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Working Paper No: 16

Centre for Development Economics
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I

In an influential book, Robert Solow described the labour market as a social institution. He says, "Wage rates and jobs are not exactly like other prices and quantities. They are much more deeply involved in the way people see themselves, think about their social status, and evaluate whether they are getting a fair share out of society... Social institutions define acceptable and unacceptable modes of behaviour in the weighty context like the labour market "[Solow, 1990]". As Solow acknowledges, the idea is not new. Alfred Marshall, the great exponent of the principles of demand and supply, talked about "Fair rates of wages" when he came to analyse the working of the labour market. Several economists, sociologists and lawyers working on industrial relations have noted the importance of social norms and the moral legitimacy of labour contracts in understanding the working of the labour markets in a society. In fact, empirical studies on comparative economic systems clearly reveal widely differing characteristics in the working of the labour markets even among the mature capitalist economies of West Europe, North America and East Asia. These differences have much to do with the different historical experiences and cultural traditions of these societies.

The purpose of this article is to identify the salient features of the social institutions that govern the pattern of manpower use in the Indian economy today. It is possible to argue that the social, political and the legal framework in which hiring, firing and the working conditions of the workers and their supervisors are determined in the Indian economy -- particularly in its modern sector--has crucially determined the growth experience of the Indian economy during the last four decades. The structural reform, currently being attempted in India, must be based on an understanding of the emerging social institutions of modern India.

The historical picture of the Hindu society, with its caste-system and the associated rigidities in labour-use has in the twentieth century, been virtually knocked down by the emergence of modern market and non-market institutions. It will be argued in this paper that the manner in which the modern institutions have evolved since Independence has introduced newer sets of rigidities that are often inimical to productivity growth, skill formation and learning processes. This is particularly true in the public sector, which in India accounts for not only a substantial fraction of modern manufacturing industries but also the bulk of the financial institutions and infrastructural facilities like transport, communication and power.

It is useful to start with an examination of the theoretical literature on the nature of the linkages between the organizational characteristics of manpower-use and the performance of a market economy. The enormous amount of research - both analytical and empirical - in labour economics during the last two decades has brought out a number of important points.

a) Labour is heterogeneous in respect of the abilities of different workers in performing different jobs.

b) Any worker can, and does, apply different quantum of efforts in a job, depending on the contractual arrangement under which he or she operates. Giving a worker a "fair" deal brings out good performance from him in the spirit of reciprocity [Akerlof, 1982]. Similarly, the fear of losing a good job also induces her to perform well [Shapiro and Stiglitz, 1984].

c) Employers like to have a system, where they can find, relatively quickly and inexpensively, workers of better abilities. They also do not like to lose "good" workers.

Empirical research on the experiences of different economies has brought out during the last three or four decades the importance of productivity growth or technical progress in the growth process of an economy. It is not so much the pace of capital accumulation (or expanding the quantitative base of the factors of production in an economy) but the ability of an economic organization to squeeze more and more out of given resources, which seems to explain much of the performance of a growing economy. An important source of this technical progress is the ability of the workers and their managers to learn quickly the newer and better ways of performing their tasks.

Several researchers have found that the process of India's industrial development during the last four decades has been accompanied by rather low rates of growth in total factor productivity [Ahluwalia, 1992]. When compared with the fast-growing economies of East Asia, productivity-growth in India has been quite dismal. Some researchers working with plant-level micro-economic data have found that the amount of time taken by Indian workers and their managers to master new technology has sometimes been even greater than the economic life of new machines [Desai, 1985]. It will be argued in this paper that in important ways these outcomes are the results of the social institutions which govern the pattern of manpower use in the organized sector of India's industrial economy.

The main focus of this paper is the organized sector of the Indian economy, which consists of the entire public sector and the large and medium-sized enterprises in the private sector. The "organized sector" employs about eight percent of the total labour force. The working of the labour market in this sector has been more or less institutionalised in post-Independence India through legislative, administrative and political measures. The main thrust of the economic reforms pursued in India today is directed towards this sector; therefore the success of the Reform crucially depends on the possibilities of restructuring the working of this sector, particularly its practices regarding the use of manpower and other resources.

However, it is useful to locate this sector in the context of the overall economy. Therefore, in section II, we shall present a brief description of the pattern of labour-use in the Indian economy, and also outline some of the principal organizational characteristics of labour-use in the rural (mainly, agricultural) economy. In section III, we shall try to outline the legal, administrative and political framework of manpower use in the organized sector. This will inevitably involve some discussion of the political evolution of these institutions in post-Independence India. We shall conclude this paper with some remarks on the importance of the reform of the Labour Laws in the context on the ongoing economic reforms in India.

