
The Weakest Link

Nirmala Banerjee

Introduction

Employment studies sponsored by the ILO during the 1970s clarified the fact that, outside officially recognised pockets of regular employees, the remaining labour force was neither idle nor unemployed, but engaged in a vast variety of occupations and activities under widely differing conditions of work. The co-existence of standard, western-type employment along with other amorphous kinds of work, has been labelled as the formal/informal sector (IS) dichotomy and has since been accepted as a general characteristic of the economies of less developed countries.

Although many countries use an officially recognised definition of the formal sector (usually in terms of the applicability of certain laws to activities and organisations)¹, the IS remains an elusive concept, defined in such terms as particular sections of economic activities using traditional technology; or those activities organised on a small as opposed to a large scale; or those producing goods for local rather than national or international markets. However, such categorisations are country specific and can be refuted by counter-examples. For example, the definition of IS used by the ILO Kenya study [ILO 1972] is unnecessarily restrictive if applied to India. Even more frustrating, in the same country, at about the same time, two authors describing the IS give mutually contradictory views [Dasgupta 1973, Lubell 1974]².

Nevertheless, it is undeniable that the IS constitutes a very important part of the economy. In India, even if the IS is defined to exclude peasant proprietors, it still employed 66 per cent of the remaining labour force amounting to over 61 million workers in 1971 [GOI 1978b], with the formal sector employing only 20 million workers. Moreover, a growing proportion of the increase in the labour force of India since then has gone into the IS.

In view of this trend, policy-makers concerned with poverty eradication programmes are increasingly pinning their hopes on improvements within the IS. However, because their conception of what constitutes the IS is

¹In India, the formal sector has now been defined and official publications such as the *Reserve Bank of India Bulletin* [GOI 1978a] give regular estimates of employment from time to time.

²Lubell describes Calcutta's IS as 'an enormous reservoir of productive skills'. While Dasgupta says that 'most of those engaged [in Calcutta's IS] are workers in unskilled or obsolete occupations'.

far from clear, prescriptions for such improvements often fail. Because of the general association of the formal sector with modern technology for export markets, repeated attempts have been made to promote in the IS certain skills, products and markets, but with little effect on the conditions of workers involved.

It is the contention of this paper that the problem has been aggravated because it is addressing a null issue. The IS is a classifying device, not of the economy as a whole, but of the labour market alone. The formal or informal status specifies only the nature of the labour contracts that a worker enjoys, without specifying the category of activity. In India the formal sector provides the worker with somewhat better working conditions—better wages, some security of employment, some provision for paid leave and against sickness, accidents or old age, while in the IS, whatever the occupation or organisation of production, wages are distinctly lower and there are no benefits of the above-mentioned kind.³

In principle, formal sector labour contracts can occur in any kind of economic activity, with certain types of labour contracts having a better chance of survival in some activities than others. This article examines the assumption that economic development necessarily implies a larger formal sector with concomitant better working conditions.

The Background

A description of the situation in India helps to clarify the point. The formal/informal dichotomy is of fairly recent origin in the country in the sense that, in the not too distant past, the conditions of all workers were uniformly poor wherever they were working, although modern industry was promoted in India over a hundred years ago, mainly by foreign capital and largely for export markets. For example, the Calcutta jute industry was started in the 1860s with little formal employment for the workers there until the 1950s. They were permanently kept on a casual basis, housed in barracks worse than cattlesheds, and paid well below the family wage. This was also true of the coal mines, the tea plantations and the banking institutions of Eastern India. In contrast, the patently informal activities in

³Bremen [1976] has rightly pointed out that in India the formal and informal sectors form a continuum with gradual shading from one kind of organisation into the other. Nevertheless, the break between the two is quite noticeable to observers.

India today are neither traditional nor local. Indeed a large part of Indian exports of modern light engineering goods are produced by small workshops often under subcontracts put out by large firms or agents. These self-employed workers earn less than half the formal sector engineering workers' wages in the same region [Bose 1973].

