which could enhance the total productivity. Let us take the former first. There are two aspects here; one relating to skill formation and development over larger and larger sections of the labour force and the other enhancing capabilities of the excluded groups. In a segmented labour market of the type in India, there is hardly any possibility for skill formation among the excluded. Such a situation in turn strengthens segmentation because of the inability of the excluded to compete effectively in the labour market even in a situation of affirmative action in the labour market. For the economy, it means dependence on a smaller segment for skilled occupations. It thwarts the spread effect of skill formation because of the limited linkage between the occupations of the excluded and unskilled with that of the skilled. Spillover effects from the organized sector to the unorganized sector might then be quite restricted. But the second aspect of capabilities of the excluded has a long term implication. Those who are excluded are often lack in basic capabilities say, literacy, education, nutrition and health and this is reinforced by their excluded status in the labour market. So there is a larger vicious circle which could be seen as operating through the labour market because wage income is the single most important means by which the poor could hope to get out of their situation of poverty. An abundant labour supply therefore does not constitute itself as an advantage in the process of growth; it could even be a constraint if such labour lacks in basic capabilities and occupational skills of higher economic value.

The implications for technological change are also not difficult to discern. When the economy has a large proportion of its labour force subject to labour market segmentation and discrimination and perforce work in low technology-based and low income earning occupations, it also adversely affects the incentive for technological change. On the one hand the abundant labour provides a source of cheap labour leading to exploitative conditions of work and often inhibits technological change. Thus production could be increasingly carried out through sub-contracting arrangements without adequate emphasis on quality. Secondly, the low purchasing power of the majority of the labour force would not give any emphasis on quality in production because of their survival needs. This could also add to the tendency for increasing quantitative production without regard to quality because of the limited size of the market for the latter.



## IV

### Labour Market Policies, Affirmative Action and Economic Development

The discussion so far lead us to formulate two hypotheses in the Indian context. One is that the presence of such modern labour institutions as unions and protective labour legislation need not be incompatible with the objective of growth. Second, the traditional labour institutions of caste and gender-based labour market segmentation and its attendant features of discrimination and stratification are incompatible with the objectives of both growth and distribution. If the validity of these hypotheses are prima facie accepted, then they have important bearing on labour policies.

The implications for labour market policies are clear enough. If such modern labour institutions as unions and protective labour legislation are seen as essentially contributing to a process of 'levelling up' of the living standards of labour, then the presence of such institutions for those who are not covered by it is a desirable social objective. In growth terms, they should act as incentives for technological and skill upgradation and more efficient forms of organization of production. Labour market policies should therefore aim at reducing the vulnerability of unprotected workers and progressively eliminate the conditions favouring exploitation of cheap labour.

Labour market segmentation and its attendant features of discrimination and stratification call for affirmative action policies. Given the well-entrenched nature of social segmentation and discrimination, affirmative action in the limited sense of job reservation in the organized sector - that too in public sector jobs - is unlikely to have any long term impact on growth and distribution. We therefore argue for a broader definition and operational jurisdiction for affirmative action at three levels.

First, at the level of the labour market for positive discrimination in favour of those constrained by caste and/or gender considerations in access to jobs. In the Indian context this is constitutionally guaranteed for those belonging to the Scheduled Castes and Tribes, i.e. lowest rungs of the Indian society. In several Indian States, especially in southern India, legal enactments for such positive discrimination have also brought in the middle level social classes, referred to earlier. And recently, this policy has been accepted at the national level by the Central Government, after a prolonged and politically charged social turmoil. Unlike in the USA, for example, this policy of affirmative action in the labour market is restricted to public sector jobs. And given the size of the public sector employment in total employment, this is likely to have only a marginal impact although it has a much bigger symbolic value. Although this might, in the short run, deny access to jobs for a small segment of job seekers from the non-discriminated groups, it is unlikely to produce any adverse impact in the long run. The fact that non-discriminated groups in general have relatively more resources - social, cultural, political and, not to speak of economic - at their command will enable them to be more resourceful in finding or even creating appropriate economic opportunities. And perhaps this might unwittingly make them less lethargic and dependent on public sector, especially white collar, jobs.

At the second level, there is need for affirmative action aimed at building 'capabilities' for those who are not even qualified to compete in the labour market. This is a much larger segment of the population who are found in the unorganized sector of the economy. Affirmative action in the form of job reservation is hardly sufficient to them. As the figures in Table 3 would indicate, they need affirmative action aimed at access to education, training and skill development so that their pre-labour market discrimination is taken care of. Affirmative action policies in this case are directed outside the labour market and have a long term objective of building up and improving the capabilities of the labour force in the economy. Without adequate investment in human resource development on a broader scale economy-wide increases in productivity, across occupations, are hard to achieve.

