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Trade unions and business firms:  
Unorganized manufacturing in West Bengal

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## ABSTRACT

Militant trade unionism of the 1970s and the early 80s was held responsible in earlier studies for the increasing importance of the unorganized manufacturing activities in the Indian state of West Bengal. However, in the course of time, increasing unemployment in the organized sector during this period also led to a decline in the militant attitudes. This helped promote flexibilization policies of the management perpetuating the unorganized manufacturing activities in the state. This paper argues instead that the reason for the increasing importance of the unorganized manufacturing does not so much seem to be the result of weak trade unionism and the vulnerable work force as it is of an implicit understanding between the trade unions and the management. That the state has also played a passive role in this matter may not be a wild guess. Along with secondary data this paper is based on primary information collected from some selected manufacturing firms in the state.

Key words:

Trade unionism, organized manufacturing, unorganized manufacturing, farming out production, contract labour.

JEL Classifications: J53, J40, J48

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## I. Introduction

The increasing importance of the unorganized manufacturing activities in the developing countries in general and India in particular and its relationships with formal labour institutions have attracted much professional attention during the recent years. Studies on labour market regulation in India suggest exceptionally high levels of job security provided by law leading to employment shrinkage in the organized sector. It has been pointed out that excessive regulation in a pro worker direction by the state can end up hurting the poor and leading to a pro unorganized sector outcome (Fallon and Lucas, 1993; Basley and Burgess, 2004). Some passing references notwithstanding, what is not adequately addressed in the extant literature is the behavioural rationale of the remaining organized workers and their unions to such changes as a consequence of too much state intervention. This paper is an attempt to this direction. It is a case study based on the Indian state of West Bengal. West Bengal is not only the sole state under a left rule for the last three decades in the country but is also a state that have the maximum number of pro-labour regulations passed in the state legislature.

While in terms of employment the unorganized sector dominates over the organized sector in India, contrary to the national experience even in the case of output, unorganized manufacturing plays a relatively more important role in the state of West Bengal (WB here after). The relationship between organized and unorganized manufacturing is a complex one. The absence of labour regulation and trade union activities in the unorganized sector often leads organized sector employers to farm out production to the unorganized sector. Again, in recent years a large number of workers are being employed on a casual or contract basis in the organized sector (Harris-White, 2007).

The growing importance of the unorganized manufacturing in WB has been pointed out earlier (for example, in Bagchi, 1998 and Raychoudhuri and Basu, 2007). In this context these authors refer to the militant trade union practices in the organized manufacturing sector of the state along with the decline of the large scale manufacturing. Consequently, it has been argued that by the early 1980s labour in West Bengal has become vulnerable. A look at the industrial disputes data shows that like in any other state the number of strikes has been declining significantly in WB especially after the mid 1980s. It is also interesting to note here that while the number of lockouts has fallen drastically in other states during this period it

shows a spectacular increase in WB. This finding is indeed not suggestive of the presence of strong trade unions in the state in recent years as it was during the 1970s or even in the early 1980s (Kohli, 1997). A number of studies have also suggested that there is a notable change in the attitude of the state government, especially since the liberalization of the Indian economy, towards industry and the industrialists (Dasgupta, 1998; Sinha, 2005 among others). They have argued that this has brought in a significant change in the investment atmosphere of the state and in recent years the state has achieved a large number of proposals from different business groups; many of them have already started production. But this is precisely the period when the unorganized sector manufacturing output surpassed the organized sector in the state. It needs to be noted here that high rates of growth of manufacturing<sup>1</sup> since the mid 1990s are the result of trends in the unorganized manufacturing. In this paper I try to examine the question of 'vulnerability of the work force' in organized manufacturing and its effect on, as well as relation to, the unorganized manufacturing in WB.

The increasing shrinkage of the organized sector in general and organized manufacturing in particular is not unknown to the state (see for example, Human Development Report, WB, 2004) nor is it likely that the state leadership of the trade unions is completely unaware of this. How do they perceive this phenomenon? I try to argue here that the increasing importance of the unorganized manufacturing in the state of West Bengal is a result of a typical relationship which has evolved between the trade unions, businesses and the state, having strong bearings on trade union behaviour before and during the left rule. In this context the typical nature of manufacturing activities in the state and the markets they cater to also need to be looked at.

In section II of this paper I shall try to examine how far the labour relations in the organized manufacturing have changed as claimed by several researchers. This section

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<sup>1</sup> However, Sarkar, 2006 questions the validity of the high growth rates of WB manufacturing in general and unorganized manufacturing in particular

is based on secondary data and analysed within a comparative frame in order to focus on the specificities of the state in question. The analysis covers a period of about 23 years from 1980-81 to 2003-2004. Based on the field data, the third section discusses the relationship between the organization of production at the firm level and the labour relations in some sample firms. This refers to the emergence of a typical labour market arrangement with increasing importance of the unorganized sector. Finally, section IV serves as the conclusion. The secondary data sources used for the analysis are *Annual Survey of Industries* and *Indian Labour Year Book* in the main. Apart from these secondary sources, data have also been collected from some selected manufacturing firms, trade unions and the workers.

## II. The vulnerable organized work force

It has been mentioned above that the unorganized manufacturing is gaining importance in the state of WB in recent years over the organized sector. This is contradictory to the all India picture. Figure 1 depicts the percentage shares of organized and unorganized sector manufacturing in total manufacturing output of the state during 1980-81 to 2004-05. These shares have been considered at constant prices with a base of 1993-94.