II

The table shown on next page presents the overall picture of labour-use in the Indian economy.

There are many tricky problems in compiling employment statistics for the Indian economy. This is mainly because of the fact that the bulk of India's labour force find employment in agriculture and rural industries. Moreover, many people are self employed. In such a situation, the duration of work, and even the intensity of efforts, vary considerably creating the syndrome of "disguised unemployment". It is easier to define employment in the public sector - either in administration or in publicly owned productive enterprises, where the nature and the duration of employment are clearly defined. In the private sector, where a unit comes under the purview of the Factory Act or similar laws governing trade, transport and services, information regarding employment-status is quite uncomplicated. Usually these private sector units employ ten or more workers. Together, these two groups form the organized sector of the economy, for which up-to-date information about employment is available. For the other sectors of the economy, detailed information has to rely on periodic surveys. That is why the above table relates to the information available for 1983.

It is clear from the table that about 8 percent of India's labour find gainful employment in the organised sector of the economy. Again, about 70 percent of the work force in the organized sector find employment in the public sector. Within the public sector, more than half of the people are employed in the services sector, which are largely public administration and defence services. Similarly in the organized private sector, more than half the people are employed in manufacturing enterprises. Among the producing sectors of the economy, mining quarrying and, of course, electricity generation belong predominantly to the organized sector; the rest are predominantly unorganized. More approximately two-third of the country's labour force are engaged in agriculture, which (barring the plantations in the organized sector) consists essentially of peasant farming.

The structure of India's work force, 1983

(in' ooos)

Industry Group	Total	Organized Sector			Share of the organised sector
		Public	Private	Total	Percent
Agriculture	206,128	498	810	1,308	0.63
Mining & Quarrying	1,829	927	113	1,040	56.86
Manufacturing	32,435	1,717	4,423	6,190	19.08
Electricity	850	732	39	771	90.71
Construction	6,785	1,120	66	1,186	17.48
Trade	19,208	124	276	400	2.08
Transport	7,554	2,864	57	2,921	38.67
Services	26,848	8,895	1,503	10,398	38.73
Total	301,637	16,868	7,287	24,155	8.01

Source: Tendulkar and Sundaram
Data on the Indian Economy (mimeo).

The economics of agriculture in India is a fairly well researched area. There are several informative surveys and analyses concerning the economics of resource-use and the organizational characteristics of India's agriculture. Some of these studies throw light on the characteristics of labour-use in agricultural farms. Important among these studies are Rudra[1983], and Bardhan and Rudra[1981, 1986] for eastern India, Bliss and Stern[1981] and Dreze and Mukherjee[1987] for northern India and Binswanger et al [1984] for South India. Dreze and Mukherjee[1989] also provide an excellent survey of the findings of the village studies conducted by economists, sociologists and anthropologists in different parts of India over the last few decades. There are important regional differences in the various aspects of the rural labour markets in India. Nonetheless it is possible to identify a number of common institutional features of these markets.

1) Only a section of the people who sell their labour-power to farmers are full-time labourers. Others also work on the small holdings of land they own themselves or work in their traditional caste occupations (such as masonry or carpentry). Workers are hired by their employers mostly on a day-to-day basis. There are three types of wage payments: daily wages,

piece-rates, and harvest-shares. The choice of contract depends mainly on perceived supervision costs.

2) As far as the daily wage rate is concerned, within a village there is a great deal of uniformity within any broad group such as, the adult male labourers. This is irrespective of the tasks performed or efforts applied. There is not a great deal of variation in the daily wage rate across seasons, although there is a great deal of variation in the demand for labour across seasons, resulting in involuntary unemployment and job-rationing in the slack season. There seems to be an implicit understanding among all parties about the maintenance of the norm of the money wage rate. There are also fairly rigid norms regarding the proportion of harvest shares. Only in certain regions, such as in Kerala, trade unionism and collective bargaining have come in to determine harvest-shares at the time of harvesting. Otherwise, there is very little collective bargaining in rural India. There is, however, a great deal of flexibility in the determination of piece-rate.

3) The third important characteristic of India's rural labour market is that "the village labour market is largely closed: labour hiring across neighbouring villages is rare" [Dreze and Mukherjee(1989)]. There is very little migration of job-seeking workers even to adjacent villages, even when the norms of wage-payment vary substantially from village to village [Bardhan and Rudra(1986)]. Furthermore, it has been observed that "the search on the casual labour market is carried out by employers, who usually "call" labourers on the evening preceeding the execution of the work"[Dreze and Mukherjee(1989)].