The question then is: what has led to a situation where some workers get formal contracts while others in the same region, and even in similar activities, do not? Over this period, the basic imbalance between labour supply and availability of investible resources in India has become even more acute. The Indian agricultural sector, despite sporadic attempts to modernise it, has not reached a stage where it can release a substantial surplus for industrial development. The industrial development that has taken place with foreign as well as private and public indigenous capital has never been sufficient to absorb a significant proportion of the working population. The registered manufacturing workers, including those in the extractive industries, account for not more than three per cent of the total Indian labour force. Therefore, even today, agriculture employs 70 per cent of workers and 80 per cent of the Indian population is still rural, with about 15 per cent of rural families having no land of their own [GOI 1978c]. In spite of the apparent emphasis on socialisation of the economy, private ownership of all means of production including land is deeply entrenched and access to capital is extremely constricted despite the nationalisation of the banks. In this situation, the potential surplus of labour *vis-à-vis* urban investment is so large that there is literally no reason why wages should even reach the replacement cost of labour supply, and in large segments of the IS it is estimated that 70 per cent of the workers earn *less* than is needed to be at or above the poverty line [Dandekar and Rath 1973].

Given this situation, the logical thing to do is to turn the current debate on its head by examining how some workers do manage to get labour contracts of the formal sector type, and the close correspondence between such contracts and the large scale, probably foreign- or MNC-owned modern productive activities.

Logic of the Formal Sector

This article argues that the formal type of contracts have developed in countries such as India through factors which are as much political as economic. Although India has a long history of trade union activity in many of the larger industries, the formalisation of labour contracts came about in at least some sections of the economy only after Independence, when a popular government was elected on the basis of universal adult franchise. Because these countries

were overwhelmingly poor, their governments had to take a leftist-populist stance in order to win and keep popular support. The immediately obvious method to establish such an image was to win over the support of the larger industrial and white collar trade unions by helping them to get some of the advantages of regular employment or formalisation.

At the same time, large business houses, whether in commerce or in industry, have always been highly dependent on the support of the government for concessions relating to the protection of markets, supply of cheap credit, reliable and cheap infrastructural services like power, water supply, transport, etc. To ensure this support, they are willing to concede some workers' demands when the workers clearly enjoy the support of the ruling party. Often, large firms, especially multinationals, offer concessions to workers in a paternalistic fashion in order to create a favourable impression on the general populace who are suspicious because of the former's association with the ex-colonial powers. In this, they may be encouraged by the government who want large-scale business in their country while maintaining their independent and leftist stance. The jute industry provides an excellent example; in 1974, the government granted the industry exemption from jute export duty worth about Rs 250 *crores* and helped it to earn a profit of about Rs 400 *crores* that year. It then persuaded the industry to concede to the workers' wage demands, worth about Rs 9 *crores*.

On the other hand, the rights and privileges that formal sector workers enjoy are neither inalienable nor permanent but available to these workers only at the convenience of the employers. The latter can, if required, reverse to a much less liberal position with the connivance of the government. In many cases, the government may be forced by political pressures to pass laws supporting some workers' claims. However, unless it lends the workers sufficient support to ensure the enforcement of those laws, employers can subvert them.

This process occurred in the textile industries where the cotton and jute mills were forced by government direction to provide maternity benefits and crèches for their women workers. As a result, the textile mills reduced the number of their regular women workers so as to avoid making these arrangements. A large number of cotton mills then employed those same women, but on a casual basis on the mill premises. In the jute industry, when workers, with the support of the ruling party, got the industry to concede a series of wage settlements in the early 1970s, the latter got rid of a large number of workers on the pretext of rationalisation of tasks. The increased work-load on the remaining workers was so great in a number of

occupations, that workers themselves had to employ as their casual helpers some of the retrenched workers, paying them out of their own earnings. Thus the actual net wages of neither the retrenched workers nor those retained were at the officially set levels.

Improvements in working conditions are not necessarily a result of technological improvements in the industry concerned—the Indian jute industry, for example, made some minor efforts towards modernisation in the early 1950s. Since then it has remained stagnant, with production fluctuating within a narrow margin. Yet jute workers' wages, which had shown little change at the time of modernisation or immediately after, rose considerably ten years or so later. Nor can improvements in workers' conditions always be explained in terms of improved prospects for the industry employing them. Indeed, instances of such improvements taking place during an industrial crisis are not unknown in India. For example, during the late 1960s the engineering industry of West Bengal faced stiff competition in a shrinking market, yet in 1969 workers got an extremely good wage settlement with the aid of the Left Front Government then in power. Indeed, during its term of office, wages of organised industrial workers rose much faster than in Maharashtra, although the latter enjoyed much faster growth of new and more capital-intensive industrial investment [GOI 1973, 1975].

Political Visibility

As these examples indicate, government support for a particular group of workers is not necessarily given on the grounds of its economic strength, its special skills or the basic justice of its claims. It is mainly lent on the grounds of how important the group can be to the image of a political party and how useful it can be for mobilising popular support for it. This amorphous quality of the group can be called its *political visibility*—a quality which matters more under a government with a populist/democratic stance than under one with a more paternalistic or autocratic character.