**Figure 1: Percentage share of the registered and unregistered manufacturing in total manufacturing output of WB during 1980-81 to 2004-05**

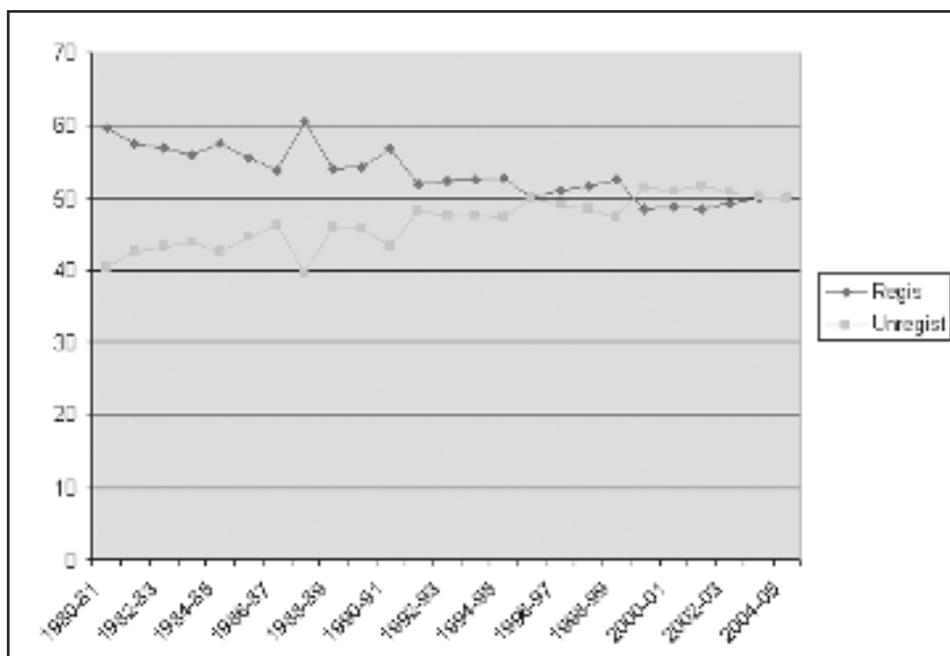


Figure 1 shows two things very clearly. First, even in the early 1980s unorganized sector played a significantly important role and the share of this sector in the state's manufacturing was increasing to catch up with the organized manufacturing. Secondly, since the mid 1990s unorganized manufacturing has been contributing almost as much as the organized sector and in some years even more. Earlier studies have also shown that by the early 1990s the organized manufacturing industry was dominated by small units in a major way ( for example, Roychoudhury *et al*, 1998). Let us remember that in the context of Indian small scale industries, the line between organized sector and unorganized sector becomes often blurred (Harris-White, 2007). This trend together with the generally high share of the unorganized manufacturing, however, has been justified considering the troubled industrial relations of the 1960s and the seventies ( Dasgupta, 1998) when the ratio between the number of strikes and lockouts was the highest in the state.

At the time of Independence (a highly industrially advanced state at that time) West Bengal inherited mainly export oriented old processing industries most of which had been controlled by the British before the Second World War. In the 1930s most of these industries had gone through a recession, and net investment by the firms controlling them had slowed down or vanished altogether. After the war, along with Independence came the dislocations of Partition that severely affected the trade links between East and West Bengal. As a result, the most important industries in this region such as jute and tea, were badly hit. One major problem that cropped up for Bengal industry during this period was associated with the transfer of ownership from the British hands to not-so-competent native entrepreneurs. This was not the case in the other important industrial belt of Bombay during this time. In Bombay, textile industry was mainly inward looking and managed mostly under indigenous entrepreneurship. After Independence, the problems of Bengal large scale industry aggravated as a consequence of two sets of central government policies. First, the freight equalization for coal and steel delivered anywhere within the country hurt the whole of Eastern region industry very seriously. Secondly, the overwhelming emphasis on import substitution completely overlooked the problems faced by the jute industry, a highly labour intensive one in Bengal (Bagchi, 1998). Along with these, a radical trade unionism backed by leftist intellectual support brought in a militant frictional atmosphere in the industrial arena of Bengal which scared away new private investment to a significant extent. Moreover, the antagonistic relationship between the state and the centre since the establishment of the left rule in the state in 1977 did create impediments for the flow of new private investments in the state. The centre exercised its power through the industrial licensing policies. In this context, WB manufacturing firms had tended to get locked in a low productivity- low wage segment of the spectrum of products dominated by the small firms largely in the

unorganized sector. Large scale entrepreneurs started farming out production to the small scale units in general and unorganized sector in particular. Thus they could avoid the militant trade unionism on the one hand and could grab the incentives enjoyed by the small firms (Banerjee *et al.*, 1999; Bagchi, 1982; 1998).

This also led to a large scale reallocation of the workforce from the organized to the unorganized sector. As a result of the decline in the traditional industries such as jute, cotton and engineering in the state of West Bengal during the 1980s workers in large numbers were losing jobs. Alternative job prospects were bleak as no new industrial initiatives were coming up in the organised sector for the reasons discussed above. The working class became vulnerable in the hands of the industrialists; trade unions, now under pressure, agreed to terms of settlements in the 80s which in the past would have been unthinkable (Dasgupta, 1998).