The preceeding observations suggest that the rural labour market is not an "anonymity-preserving" social institution. Individual workers and their employers maintain long-term relationships even though employment contracts are not permanent but temporary and casual. Faced with the uncertainties of finding jobs in the slack season a worker cannot afford to desert his usual employer in the village to take a better-paying job in the next village. The employer on his part uses his job-rationing power in the slack season to retain the more able workers, to work at his farm. This kind of long run relationship between an employer and his employee is perhaps, strengthened by the former's ability to extend consumption-loan to the latter at times of distress. Here again the familiarity with the worker's life and knowledge about his abilities and disabilities protects the employer-lender in his inter-temporal commitments.

The important feature of the rural labour-market is that it is voluntary in nature, without state intervention and collective bargaining. There are still some vestiges of "labour bonding" in some areas; but laws prohibiting "bonded labour" has been enacted. It seems the age-old custom of bonding is by and large on its way out. But economic forces working in the environment of peasant farming are sufficiently powerful to sustain the informal practice of "labour-tying".

In fact, it is possible to explain the presence of rigid norms of money wage rates and other forms of inflexibilities in the rural labour market as equilibrium outcomes in an economic environment characterised by risks and uncertainties, informational asymmetries and costs of monitoring and supervision. The picture is radically different in the organized sector of the Indian economy, which is the subject of our discussion in the next section.

III

The modalities of labour-use in the organized sector of the Indian economy are not dictated either by the principles of competitive market mechanism or by the results of free collective bargaining between unionized workers and the management. The state plays a dominant role, through Labour Laws, Labour Judiciary and administrative officers, to "administer social justice keeping in view the power position and susceptibilities of the worker... to eventually lead to a just industrial society"[Saini(1994)]. According to one of the most serious students of industrial relations in India, "the state occupies the centre of the stage. The legal framework of industrial relations is such as to inhibit the growth of voluntary relationship and foster dependence on the state. The state is often forced to play the role not of a mediator, although it may be so labelled, but that of an arbitrator." [Ramaswami (1984)]. This institutional arrangement has come to be established during the last half century through the working of India's political process. It is useful to outline this process as it evolved.

Although the major thrust of legislative reforms affecting the conditions of work in factories and mines came with Independence, the British administration in colonial India adopted a series of regulatory measures governing child labour, working hours, safety and sanitation etc. beginning with the Factory Act of 1881 and the Mines Act of 1923. In the field of collective action by Indian workers, the first organization of workers, the Amalgamated Society of Railway Servants, was registered in 1887, The first nationwide trade union organization with affiliated unions all over the country, All-India Trade Union Congress (AITUC) came into existence in 1920. The first strikes for higher wages were reported in 1920-21. The Indian Trade Union Act of 1926 made it legal for any seven workers to combine in a trade union. By the year 1929, AITUC had 51 affiliated unions with a membership of 151,000.

During this period the trade union movement became an important platform for the larger independence movement in the country. Gandhi was the organizing spirit behind the textile workers' union in Ahmedabad. Jawaharlal Nehru became the President of AITUC in 1929. Unions were largely organized as shop(plant-level) unions with regional and national affiliation with larger bodies. The leadership of these trade unions came from urban, middle-class inteligensia associated with the Independence movement. Ideological differences and group rivalries that ran through the body politic determined to a considerable extent the organizational characteristics and strategic behaviour of the labour movement in India.

During the colonial period the entire labour movement remained under the umbrella of the Indian National Congress, the political organization that led the Independence movement. At approximately the time of Independence, ideological differences surfaced in the congress. First, the communists and then the socialists left the parent body to form separate parties. Various other left wing groups also splintered away from the congress. Since these political groups were important in the labour movement, the labour movement itself experienced successive splits. Today, practically every national or regional political party has its trade-union wing, which in turn forms the basis of a distinct federation of trade unions. Thus, competitive politics at the national and the regional levels finds its reflection in the field of trade union activity.