A group of workers has to be politically visible in several senses. It has, first, to be visible to its members themselves as a group with some common politically influential identity. For example, during the initial stages of the development of British-owned industry in Eastern India, special provisions were made to import labour from distant, often tribal regions in order to keep the industrial labour force isolated from the surrounding population. Such labour proved to be particularly docile. After Independence the very isolation of these workers gave them an immediate identity as a minority group with a long tradition of industrial labour in that region. This was used to get political support for their demands.

Secondly, a group has to be visible to the political parties as possessing a strong potential for exerting political pressure; the support given to the group then depends on the assessment made by the political parties of this potential. Since political leadership in India is drawn largely from the middle classes, where the majority are in white-collar jobs, the wage structure has over the years been strongly biased in favour of white as against blue collar jobs.⁴ The trends in the 1970s were towards holding down factory wages while granting claims of workers such as teachers, bank or government employees.

Even more important, the grievances of such a group have to be immediately visible and appealing to the public. An indifferent public or an unsympathetic press can immediately kill the interest of political parties in a movement. This was the case in 1977-78, when the porters of Calcutta's wholesale markets tried to get regular status. Their movement got a very unsympathetic hearing from the public since it hampered the retail supply of a number of essential goods such as potatoes and pulses, and raised prices.

The ease with which a group can feel its identity gives it a special edge in seeking recognition for its demands. This is precisely the advantage gained from formalisation by a large production unit in one location. Workers can form a sufficiently homogeneous group to hold the employers at ransom, at least for some time, with their actions creating enough stir to make it difficult for the political parties to ignore them. On the other hand, for outworkers, even when working in one small locality, there is a genuine difficulty of knowing who their fellow workers are. For example, in Calcutta, we⁵ located one large slum where by our estimate, 500 or more women of similar social backgrounds were all engaged in making similar ready-made garments, probably on order from agents of the same operator. They were, however, not only ignorant of the total strength of the group but could always be set to compete with their neighbours since they had no idea of the dimensions of the total demand.

The Handicapped Worker

That workers can occasionally partially overcome their basic handicap of being in a labour surplus economy does not, of course, mean that the entire labour force can succeed in doing so merely by acquiring group identity and political leverage. Given the basic

⁴Kojiko Taira [1973] has shown that among developing countries, Indian wage differentials between low skill white collar and blue collar jobs are the highest.

⁵During the course of a survey of women workers in the unorganised sector of Calcutta undertaken by the writer and sponsored by the Indian Council of Social Science Research [cf Banerjee 1979].

imbalance between economic investment and the size of labour force, the privilege is essentially precariously earned and temporarily enjoyed.⁶ With each political change, the groups that enjoy this privilege change, but in this perpetual game of snakes and ladders, there are some who never even start. One such group of non-starters in India are the women workers, especially the urban women workers.

The problem is not that women have never been identified as a specific group: they have again and again been singled out for differential treatment in the labour market, as in the example of women textile workers taking the brunt of job losses through rationalisation at the time when male workers in those industries started getting formal contracts. Similarly, in the unorganised sector, women's occupations are fairly distinct and are also some of the worst paid anywhere [GOI 1979]. When occupations pass from male to female dominance, as in the case of the workers making hand-made cigarettes (*Biris*) in Calcutta, the piece rate wage for the work is lowered significantly.

A recent study showed that discrimination cannot necessarily be explained through either demand differentials (ie specific preferences on the part of the employers) or the women worker's lack of specific qualifications [Banerjee 1979]. With a total lack of tradition of women's work in the region, the main difficulty was the rapidity with which they had to enter the labour force, making it more difficult for them to forge the necessary identity. Women began to work, not through a growing sense of women's emancipation and status, but through desperation born of shrinking family incomes. Most of them were not only totally untrained for the labour market in any formal sense but were also uninformed and isolated enough to believe that having to work was a personal and temporary tragedy. This made them more ready to accept work which immediately yielded an income near their target rather than giving rational consideration to the relative prospects of promotion or steady work.

Even in such a desperate situation, women were willing to forego prospects of a higher income if the occupations offered them violated the taboos laid down by society in relation to a particular type of work. For example, upper caste women in Calcutta with even less of a family tradition of women's work, preferred outwork to domestic service even though the rate of return in the former was somewhat lower.