A standard measure of the power of trade unions is provided by the ratio of strikes to lockouts. It is interesting to note that the number of strikes as well as the number of lockouts have declined very significantly over the last two and a half decades all over the country; however the fall being sharper in the case of strikes indicates relatively stronger management practice emerging especially after the early 1990s. While West Bengal is no exception in the declining incidence of strikes, lockouts have, in fact, increased very significantly pulling the state to the top in this regard. The ratio in this case has not only fallen more sharply compared to other states but also has become the lowest. So, 'vulnerability' of the organized sector workers seems to be continuing even in the early 2000s. A 'vulnerable' work force generally creates favourable conditions in the economy for renewed investment prospects. Moreover, during the early 1990s as a consequence of two major industrial policy changes by the central government viz. almost total abolition of industrial licensing policies and secondly the removal of freight equalization for steel helped West Bengal industry in a major way. In order to take the newly generated advantages for industrialization in the state, the government announced a new industrial policy with the main aim of attracting private investment in the state. The focus was to improve infrastructure and control the red tape by introducing a single window procedure and also to change the labour regime to become increasingly more conducive to capital. The infrastructure did improve especially in terms of road ways; the red tape, as experienced people say, did get shortened and the state achieved a number of investment proposals both from within and abroad. Some of these initiatives started production as well. Yet, during this time much of the industrial production took place in the unorganized sector as mentioned above (Figure 1).

To have a clearer understanding of the labour issues I look at a few descriptive statistics of West Bengal in comparison with the three industrially most developed states of India: Maharashtra, Gujarat and Tamil Nadu. I take the figures for total persons engaged as employment and total emoluments as wages. Figure 2 shows that the level of labour productivity remained the lowest in the organized manufacturing sector of WB when compared with the states of Maharashtra Gujarat and Tamil Nadu (TN from now on) over the last three decades of our concern. Interestingly, the level of the rate of wages remained at the second position throughout this entire period. What is happening to the share of labour? As for the share of labour, while there is a decline in the emoluments as a percentage share of net value added in all the four states the level remained the highest in the state of West Bengal.

**Table 1: Trend rates of growth (per cent per annum) of some selected variables for the four states during 1980-81 to 2002-03**

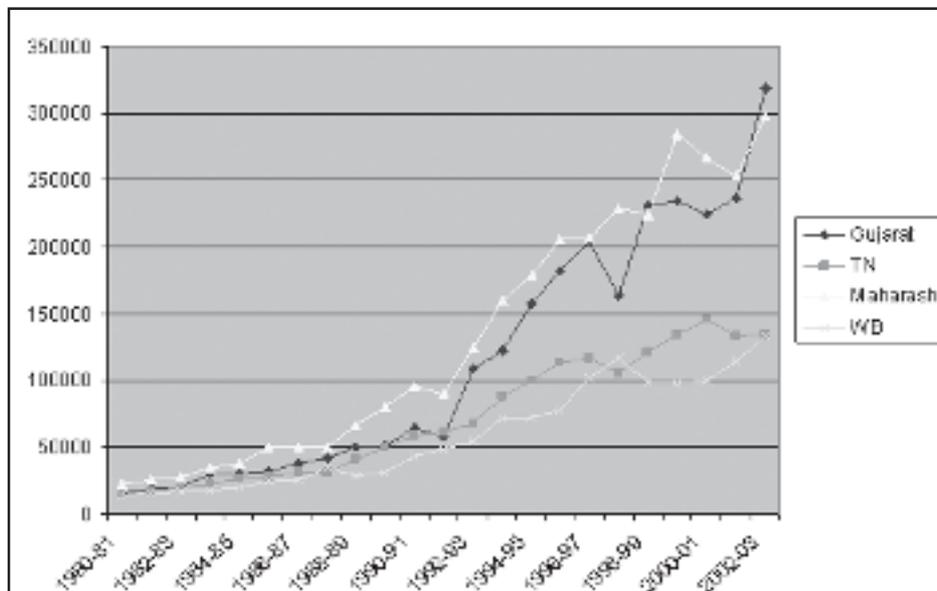
| Variables             | West Bengal    | Maharashtra     | Gujarat         | Tamil Nadu     |
|-----------------------|----------------|-----------------|-----------------|----------------|
| Employment            | -2.10* (-7.24) | - 0.03 (-0.11)  | 0.61* (2.22)    | 1.94* (8.61)   |
| Labour productivity   | 5.36* (13.01)  | 7.19* (18.51)   | 8.47* (16.15)   | 5.52* (15.30)  |
| Wage rates            | 4.14* (29.76)  | 4.83*(24.33)    | 5.38* (23.39)   | 4.05* (25.85)  |
| Share of wages to NVA | - 1.2* (-3.13) | - 2.35* (-7.47) | - 3.09* (-7.11) | -1.47* (-3.76) |

*Source:* ASI

*Note:* \* indicates statistical significance at 5 per cent level. t-values are given in the parentheses