Narrow partisan considerations (an inevitable feature of competitive politics) bedevilled the legal framework regarding the recognition of a union at the plant level. The ruling party after Independence opposed a method based on secret ballot of employed workers on the ground that it would introduce bribery and poll-rigging. They favoured a system based on the verification of membership through an impartial agency such as the Labour Department of the Government. The fact that the Congress Party controlled not only the government at the centre but also the governments at every State capital were not unrelated to the position it took. Thus, the Labour Department of the Government acquired an important position in the field of industrial relations. Union rivalry manifests itself in labour militancy and reinforces the political and legal emphasis on the principal concern of the workers, which is job security. About 20 to 30 percent of the industrial disputes in India during the twenty-five years (1950-75) could be attributed to the problems of union recognition and inter-union rivalry. As Ramaswamy(1984) says, "A union has to call an occasional strike to show that it is active in the cause of its members. Without such periodic displays of militant action, it may find it difficult to preserve its following."

Although the workforce in the organized sector of the Indian economy constitutes only a small fraction - a mere 8 percent - of the country's labour force, they enjoy a highly privileged position in the country's political life. This is because every political party has its trade-union wing; and union activities are largely confined to the organized sector. Therefore, it is not surprising that not only the Constitution of the Indian Republic but the various legislations enacted in the Parliament and the State Assemblies in Independent India tried to uphold the rights of the workers. That the workers who benefited from these legislative actions were only the ones employed in the organized sector of the economy is because of the fact that it is difficult to make the laws reach the unorganized sector. Furthermore, only the unionized workers, who were mainly employed in the organized sector could directly influence the behaviour of career politicians of the different political parties.

The single most important piece of legislation that governs the relationship between the worker in the organized sector and his employer is the Industrial Disputes Act, 1947. This Act(IDA) confers on the state the required power to regulate labour-management relations. In most countries of the world, the state enters the relationship, if at all, on the breakdown of bipartite bargaining; in India, the state assumes the role of abiter "in lieu of a bargained relationship."

This role of the state has its origin in Section 81A of the Defence of India Rules announced by the British administration in India during the Second World War. The purpose was to arm the government with powers to interfere in the labour-management relations. Under the provision of this Rule, the government could conciliate in industrial disputes, and if conciliation failed, compel the parties to submit their difference to arbitration. The obvious purpose was to maintain industrial peace during the War. These emergency measures of the War-years were incorporated into the Industrial Disputes Act, 1947.

In 1950, the Government of India made a feeble attempt at replacing the IDA with two new bills -- The Labour Relations Bill and The Trade Unions Bill. The preamble to these Bills stated the goal which was to encourage labour and management to become self-reliant so that state intervention could be dispensed with. It is significant that three of the four federations of Trade Unions opposed these Bills and lobbied for retaining the existing system. According to INTUC, the federation affiliated to the Congress Party, "only a system of state intervention would ensure the legitimate interests of labour" [Ramaswamy(1984)].

The implementation of the provisions of IDA was left to the Labour Departments of the Central and the State Governments. The IDA obliges the Labour Department to take cognizance of an industrial dispute or even an apprehended dispute in a public utility. Since the state has the powers to declare any industry as a public utility, it effectively covers all industries. Once the Labour Department takes cognizance of a dispute it sets in motion a process of conciliation. If the process of conilation fails, the conciliator is required under Section 12(4) of the IDA to submit a general report, outlining the nature of the dispute, and a confidential report conveying his recommendation regarding adjudication to the government. If the parties fail to agree on voluntary arbitration, then the Ministry of Labour refers the dispute to the Labour judiciary for adjudication. Usually the Unions prefer the adjudication process, because the ministries and the Labour judiciary (and the appellate courts like the High Courts and the Supreme Court) are expected to be sympathetic to the cause of the workers.

In addition to this formal process, over time, another process has gained ground, which Ramaswamy calls "ministerial intervention" or "political intervention". The minister often enters in the guise of a conciliator interested in finding an amicable settlement of the dispute. But since he has enormous power to reward and punish the parties to the dispute, given the government's enormous reach in economic matters in India, his intervention effectively assumes the character of an imposed solution.

Meanwhile, the Industrial Dispute Act, itself has undergone amendments in order to incorporate formally the extended reach of the state or the political process. The paramount concern of the Indian workers (and their Unions) relates to the question of job security. Workers and their Unions of course fight for higher wages and bonus payments, but they fight bitterly for job security. Industrial disputes over wages and bonus payments are classified as those due to "economic causes". Disputes arising from dismissals, retrenchments or disciplinary actions against individual workers are classified as disputes due to "non-economic" causes. Between 1951 and 1975 the percentage of disputes arising from non-economic causes varied from 49.0 percent to 63.8 percent. Trade Unions fight bitterly even against the imposition of fines and suspensions, because these could go into building up a dossier against a worker and can eventually be used in a tribunal to get the worker dismissed. According to Ramaswamy (1984), "Many Union leaders are of the view that there is practically no offence which merits dismissal. A part of the reason for this union condonation of misconduct is humanitarian....A far more important reason is fear of rival union propaganda. A union which accepts the punishment awarded to a defaulter is certain to be dubbed a management stooge".

