PN-ABY-631
90670

Factory, State, and National Level Labor Institutions in Indian Industrial Restructuring

written and presented
by

Christopher Candland

University of California, Berkeley

Paper presented at the One Day Colloquium on Policy Analysis:

Public Sector Restructuring and Labor Reform: Progress and Prospects

New Delhi, July 2, 1996

Co-Organizers:
National Council for Applied Economic Research (New Delhi)
The Center for Institutional Reform and the Informal Sector

A

Factory, State, and National Level Labor Institutions in Indian Industrial Restructuring

paper prepared for the
National Council for Applied Economic Research
and Institutional Reform and the Informal Sector
Conference on India's Progress and Potential in Labor Reforms and Privatization
New Delhi, 2 July 1996

Christopher Candland
210 Barrows Hall
University of California, Berkeley
Berkeley, CA 94720

candland@violet.berkeley.edu
phone: (510) 643-1733
fax: (510) 642-9515

5 June 1996

Draft
This draft is intended for IRIS staff and conference participants.
Please do not further duplicate or circulate.

This publication was made possible through the support provided by the U.S. Agency for International Development under Cooperative Agreement No. DHR-0015-A-00-0031-00 to the Center on Institutional Reform and the Informal Sector (IRIS) and administered by the Office of Economic and Institutional Reform, Center for Economic Growth, Bureau for Global Programs, Field Support and Research.

P

Contents

C

1. Introduction

In July 1991 the then minority Indian National Congress government of P. V. Narasimha Rao adopted an International Monetary Fund (IMF) guided structural adjustment program. The government's economic policy involved disinvestment from and reduced budgetary support to public sector units. Public sector units were permitted to form joint ventures with foreign and domestic private companies and to have greater say in pricing. The legal grounds for the privatization of the public sector were cleared with an amendment to the Sick Industries and Companies Act in December 1991. But Indian labor institutions have been a major impediment to privatization. Indeed, Indian trade unions have emerged as the strongest obstacle to further reform of the Indian economy.

Indian labor institutions are being reformed to accommodate the ongoing liberalization of the Indian economy. Close study of the historical development and plant level operation of Indian labor institutions is needed for better understanding of the reform process. How have Indian labor institutions (both trade unions and industrial relations legislation) been structured? What are the major elements, both formal and informal, of India's industrial labor regime? How do these institutions (including trade union federation relations with political parties, collective bargaining and trade union recognition mechanisms) operate at the national, state, and plant level? How do the institutional structures of Indian labor influence the liberalization program?

This paper approaches these questions by drawing conclusions from four levels of analysis: (1) an examination of industrial restructuring in several Indian enterprises in states with differing labor regimes; (2) a brief survey of the industrial labor regimes in three economically significant Indian states; (3) a review of legislation in Indian industrial relations as well as government and management attempts to change India's industrial labor regime; and (4) a comparative study of Indian and Pakistani labor institutions, privatization, and trade union response.

In enterprise-level investigation, we examine whether some union-types are better than others at organizing and maintaining worker support for labor force restructuring. Do internal or independent unions maintain workers' support better than external or affiliated unions? Is industrial restructuring made easier if labor is affiliated to the labor wing of the party governing at the state or center? In an examination of central government labor legislation and government agencies involved in privatization, we then assess the influence on industrial restructuring, on employment training and retraining, and on retrenchment of major industrial relations institutions. Finally, in comparative analysis with Pakistan, we examine why India and Pakistan have such different experiences in industrial restructuring, particularly in privatization. What role does the different relationship between the state, political parties, and labor institutions in each country play in the economic adjustment process? Collectively, these inquiries suggest that labor regimes supportive of unions that can maintain their autonomy from political parties manage industrial and labor force restructuring more readily than labor regimes that promote political party affiliated unions.

Affiliated unions are industrial federations or unions allied to one of the national trade union federations. These are listed below in table 1 on page 17. Internal unions are unions under the leadership of a employee or former employee of the enterprise in which that union operates. Internal unions are by no means uncommon in India. In some states, such as in Karnataka, they are the norm. But compared with other developing countries Indian trade unionism is highly professionalized. With few restrictions on so-called "outsiders" and an electoral system which encourages the political mobilization of laborers in the organized sector, trade union officials are more typically lawyers than factory workers. While internal unions are generally favored by management and affiliated unions are generally favored by government, independent and external unions are also widespread in India, especially in Bombay, and Southern and Western India in general.