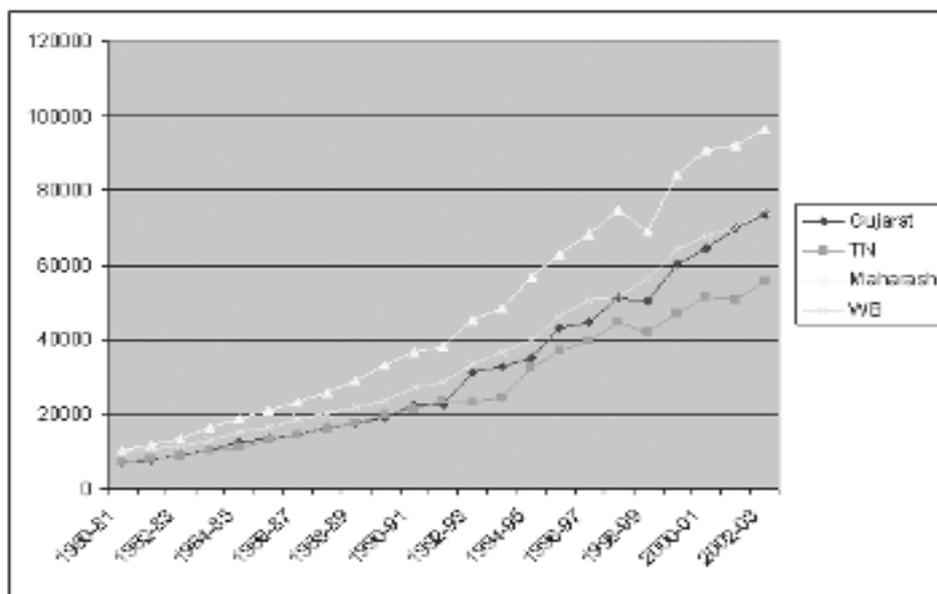
Moreover, the rate of decline was, in fact, the lowest in the state (Table 1). It needs to be mentioned here that historically per factory employment in WB was significantly higher than that of the other regions of the country. This trend can be traced back to the colonial period (Bagchi, 1998). But labour productivity levels were quite close for all the four states till the mid 1980s. In fact, the real divergence came only in the early 1990s, placing Maharashtra and Gujarat much ahead of WB and also TN. The reason, most probably is the better utilization of liberalization policies by the states of Maharashtra and Gujarat. But, if organized labour in WB had been losing its strength continuously over the 1980s and the 1990s, how could they manage to have a better level of product wage when their level of productivity was the lowest in comparison with the industrially more developed states?

Figure 2 The levels of Labour productivity in the four states: 1980/81 to 2002/03



Source: ASI

Figure 3 The levels of emolument rates in the four states: 1980/81 to 2002/03



Source: ASI

Let me now turn to growth rates of some of the crucial variables over the four states in question. Table 1 depicts the growth rates of employment, labour productivity, wage rates and the share of labour in the net value added in the organized manufacturing of the four states in the period 1980-81 to 2002-03.

Among the four states only West Bengal shows an absolute decline in factory employment over the years of 1980-81 to 2002-03. This may indicate a decline in the trade union power if the trade unions are *uncompromising* on the issue of employment. Dividing the entire period before and after the new industrial policy regime of the WB government, however, does not change the picture much.

**Table 2 Trend rates of growth (per cent per annum) of some selected variables in West Bengal manufacturing before and after the New Industrial Policy of the state in 1994-95**

| Variables           | 1980-81 to 1994-95 | 1995-96 to 2002-03 |
|---------------------|--------------------|--------------------|
| Employment          | - 2.02*(-6.30)     | - 7.19* (6.91)     |
| Net value added     | 3.54* (3.88)       | - 5.53 (-1.95)     |
| Labour productivity | 5.56* (7.37)       | 1.70 (0.87)        |
| Wage rate           | 3.86* (12.66)      | 4.13* (10.17)      |
| Wages to nva        | - 1.7* (-2.76)     | 2.47 (1.15)        |

*Source:* ASI.

*Note:* \* indicates statistical significance at 5 per cent level. t-values are given in the parentheses.

The rate of decline in the wage share to net value added shows an insignificant trend in the period after the new industrial policy regime of 1995-96 to 2002-03 in the state (Table 2). This was happening when there was a very sharp decline in the rate of growth of employment in the factory sector of manufacturing of negative order with the second period showing as low as (-) 7.19 percent per annum (Table 2). This is indicative of a significant amount of retrenchment or layoff as this substantial amount of absolute decline cannot be accounted for in terms of retirement alone. In fact, during this period, jute mills in the state were closing down one after the other laying off a very large number of workers (Sheershendu Datta, 2009). While the experience of large scale retrenchment is not unusual in the context of vulnerable labour market conditions (which is found in the cases of Maharashtra and Gujarat) other descriptive statistics in the case of WB are contradictory to the conclusion of weak trade unionism in general. Especially, how is it possible that in the second period the rate of growth of wages

increased when there was no growth in the net value added and labour productivity, and employment showed a significant decline?

Of course, the above discussion does not lead one to conclude unambiguously that the strength of the trade union movement in the state of West Bengal has declined significantly in recent years. But the trends do suggest that while on the one hand trade unions did accept increasing lockouts and massive retrenchments, they were also quite successful in retaining a high level of wages as well as a considerably higher rate of growth of wages in the context of an insignificant trend of productivity growth in the state of West Bengal. An explanation may be sought in the relative increase in the upper level jobs in total employment of the organized manufacturing of the state. This can explain the insignificant trend of decline in the wage share to net value added in the second period when there is a sharp absolute decline in the factory sector employment as such. This has been happening in the Indian industry for some time now (Nagraj, 1984). In order to verify this possibility, I look at the share of workers in the total employment as well as the share of wages in total emoluments during 1995-96 to 2002-03 (Table 3).