In 1976 and 1982 the Industrial Disputes Act was amended to make it obligatory for firms to obtain official permission for layoffs or retrenchment.

There are essentially three parts of the IDA which affect industrial relations in very important ways. These are section 9A, chapters VA and VB. Under 9A an employer must give three weeks' notice in writing to the worker of any change in his working conditions. These changes include a) changes in shift work, b) grade classification c) changes in rules of discipline d) a technological change that may affect the demand for labour, and e) a change in employment in an occupation, process, department or shift. The worker, of course, has the right to object to these changes, leading to an industrial dispute with all its implications in terms of time and costs. This provision makes it difficult for an industrial firm to respond quickly to technological changes or changes in its market environment.

Chapter V-A requires an establishment employing 50 or more workers to give a worker (a) half-pay for 45 days in case of a layoff (section 25 C), (b) thirty days notice and 15 days' pay for every year of work in case of retrenchment (section 25 F). (c) In case of closure or sale the employer must fulfil the same condition as for retrenchment unless his successor takes on these obligations (section 25 FF and 25 FFF). If the employer had the money to pay the workers, the question of closure or sale would not have usually arisen. In such a situation, the unit is usually declared sick and is allowed to continue functioning on the basis of government subsidies.

The most onerous of the provisions of IDA in Chapter V-B, whereby an establishment employing 100 or more employees require prior permission of the government for lay off, retrenchment or closure. Needless to say, government permission is seldom given.

This provision may sound somewhat outlandish to many outside observers. In fact, the only country other than India, which has enacted similar Laws requiring prior permission of the government before layoffs and retrenchment is Zimbabwe. But these Laws have acquired over the years a certain measure of moral legitimacy in India. It is evident in the judgments given by the various High Courts and the Supreme Court of India. In 1990, a five-judge bench of the Supreme Court denied the management of the Delhi Transport Corporation the discretionary right to retire workers found to be unsuitable for specific duties. In 1992 a judge of the Calcutta High Court, Mr. Justice Hazari, thought that if another private party took over a bankrupt private firm, there would be no guarantee that it would not itself go bankrupt in future. Therefore, he directed the Government of West Bengal to take over the firm and "run it with the existing workers". One cannot fail to notice a similarity between this case and a judgment involving child-custody. Paternalistic concern for complete job security of a worker seems to have greater legitimacy than the questions of economic viability of an enterprise.

In an insightful essay, a former Chief Justice of a High Court analysed a large number of important judgements given by the various High Courts and the Supreme Court of India on matters relating to the termination of service by employers. He made the following observation.

"Some judges are found overwhelmed by the view that the only object and purpose of the Industrial Disputes Act are to take a view favourable only to labour, ignoring other facts and circumstances as also the necessity of preserving industrial peace. It is sometimes forgotten that the problem confronting industrial adjudication is to promote twofold objectives:
(1) security of employment of the workers; and
(2) preservation of industrial peace and harmony so that industry can prosper and employment can increase. Any lopsided view, that to favour labour is the only goal of the statute is counterproductive in as much as it ultimately harms the cause of labour itself". [Mehta (1994)].

An economist will easily agree with Mr. Justice Mehta that excessive concern for job security can be a powerful deterrent to the growth of employment in the economy; but it seems that the judicial and the political fraternities in India are prepared to promote job security for few at the cost of job prospects for many.

By and large, these processes of regulating the labour-standards in the organized sector are only important for the private sector. For the public sector, the state and the political process determine the mode of functioning of these enterprises, which operate under "soft budget constraints". Typically, in the public sector, wages, salaries, bonus payments and the conditions of work are not determined at the enterprise level. These are determined centrally, keeping in view the parity among government employees in the different sectors. In some cases, the enterprises do not even hire their employees. For example, bank employees working in different nationalised Banks are hired by a central Recruitment Board and allocated to different Banks.