The method deployed in this paper confirms that conclusions are highly sensitive to levels of analysis. As analysis pulls back from factory level labor politics to national level labor institutions, the very concepts of autonomy and independence from political parties shift in meaning. But the method deployed also confirms — and all the more thoroughly as a result of the multiple levels of analysis examined— that political party independent labor institutions — at the factory level, at the state level, and at the national level — promote industrial and labor force restructuring.

2. Institutions

The study of economic adjustment has suffered from a lack of attention to social institutions. Scholarship has typically presumed that adjustment is a process which government effects on society, focusing on elite political coalitions and "the packaging of programs or the manipulation of opposition groups" required to adopt and implement unpopular economic programs. (Haggard and Kaufman 1991: 25) Insufficient attention has been devoted to the social institutions that economic adjustment must reform. (Callaghy 1991 is a noteworthy exception) The treatment of the political element in economic adjustment must run deeper than it does in most studies on the politics of economic adjustment. The formation of the social institutions and their influence over the economic adjustment process merits further study.

Definitions of institutions vary greatly. Are institutions the rules that authority lies down for social behavior? Or, are institutions the social organizations which individuals create to articulate collective interests, interests which they may not otherwise be able to express, or even possess? The 1989 edition of the Oxford English Dictionary (OED) supplies a definition which first came into use in the 16th century:

> an established law, custom, usage, practice, organization or other element in the political or social life of a people; a regulative principle or convention subservient to the needs of an organized community or the general ends of civilization (OED 1989: 1047)

This definition usefully maintains the two distinct but essential senses of the institution. An institution is a norm or shared value, that is, a "law, custom, usage, [or] practice." An institution is also a social body, a collection of individuals with a purpose, "an organization or other element in the political or social life of a people subservient to the needs of an organized community." An institution must retain both these senses. A social institution may be structured by law, or some other authoritative regulation. But an institution is not equivalent to these laws and regulations.

An institution might be defined then as a rule-enforcing mechanism, whether it is public or private, formal or informal. As Jon Elster puts it:

> Institutions keep society from falling apart, provided that there is something to keep institutions from falling apart. On the one hand, institutions shelter us from the destructive consequences of passion and self-interest, but on the other hand, institutions themselves run the risk of being undermined by self-interest... An institution presents two faces, as it were. It seems to act, choose and decide as if it were an individual writ large, but it is also created by and made up of individuals. Each face deserves attention. (Elster 1989: 147)

The social organizations that preserve and enforce rules may be as important as the rules themselves. For it is social organization and group practice, not legislation, that maintains and reforms rules.

3. Industry Case Studies

What can the experiences with industrial labor force restructuring in a variety of public and private sector companies tell us about the influence of trade union structures and Indian labor institutions on industrial restructuring? Does union-type have specific priorities in contract negotiations? Do affiliated unions, for example, prefer to maintain employment over earnings? Are external unions likely to favor identifiable priorities in negotiating dispute settlements? Are internal unions restricted from taking effective trade union action?

Union type does have discernible affinities to specific industries and production processes in India. Politically affiliated unions are more prevalent in heavy industry and public sector enterprises, as in manufacturing, power generation, and telecommunications. Internal unions are more prevalent in more capital intensive industries, as in the engineering and pharmaceutical companies.

A number of the enterprises surveyed here are public sector units, most at the central level, some at the state level. The government has attempted to privatize a number of the public sector units. In such cases, one of the concerns of this survey is the success with which privatization has been achieved. A number of the private sector units have been mismanaged by private industry. In such cases, one of the concerns of this survey is the viability of workers' management schemes. Also among the enterprises are a number of units under workers' management. These have been selected to enable me to assess the conditions under which workers' management schemes are favored by unions and are viable within an industry and under a state's labor regime. Why have workers' management schemes been more successful in Maharashtra than in West Bengal or Karnataka? [N.B. Case studies are presented in brief form below, suggesting questions to be pursued in further field research.]

Mining and quarrying are in the exclusive preserve of central and state governments. The government of Madhya Pradesh has entertained proposals for opening the mineral rich Chattisgarh area to the private sector. It is expected that the giant South African diamond mining company De Beers Consolidated Mines Ltd will win the contract. Nippon Denro is in negotiation with the government over opening iron ore mining to the private sector.