**Table 3 Trend rates of growth (decline) (per cent per annum) of the share of workers in total employment and wages in total emolument**

|                                      | 1980-81 to 2002-03 | 1995-96 to 2002-03 |
|--------------------------------------|--------------------|--------------------|
| Share of workers in total employment | 0.001<br>(1.43)    | 0.29<br>(1.42)     |
| Share of wages in total emolument    | - 0.2*<br>(-3.21)  | - 1.15*<br>(-3.70) |

*Source:* ASI

*Note:* \* indicates statistical significance at 5 per cent level. t-values are given in the parentheses.

Table 3 clearly shows that while the trend remained insignificant for the share of workers in total employment, it reveals a negative trend for the share of wages in the total emolument. This is, however, not indicative of an increasing share of the white collar employees in the pay roll. At the same time, the table indicates that either the rate of increase in the salary for the white collar workers has been more than the rate of increase in the wages of the blue collar workers or it has been possible to employ blue collar workers at a cheaper rate over the period. It can also be a combination of both. Therefore, it suggests that the unions are able to achieve a better situation for the white collar people while they failed to do so for the workers in general. This is indeed

paradoxical as the most dominant trade union in West Bengal is Centre for Indian Trade Union (CITU) which has been a mass organ of the 'pro-poor' ruling party in the state for the last three decades. In the next section I try to search for clues to explain these paradoxes.

### **3. Interrelation between organized and unorganised manufacturing**

In this section I refer to the field data. For selecting the sample firms, the present study has adopted a purposive sampling procedure since I am not trying to make any quantitative generalization. To begin with, I have concentrated only on those sectors which are having relatively higher share in the state's manufacturing output: textiles, basic metals and chemicals. While selecting firms (altogether 13 in number) within each sector a special effort has been made to get contrasting features in terms of size and market orientation. I have collected information from the management, workers and unit and state level trade union leaders with different political affiliations.

Recent research (Pages *et al*, 2006) highlights that the use of contract labour is increasing in the organized manufacturing all over the country. West Bengal is no exception in this regard. In the context of more uncertain market conditions, management find it increasingly easier to adjust their production plans by keeping a small number of permanent workers as core and a large number of contract workers under highly flexible conditions of work and lower cost (Majumdar *et al*, 2008). Table 4 indicates not only a very high share of contract employment in the sample firms but also an increase in the share within a short span of two years.

The incidence of contract labour is higher in the small and the medium firms when compared with the large firms in the sample irrespective of market orientation. Again, in the export oriented firms, the use of contract labour is more than the domestic market oriented firms irrespective of their size. However, the change is the sharpest in the firm under the category of 'large'. When asked, the management maintained that in the year 2007-08 and 2008-09 a large number of permanent employees retired through the voluntary retirement scheme and the firm never filled those vacancies as they could easily shift the production responsibilities to the contract/casual workers available in plenty at a much lower wage cost.

These findings corroborate the trends reported in Table 1 and lend support to the hypothesis that the firms are now able to employ workers at a lower wage cost. Some of the workers of the older firms in the sample maintained that the practice of not filling up of the permanent workers' positions in the organised manufacturing units of West Bengal had started since the early 1980s onwards. Hardly any new permanent job has

been created in the worker's category in the recent years. On the top of it, frequent declaration of lockouts in different sectors, mainly jute, led to the absolute decline in the organized workforce in the state (Table 1).

**Table 4 Percentage of Contract/casual labour in the sample firms**

|              | With some export share in their sales |                               |         | Totally domestic market oriented |                               |          |
|--------------|---------------------------------------|-------------------------------|---------|----------------------------------|-------------------------------|----------|
|              | Firms                                 | Percentage of contract labour |         | Firms                            | Percentage of contract labour |          |
|              |                                       | 2005-06                       | 2007-08 |                                  | 2005-06                       | 2007- 08 |
| Large Firms  | Firm J: 15 percent export share       | NA                            | 51      | Firm H                           | NA                            | 40       |
|              | Firm K: 25 percent export share       | 47                            | 59      | Firm I                           | NA                            | 42       |
| Medium Firms | Firm A: 40 percent export share       | 91                            | 92      | Firm L                           | NA                            | 42       |
|              | Firm E: 15 percent export share       | 85                            | 87      | Firm M                           | NA                            | 46       |
| Small Firms  | Firm B: 60 percent export share       | NA                            | 90      | Firm F                           | 93                            | 95       |
|              | Firm C: 65 percent export share       | 98                            | 100     | Firm G                           | NA                            | 90       |
|              | Firm D: 65 percent export share       | 100                           | 100     |                                  |                               |          |

*Source:* Field survey, conducted during December, 2008 and January, 2009.

*Note:* "NA" refers to not available. Only blue collar workers have been considered.