⁶See Bienefeld in this issue. He places this against the background of a world economy dominated by multinationals and international trade and brings out clearly the poverty of the prospects for fast development towards permanent full employment in any Idc.

However, as far as level of skill and family income were concerned, they were no different from the domestic servants who often competed for outwork to supplement their incomes.

Women appeared in this labour market as a highly fragmented group with little sense of identification with others in the same situation. There was, therefore, no incentive for any political party to take up these women's cause, despite the marked tendency for them to be used as pawns in bargains with employers. When the formal sector male workers were on strike or lockouts, their women could be relied on to take up IS jobs to ensure the families' survival. Although occasionally some women, such as the retrenched jute workers, or the casual hospital helpers (who had to pay out an increasing commission in order to get daily appointments) were bitter about the lack of support from trade unions or political parties, the majority were content not to make a public issue out of having to work.

The Trap

Increasing willingness of women and other desperate workers to work even on such terms, has been accompanied by a growing use by large firms of subcontracting arrangements with small workshops, the self-employed or outworkers. There is a widespread tendency to see a grand design on the part of capital, mainly international capital, to manipulate social and political circumstances in the developing countries in order to use vulnerable groups such as women to extract added surplus. Without subscribing to any such teleological explanation, one can readily see that, given the initial availability of some particularly fragmented and uninformed groups of workers, capital would organise to take advantage of this opportunity. Using decentralised production methods reduces the need for fixed capital and is particularly welcome in cases where the demand for the final products is temporary or fluctuating, or there is open competition from many national and international producers.

And therein lies the danger. If, with modern technology, formalisation was an inseparable part of production, then there was room for hope that, in the long run, development itself would bring better working conditions for more and more workers. But present trends in technological development show that more and more production activities can be broken into small, separable parts and organised on an *ad hoc* basis in widely distant locations, with wages such that labour can never get out of the trap. Even if the production of this sector is inefficient technically (and economically in the short run) the flexibility gained will be more than adequate compensation in the longer run.

Conclusion

In the labour surplus situation of Idcs such as India, acquiring political visibility is a competitive game because a decent living for all does not seem feasible. A favourable political situation can result in gains for particular groups but it would be short-sighted on the part of these fortunate workers to regard the gains as permanent. The simple contest of modern, capital-intensive, large-scale production methods vs the old-fashioned, semi-rural, artisan production techniques is no longer relevant. Technology today offers an entire spectrum of techniques which, based on the tremendous improvements in information and transport facilities, make a whole range of combinations of production organisations not only possible but profitable under appropriate conditions of labour supply. Such technical possibilities combined with the existence of vast numbers of potential workers willing to work even at wages well below the subsistence level, can act as a constant temptation for producers to switch activities between the formal and the informal sectors.

On the other hand, the labour market is nowhere near perfect in either sector and the link between wages and productivity is flexible enough to allow for a substantial margin for bargaining. Therefore it is in principle possible for all groups of workers to reap some benefits by organising group action without an immediate danger of loss of employment. In the long run, the security of formal sector workers rests on the differential between the two sectors narrowing. Rational self-interest as well as humanitarian consideration appear to point in the same direction — towards greater organisation of all workers.

References

- Banerjee, Nirmala, 1979, 'Women in India's urban labour market', *Labour, Capital and Society*, vol 12 no 2, April
- Bose, A. N., 1978, *Calcutta and Rural Bengal*, Minerva, Calcutta
- Dandekar, V. M. and R. Rath, 1970, *Poverty in India*, Ford Foundation, New Delhi
- Dasgupta, Biplab, 1973, 'Calcutta's informal sector', *IDS Bulletin*, vol 5 no 2/3, October
- GOI, 1973, Govt of India, *Annual Survey of Industries*, Central Statistical Organisation, Delhi
- GOI, 1975, Govt of India, *Indian Labour Statistics*, Central Statistical Organisation, Delhi
- GOI, 1978a, Govt of India, *Reserve Bank of India Bulletin*, October
- GOI, 1978b, Govt of India, *Rural Labour Enquiry*, Ministry of Labour, Delhi
- GOI, 1978c, Govt of India, *Draft Five Year Plan 1978-83*, Table 4.9 page 97, Planning Commission
- GOI, 1979, Govt of India, *Report of the Sub-Group on Statistics on the Employment of Women*, Table 5, Planning Commission
- ILO, 1972, *Employment, Incomes and Equality: a Strategy for Increasing Productive Employment in Kenya*, Geneva
- Lubell, Harold, 1974, *Calcutta*, ILO, Geneva