The effort to privatize the Bailadilla Mines in Raipur, Madhya Pradesh is encountering significant labor resistance. Protests against the privatization have been organized by the Chattisgarh Mukti Morcha (Chattisgarh Liberation Front) The Chattisgarh Mukti Morcha (CMM) is an independent trade union organized by tribal mine workers, formed in reaction to intimidation and periodic killing of laborers and labor leaders by local police and industrialists.[1] The CMM Vice-President Sheikh Ansar in March contemplated contesting Lok Sabha seat in the April-May 1996 general elections. (Madhavan 1996) A mass demonstration was also threatened by the Janata Dal, Communist Party of India, and Communist Party of India-Marxist to prevent Nippon Denro from entering the iron ore mine site at Mine 11B. ("Landmarks" 1995)

The Bharatiya Janata Party (BJP) has also opposed the privatization plan, joined by Congress dissidents, in the All India Indira Congress (Tiwari), and by Communist Party of India (CPI) activists. They claim that the National Mining Development Corporation (NMDC) has had their proposals for mineral development ignored. The NMDC had successfully competed with

---

[1] Twenty one workers were killed in 1978 when police fired on non-violent demonstrations against the mechanization of the mines. The leader of the CMM, Shankar Guha Niyogi, was murdered by local industrialists in September 1991. Eleven workers were killed and forty injured in 1992 when police fired on a demonstration for a uniform labor law and the prosecution of Niyogi's killers.

foreign firms in supply of modernization equipment in 1991. (*Mining Magazine* 1991) At issue in the protests over the privatization proposals are concerns over foreign ownership and national economic sovereignty. One CMM labor leader complains that "they [government officials] say De Beers will bring technology. But just ten percent of the royalty from the mine can buy the technology. Why give it to them?" ("Landmarks" 1995: 32)

The conflict over the privatization of Chattisgarh mining has overtones of the Enron controversy in Maharashtra. Questions have been raised over the consequence of foreign investment and foreign management in a strategically sensitive sector of the economy. But unlike the Enron issue, the Bailadilla controversy involves the additional element of a labor force consisting predominantly of poor tribals who have been socially and politically marginalized by local industrialists and by government. State repression, now combined with the threat of privatization, forged the tribal labor force's trade union into a political movement.

Labor resistance to the privatization of the Bailadilla Mines is the latest in a series of obstructions to privatization by organized labor dating back to the initiation of economic reforms in 1991. The capability of political unionism to resist privatization may also be seen in the trade union opposition to one of the earliest of India's privatization efforts. In May 1991, the Janata Dal Chief Minister of Uttar Pradesh (UP), Mulayam Singh Yadav, presently the Defence Minister, took out advertisements offering to sell the three cement plants within the Uttar Pradesh State Cement Corporation. Nine workers' unions joined to win a High Court order to stay any sale. Ignoring the stay, the Chief Minister drew up an agreement with the Dalmia industrial family for transferring the plant for a seriously undervalued sum. The High Court accordingly began proceedings for a contempt of court case against the Chief Minister, but the assassination of Rajiv Gandhi, in the middle of India's tenth general election, forced the Court to reschedule the case for after July 1991. Before handing over state offices in June, Mulayam Singh Yadav approved the sale of the Dalla plant and began arrangements for handing over the plant to the Dalmia group.

On 2 June 1991, UP government officials and management personnel of the Dalmia group arrived at the factory in Dalla, Uttar Pradesh under police escort to transfer possession of the premises. Workers, fearing retrenchment, staged a protest at the factory gate, preventing the new management from entering the premises. ("9 killed" 1991) Police lathi charged (clubbed), tear-gassed and opened fire on workers, killing twelve and injuring over fifty, six of whom were to die later of their injuries. ("RS Call for Probe" 1991) According to an investigative delegation by members of the Rajya Sabha, the upper house of the national parliament, police fired without provocation, pursued workers over three days, and assaulted workers and their wives in their homes. (Siddhanta 1991) Despite the BJP position in favor of de-nationalization, sustained popular pressure organized by the workers of the Dalla plant joined by other state workers' unions affiliated to the Communist Party of India's All India Trade Union Congress (AITUC) forced the BJP government to cancel the sale of the plant. (Ali 1991)