**Table 5 Percentage share of production farmed out by the sample firms**

| With some export share in their sales |                                 | Totally domestic market oriented    |        |                                     |
|---------------------------------------|---------------------------------|-------------------------------------|--------|-------------------------------------|
|                                       | Firms                           | Percentage of production farmed out | Firms  | Percentage of production farmed out |
| Large Firms                           | Firm J: 15 percent export share | Around 25                           | Firm H | Information not available           |
|                                       | Firm K: 25 percent export share | Around 20                           | Firm I | Information not available           |
| Medium Firms                          | Firm A: 40 percent export share | Around 60                           | Firm L | Between 10 to 15                    |
|                                       | Firm E: 15 percent export share | Information not available           | Firm M | Does not reveal information         |
| Small Firms                           | Firm B: 60 percent export share | Around 10                           | Firm F | Does not farm out                   |
|                                       | Firm C: 65 percent export share | Does not farm out                   | Firm G | Does not farm out                   |
|                                       | Firm D: 65 percent export share | Does not farm out                   |        |                                     |

*Source:* Same as Table 4.

Let me now turn to another aspect of informalization within the organized sector. The increasing practice of subcontracting by the organized firms to the unorganized sector is well documented in the literature. In my sample while majority of the large and medium firms farm out their production by a considerable amount, small firms generally don't opt for it. What is important to note here is that it is again the export oriented firms which employ contract workers in more numbers compared to the domestic market oriented ones which farm out a higher proportion of production as well (Table 5). But this is not something unexpected. Some of these trends have been reported in

other studies conducted on the manufacturing sector of the state earlier (for example, Datta Chaudhuri, 1995).

Flexibilization of production by employing contract labour on the one hand and opting for large scale subcontracting on the other are now increasingly important features in the development experience all over the world (Bagchi, 1982). The main purpose of flexibilization as noted by Roychoudhuri et al in 1998, at least in the case of West Bengal, was to bypass the militancy in trade unionism and stagnancy in innovative management.

How do the trade unions look at these facts? This question assumes particular relevance as it was found that even the contract workers were members of the same unions. How is it possible that the larger firms could increasingly go for farming out a substantial amount of production when their production capacity was not 100 percent utilized? Does this mean that the workers' unions have really lost strength so much that they accept the situation quietly? And this has been facilitated by the changed attitude of the state in favour of business in the recent years. But, then, why is it not possible to get the work done by the permanent workers by utilizing existing capacity of the firm? Let us, therefore, look into the story in some detail.

Irrespective of the sectors and market orientation, all large and medium firms in my sample maintain that the attitude of the government has changed significantly at the top level. This has been corroborated by the answers for the questions regarding time required to get clearance for a proposed initiative such as (a) for setting up of a new firm (b) for setting up of a new production unit (c) to get necessary permission for exporting etc. in the recent years. This is a clear indication of better working of the state machinery through single window procedures for easy investment.

On the contrary, all the large firms also maintain that when it comes to the question of implementation, the changed attitude of the government has really not percolated to the grass roots. Let us take up the case of the attitude of the labour and trade unions. It is important to note here that in the context of production, labour/ trade union and management are two different parties working under an explicit or implicit contract and thereby assume certain property rights. A powerful state should be able to protect the property rights of both the sides. In the context of West Bengal, the state's role in this regard becomes even more crucial as the ruling party's trade union has been the most powerful workers' association till very recently. Moreover, CITU, the ruling party's trade union always had a very close relationship with the party and as a consequence, with the left front government in the state. This, of course is a significant feature, not to be found in the non-left state governments in the country.

All the large firms in the sample maintain that the question of labour rigidity remains the same when it comes to the shop floor. This is interesting as Ramaswamy (1999:5) notes :

“ Ascendancy to political power appears to remove the last vestiges of radicalism from Marxist unions. CITU has undergone a veritable metamorphosis in Bengal since 1977 when their party came to power. The new policy of moderation and responsibility received formal blessing from party and union ideologues in a union conference in 1980. The ‘*gherao*’ which terrorised managers in the sixties and seventies is no longer in evidence. The number of strikes have declined sharply.”

It was found during the primary survey that in some of the older firms the peak of militancy was encountered when CITU decided to capture a plant. Their typical style was to insist upon a set of impossible demands and whip up violence in order to scare the management, the other trade unions and the people in the locality. In this process they often used to achieve whatever they wanted. However, the methods of CITU were quite different where they operated alone untroubled by other unions. There they appeared to be more amenable to reason.

As long as the question of getting industrial investments directly was not a possibility because of the industrial licensing policies, the state and the ruling party were probably not bothered about the ground reality of the industrial relations and improving the work ethic at the shop floor. The level of the labour productivity remained more or less the same throughout the 1980s in the organized manufacturing. According to the management the militancy in the bargaining process reduced significantly as the central patronage from the state leadership for pressure tactics is no more available. However, the unions still bargain quite adamantly for higher wages but not really much insistent on filling up the vacancies or making the contract workers permanent. Here obviously the insider’s interest (permanent workers’) turns out to be more important than the outsiders (non-permanent workers) for the trade unions. Firm level workers and the unit level leaders do understand that if the management can reduce the production cost by way of hiring contract workers or farming out production partly to the unorganized sector in spite of the fact that the firm underutilizes its capacity, it is easier to bargain for a better wage. Further, in order to be confirmed, a worker needs to work on contract or casual basis in a firm. Trade unions play a very important role in this process of confirmation. The union leaders understand that it is, thus, easier to control the workers as long as they are on the contract/casual basis. Incidentally, Sarkar (2006) argues that people in WB depend on the political parties in a fundamental way for their

livelihoods. It is their vulnerability which compels them to do so. Further, an independent trade union leader mentioned that in some cases the permanent workers (and the unit level leaders) themselves practice subcontracting with the existing contract labourers and do some other business during the office hours under the safeguard of the representative union. As the contract/ casual labourers are also union members, the question of union membership and membership levy does not pose a real problem for the union as contractualization perpetuates<sup>2</sup>.