After analysing the working of a multi-plant public sector conglomerate, Bharat Heavy Electricals Limited (BHEL), Ajeet N. Mathur observed:

"The centralised bargaining structure for wage negotiations taking all of BHEL units into consideration did not result in any differences in wages between BHEL workers in different units although their financial health varies considerably. Further, the bargain limits are set by the Bureau of Public Enterprises to ensure parity in wage levels and structures in public enterprises across industries and enterprises.....*This has also resulted in the perception that sales were a responsibility of the Government, so are employee costs"* [Mathur (1991)]. (italics mine).

Mathur (1991) goes on to say, 'In a recent initiative, the Government has signed Memoranda of Understanding with several public enterprises in 1989 aimed at providing a higher degree of autonomy in decision-making. However, this autonomy does not extend to determination of pay and employment levels commensurate with what the consumer is willing to pay in free market conditions. *Nor would the enterprise like that freedom from the Government, because so many numbers were employed in the first place due to the Governments' policy of providing employment* - one of the stated objectives at the time of establishing public enterprises in the 1960's. *In fact, pressure from BHEL executives and officers is in the opposite direction for terms and conditions identical with Central Government employees"* (italics mine).

It is not surprising that executives and officers of Public enterprises in India do not want genuine autonomy. If they were asked to survive in the marketplace, it would require a kind of restructuring, which they would find almost impossible to perform, given the political and cultural norms in which they operate.

IV

Several observers have remarked on the growth performance of large and medium industries of India in the 1980's. While outputs and investments grew at relatively high rates, the employment in these industries remained more or less stagnant. For example, if one takes the statistics relating to the Census

Sector of the Annual Survey of Industries (ASI), which includes all factories employing 50 or more workers with power and 100 or more workers without power, one finds that the value-added by these industries grew at the average rate of 7.4 percent per annum between 1980-81 and 1990-91. During this period employment actually declined at the average rate of (-) 0.6 percent per annum.

In the light of the discussions in the previous section regarding the 1976 and 1982 amendments to the Industrial Disputes Act, it should not come as a surprise. If an employer is required to take the prior permission of the Government before laying-off a worker, (which he knows is impossible to get) he would try to avoid getting into such rigid and inflexible commitments. He would buy machines instead of hiring a permanent worker; he would try to perform the job with casual workers or by contracting out work to small enterprises who are not covered by such stringent regulations. In fact, all these things happened. In the census sector of the ASI, capital intensity rose and the share of the casual workers in the total employment more than doubled from 4.6 percent in 1980-81 to 10 percent in 1986-87. Ramaswami(1988) finds evidence of these phenomena at the micro-level in the enterprises studied by him. He describes the emerging phenomenon of labour-contractors, who hire men who do the work on the premises of the employer, but are not deemed to be his employees. This phenomenon is observed even in capital-intensive fertilizer & chemical industries with respect to operations like packing and storing. All kinds of enterprises, studied by Ramaswamy, "employ contract labour to provide security services, man the transport fleet, run the canteen and even maintain the machinery".

This phenomenon of substituting permanent workers by contract labour, perhaps does not adversely affect overall employment; but automation not dictated by factor prices does. Subcontracting certain operations to small farms sometimes introduces economic inefficiency by sacrificing scale economies. In some case, as in powerloom industries, inefficient techniques are introduced only in order to evade the rigidities introduced by the Labour Laws.

Fallon and Lucas(1993) have estimated dynamic labour demand equations, derived from a CES cost minimization model for 64 manufacturing industries. They find that among larger Indian plants, the drop in labour demand is estimated to be largest in industries where the coverage of IDA(v-a) is more extensive, private ownership dominates and there are fewer union members. They did not find any comparable reduction in labour demand in small scale plants uncovered by job security regulations.

However, there is ample evidence to suggest that the organized private sector is able to restructure their technological and managerial practices in response to the new legal requirement. But stringent Labour Laws are proving to be a serious barrier to direct foreign investments in the industrial sector of the economy. During the last year or two, the flow of foreign investments to India has gone up perceptively; but the preferred avenue for this investment has been the financial sector, rather than manufacturing industries, where the fear of not being able to correct mistakes, or to alter production plans in response to market signals, due to the imposed inflexibilities in labour-use is a serious deterrent.

The behavioural rules and compulsions in the public sector are of course very different. However, if the economic reforms in India are to succeed publicly-owned productive enterprises, financial institutions and infrastructural industries would have to be brought under market discipline. Market mechanism works on the basis of competition among firms for profits and market shares. In the Indian public sector, effectively the concept of a "firm" does not exist. The prevailing practice of manpower use, among other things, does not allow the emergence of truly autonomous firms which can compete in the marketplace.

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