At the third level, affirmative action policies will have to address those who cannot even hope to build up capabilities because of their severe disadvantages. These are the assetless, rural, poor labourers without any access to obtaining basic capabilities. A large proportion of women belong to this category as the figure in Table 3 testify. Investment in human resource development such as education and health, even at the minimum, warrants some staying power. And those who do not have that are the assetless, mostly without stable employment. Affirmative action aimed at providing a minimum of staying power to this segment of the labourers is linked to such policies as distribution of land, provision of credit, food security and some guaranteed employment, as a precondition for enabling them to avail of the access to education and health. It is pertinent here to note the observation of the National Commission on Rural Labour (GOI 1991 : vi-viii) with regard to land distribution and human resource development.

*"The immediate impact of widespread landlessness is on the wages of agricultural labour. It has been generally observed that market wages for agricultural labour are higher wherever land is more evenly distributed. This is because agricultural labourers have a better bargaining power in such situations on account of their land base."*

*"A major deficiency of our plans, particularly in the first two decades, has been the relative neglect of human resource development and basic needs e.g., education, health, housing, drinking water, sanitation, etc. in rural areas. The attempts in the last two decades to provide such amenities have not succeeded in making good the backlog created in the earlier period. The proper targeting of these facilities for the poor and the needy is yet to be achieved. The rural poor, particularly in the remote areas, have very little access to the supplies of essential commodities like foodgrains from the public distribution system."*

*"The rural poor cannot afford to send their children to schools unless employment opportunities are increased and wages are high and children are provided support for attending schools. The widespread incidence of child labour is due as much to unemployment and poverty as to the lack of facilities for compulsory primary education. Productivity of rural labour, present as well as potential, is impaired by the lack of human resource development."*

Although the main concern in the above statements is with distribution, the link with

growth through productivity is acknowledged. Our attempt has been to emphasize the growth implications of the inequitous and segmented nature of the labour market. Such a viewpoint goes beyond 'Mandal Commission Report' and job reservations. It certainly acknowledges the exclusion of all those beyond a certain level of income for applying affirmative action. It takes into account the need to do away with the segmented nature of Indian labour market which is seen as a constraint on growth, certainly of a broad-based one. And this is not just good social policy; it is good economic policy too.

## Footnotes

- 1 An exception to this is the State of Kerala where an overwhelming majority of workers in the officially classified 'unorganized sector' are unionized and enjoy, to some extent, the benefits of protective labour legislation. See, e.g. Kannan (1992).
- 2 Even in communities such as Muslim and Christian, which do not formally admit caste-based division of its population, are influenced by the institution of caste and hence similar stratifications are discernible.
- 3 There are a number of studies on the status of women workers in various occupations. See, e.g. Jose (ed.) (1989) and Sharma and Singh (eds.) (1992). On the conditions of work and life of self-employed women and women in the informal sector see, *Shramshakti* (Report of the National Commission on Self-Employed Women and Women in the Informal Sector, 1988).
- 4 *"Another sphere of needed reform also seems pressing, namely, with respect to job security legislation which raises the effective cost of labor and hence encourages the choice of more capital-intensive techniques, thus limiting industrial employment and hurting export competitiveness in otherwise labour-intensive activities"* (Lucas 1988:192).  
*"The fact that employers are unable to offer lower wages, despite now being obliged to provide greater job security, is not surprising in either country. In India, the growing power of trade unions plus minimum wage legislation have no doubt confounded any downward pressures on wages that might otherwise have arisen"* (Lucas and Fallon 1989:20).  
*"There is indeed quite strong evidence consistent with the job security regulations having diminished employment across a wide range of industries, compared to what it might otherwise have been"* (ibid.:27).  
*"The legal framework and government apparatus regulating industrial labor and labor-management relations have generated disincentives to employment growth in organized manufacturing". ... "Regulations restricting retrenchment of workers and closure of factories are a disincentive to expansion of organized sector employment, since firms are stuck with the labor they have hired even if business declines or if workers do not perform well". ... "The statutory payment of annual bonuses and other benefits has strengthened disincentives to hire workers". ... "The direct cost of labor to employers has increased sharply in recent years, in part due to the substantial overindexation of wages which occurs through the system of "dearness allowance"(World Bank 1989:112-3).  
*"The evidence on an across-the-board slowdown in employment in the manufacturing sector in the first half of the eighties is unambiguous. For the manufacturing sector as a whole, employment declined at the rate of 0.7 per cent per annum. ... A number of factors contributed to the decline in employment. First of all, there was the fact of a sharp increase in the real wage rate during this period, after a prolonged phase of wage stability. ... Bias against adding to employment may also have arisen from the resistance of managements to handle a large workforce in an environment infested with multiplicity of unions and inter-union rivalry"* (Ahluwalia 1991:193-4).*

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