The management maintain that the union leaders always resist any work load increase even for a short while under emergency especially in the private firms. Though the contracts between the permanent workers and the management is always a written one it is difficult to make it a complete one in every sense considering all contingencies explicitly. The permanent workers often take the advantage of the incompleteness of the contracting. As a consequence management of all large firms mention that they are weary of taking the permanent workers in confidence to promote technical modernization of a large scale. Technological modernization can lead to human asset specific conditions and in turn to costly haggling (see Chakravarty,2002) especially in the context of an institutional failure where workers' union fail to work as a governance structure facilitating transaction between the workers and the management (see Williamson, 1985).

While farming out production to the unorganised sector is an old practice in Bengal manufacturing, now the management took this opportunity and started recruiting contract workers in a large scale leaving the permanent workers untouched. These findings go a long way to support the macro trends discussed in the last section. But the macro evidence also tells us that the contradictory trends remain the same in the recent years even after the explicit change in the ruling party's attitude. The senior CITU leaders at the top are now said to be trying to improve the work ethic among the permanent workers of the manufacturing units.

But the management feel that over a long period of time the permanent workers have been habituated not to work and work only when there is overtime payment. In Bengal, overtime virtually meant extra payment without extra hours of work. Now even though the senior leaders at the state level ask the cadres and the unit level leaders to cooperate with the management at the shop floor, the workers passively resist. It has been noted by the management that the rate of absenteeism has increased remarkably in the recent

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<sup>2</sup>There is usually no difference in the membership levy for the permanent and non permanent workers and moreover, the levy is just a paltry sum of Rs 1 or so for the larger central trade unions like CITU (Mr. Veeraiyah, CITU general secretary, Andhra Pradesh in an interview with the author on 10-06-09 in Hyderabad.

years among the permanent workers. The permanent workers who have been accustomed to get wages without doing much work, why should they suddenly start working sincerely at the instance of the party whip? The CITU state leadership as well as the ruling party and the government made the traditional mistake of assuming the workers as 'passive agents' of production as pointed out by Simon way back in 1951.

At this point, the question that immediately crops up is: why did a highly centralized party like CPIM or its mass organization CITU let the unit level workers behave this way over a considerably long period of time? There may, in fact, be two conceivable explanations. First, the union leaders cannot put pressure on the firm level units as there is ample chance of losing support and consequently the vote bank. In the recent political context the ruling party really is not in a position to risk the number of votes it has (Nagaric Mancha, 2007). Over these three decades of their rule the central control over the rank and file has significantly diminished. The local trade unionists of CITU or the local party leaders have started behaving as independent institutions. They wield much power in the areas directly under their control. So, the unit level representative unions have enormous hold over the contract/casual labourers. The management of the large units, irrespective of market orientation, maintained that they could not recruit contract workers directly. Moreover, according to some independent trade unionists and ex-employees, the unions also play a role in determining the renewal of the contracts for these category workers. Further, with the help of their close association with the local party, the trade union leaders often help the retrenched workers to get a rickshaw or an auto rickshaw licence for driving or to get a job of a helper in the construction sector. In this way they develop a patron client relationship especially in the context of workers losing jobs in the factories. Incidentally, CITU has the largest membership in the construction sector which is basically unorganized. In another context, Bardhan et al (2009) recently showed how this patron-client relationship helps CPIM to remain in power in the rural Bengal.

The second reason is related to the first. A retired personal manager of Firm K notes that the large scale retrenchment of the organized workers in the state and the increasing number of lockouts have created a distrust about the CITU leadership among the workers. This may be one of the reasons that since the mid 1990s, Trinamul Congress has started gaining strength slowly in both the urban and rural areas. In the Durgapur as well as in some areas of Howrah industrial region, the status of representative trade union is enjoyed by the Trinamul Congress in quite a few firms. The picture in the sample firms goes a long way to support this fact (Table: 6). This was unthinkable during the 1980s or even in the early 1990s. As a consequence the intra-union rivalry has increased significantly. This emergence of a formidable opposition union at least at

the firm level, weakens the control of both the unions and the sheer disagreement out of rivalry between the two unions on the other thwarts the production process in general.

**Table 6 : Incidence of Trade Unionism in the Sample Firms**

| Firm type                       | No Union                  | One dominant union           | More than one dominant union                           |
|---------------------------------|---------------------------|------------------------------|--|
| Large export market oriented    |                           |                              | Firm J: CITU, INTUC<br>Firm K: Trinamul Congress, CITU |
| Large domestic market oriented  |                           | Firm I: CITU                 | Firm H: CITU,<br>Trinamul Congress                     |
| Medium export market oriented   | Firm A, Firm E            |                              |  |
| Medium domestic market oriented |                           | Firm L: CITU                 | Firm M: CITU,<br>Trinamool Congress                    |
| Small export market oriented    | Firm B, Firm C,<br>Firm D |                              |  |
| Small domestic market oriented  | Firm G                    | Firm F:<br>Trinamul Congress |  |

*Source:* Same as Table 4.

#### **A different story**

On the question of farming out production to the unorganized sector a medium sized textile unit, Firm A, stands at the top (Table: 6). Based in Kolkata and a highly profit making unit, this firm is mainly a boutique cum manufacturer exporter of traditional Bengal weaves. Around 60 percent of its products is acquired from a numerous number of weavers spread over different villages of Bengal. In fact, two of my small scale textile units based in Shantipur/ Phulia region are direct suppliers of Firm A. Farming out production in this case is likely to be easier than the other sectors as a large number of skilled weavers in this craft are available in particular clusters of interior Bengal. The interactions with several weavers/contractors in the village of Phulia revealed that all the weavers based in this village are weaving for different master weavers. These master weavers in their turn basically play the role of the contractor/operator between the

Calcutta or Bombay based manufacturing units or large export houses. They also have their own small sheds with a few looms of their own operated by hired weavers without looms or by family labour. In the two cases of my sample altogether more than 10 people were working under the two master weavers behaving like two small firms. These two small firms, B and C do not come under the registered factory sector. Approximately, 80 percent of the village's product is getting produced indirectly for the export market or directly for the niche market of boutiques based in various large cities in India, many of which are manufacturers themselves. In order to facilitate production, Firm A regularly organizes training workshops in Kolkata mainly for the master weavers to whom they regularly farm out production. However, the nature of the training is not such that it can lead to any kind of human asset specificity of Williamson's type. Therefore, it is not essential for firm A to have these workers as permanently attached to the firm. From the weaver/contractor's point of view the arrangement suits well as the skills are not particularly firm specific; other markets than firm A do exist. While, sometimes these master weavers work for different firms, they primarily attach themselves to a single large or medium firm over a longer period.

The village-based small firms are not large enough to participate directly in the export markets. Minimum shipment sizes, access to trade credit or pre-shipment finance, conforming to export regulations, lack of office staff - all taken together, thwart the direct entry of these small enterprises into the export market (for a related discussion see Harris-White, 2007). Therefore, these small firms go for an informal production contract with the large firms (as in the cases of firms Band C with Firm A in my sample) based in the cities with a proper access to the emerging markets abroad. These contracts are always unwritten, implicit ones, enforced by long term relationships and reputation. In the case of implicit contracts, indirect economic damages can be imposed on an individual who breaches the contract (Persons, 1986).

When asked how trade unions react to this work organization especially as Firm A is based at the heart of Calcutta, management responded that they had been successful in keeping the trade unions at bay since its inception in 1997. One particular reason of her success, cited by her, is the strategy of keeping the number of permanent workers as low as possible. The changing attitudes of the ruling party, she added, of not being so supportive of its trade union organ since the mid 1990s helped her in a significant manner. She maintains that these days government is no more in the grips of the 'CITU hooligans'. This is an example of changes in the state's attitude towards business.

While ancillerization as against vertical integration has a long tradition in Bengal industry especially in the engineering and transport industry, organized large scale purchase of

traditional Bengal weave especially for exports is a feature which came along with the liberalization policies of the 1990s. Moreover, noticeable betterment of the road conditions, one of the major features of the new industrial policy of the state government, helped reach distant villages easily and tap unexplored possibilities in a major way. In fact, textiles has not only the highest percentage share in the value added of WB's manufacturing both in the organized as well as in the unorganized sectors, the share also is increasing over time (data refer to *ASI* and the *NSS* Reports on Unorganized Manufacturing). It is worth mentioning here that the elasticity of unorganized sector output is as high as 1.2 with respect to the organized sector during 1980-81 to 2004-05. However, the elasticity is higher in the first half till 1994-95 compared to the second. The reason behind this may relate to the fact that quite a few very large trading firms in the recent years, acquire products directly from the unorganized producers for export purposes. This is also true for jute-cotton mixed fibre and weaves (Govt. of WB, 2007-08).

#### **IV. Concluding Remarks**

Militant trade unionism of the 1970s and the early 80s was held responsible in earlier studies for the increasing importance of the unorganized manufacturing activities in the state. However, increasing unemployment during this period also led to a decline in the militant attitudes. This helped promote flexibilization policies of the management. This paper argues instead that the reason for the increasing importance of the unorganized manufacturing does not so much seem to be the result of weak trade unionism and the vulnerable work force as it is of an implicit understanding between the trade unions and the management. That the state has also played a passive role in this matter may not be a wild guess. But these findings are based on a small sample only to have some understanding of the macro trends and thus are not conclusive.

Perpetuating informalization is likely to be beneficial for the management especially in the context of low-productivity, low-wage manufacturing in WB: management informalize production in more than one way by employing contract workers and farming out production. Trade unions also recognise the fact that to retain power in a situation of decline, informalization to a certain extent is beneficial for it. On the one hand they have been successful in achieving higher wages even without corresponding higher productivity for a small group of insiders (permanent workers). On the other hand they have been able to develop a typical patron-client relation with the contract workers. However, it needs to be mentioned here that in recent years, there is also an indication of divergence of interests between the state leadership of CITU and the rank and file at the unit levels.

Of course, recent developments are exceptions. In the more dynamic firms that came up during the mid 1990s, the concept of trade unionism is almost absent. There, the wage rates are directly related to productivity and only a few workers are employed on a permanent basis. It is indeed interesting to note the somewhat passive role of the state in implementing the standard labour regulations in this case.

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