Successful trade union opposition to privatization has also been witnessed at the central level. The government's failure to privatize the Indian Iron and Steel Corporation clearly demonstrates the strength of political unionism labor in India. Early in 1994 it was estimated that the Indian Iron and Steel Corporation (IISCO), a public sector undertaking under the Steel Authority of India Ltd, had accumulated losses of Rs. 816 crore. (Padmanabhan 1994: 48) As the Steel Authority of India Ltd (SAIL), under the financial constraints of a tighter government budget, was unable finance the modernization of the Indian Iron and Steel Corporation (IISCO), the government, in a cabinet meeting in November 1993, decided that IISCO should be privatized. The Communist Party of India (Marxist) government of West Bengal, where IISCO is located, supported the move. The government invited bids and accepted that of an Indian industrialist.

The 30,000 workers at the Burnpur-based unit strenuously objected to the privatization plan. The Indian National Trade Union Congress (INTUC), the trade union federation of the Congress party, the CPI(M)'s chief rival in West Bengal, organized major trade unions in a "lightening strike to oppose the decision." ("Cabinet decides" 1993) INTUC managed not only to stage a strike throughout the entire public steel sector but also to gain the support of officers associations as well. (Roy 1994) A Parliamentary committee was convened to review the privatization decision. By December 1993, it was clear that the committee would oppose the privatization move. ("Panel favours IISCO" 1993) The committee issued a report in April 1994 challenging the government's privatization plan, recommending that the decision be withdrawn, and that SAIL be given the budgetary support to finance IISCO's modernization. The government, despite the Congress Party's absolute majority in the chamber, withdrew from the Lok Sabha the bill which would have effected the privatization of IISCO. (Padmanabhan 1994) The reversal of the government's decision to privatize the giant Indian Iron and Steel Company[2] demonstrates the ability of organized labor in India, especially in strategic alliance with opposition political parties, to oppose the government's restructuring exercises.

More recently, a stand-off has developed between organized labor and the government over the privatization of the telecommunications industry, formerly in the exclusive purview of the public sector. In January 1994, in the most important component of India's privatization program to date, the central government decided to end the sate monopoly in telecommunications. Department of Telecommunications (DoT) unions responded by holding a crippling national strike just prior to the opening of bids for basic telephone contracts.

Later, labor unions, joined by private firms dissatisfied with the tendering procedures, won a Supreme Court ruling in December 1995 requiring the government to address their charges before issuing licenses for telecommunications services to the private sector. Ten legal petitions against telecommunications privatization, most filed my members of the Janata Dal, were bundled by the Supreme Court. The Court regarded the lack of a regulatory authority to supervise the privatization process, rather than the decision to privatize the industry, as the principle concern.[3] As instructed by the Court, in January 1996 the central government issued

---

[2] The steel unions of IISCO, the Steel Authority of India, the Tata Iron and Steel Company, and the Visvesvaraya Iron and Steel signed a five year wage agreement in early 1995.

[3] A scandal broke when Himachal Futuristics Communications, in a consortium of Israel's Bezeq and Thailand's Shinwarta, was awarded licenses for nine of the 21 basic service zones. The Minister of Communications, Sukh Ram, was accused of favoritism in selecting Himachal Futuristics, which is based in the Minister's home state

an ordinance establishing a regulatory body, the Telecom Regulatory Authority of India (TRAI), to formulate guidelines for the participation of private companies in the privatization of the central government's telephone monopoly.

The Cabinet Committee on Economic Affairs' disinvestment programme for 1994-95 designated a reduction of government holdings in Indian Telephone Industries (ITI) to less than 55%. At the same time, the government plans to invest Rs. 400 billion (USD 15.5 million) between 1993 and 1998 in telecommunications infrastructure. Most of that money is committed to new-technology automatic equipment, including very small aperture terminals (VSATs), previously the exclusive preserve of the ITI. (Tsuruoko, et al. 1992) The manufacture of large exchanges and the operation of telecommunications services was opened to the private sector in recognition of the fact that despite new technology the government was unable to meet demand for telephones equipment and services. There is one phone for every 125 Indians, the lowest phone density in all of Asia. The government will need to add 80 million lines to the existing 9 million in order to reach the world telephone density average of 10%. (Sharma 1995)

But while Indian trade unions have been successful in opposing or slowing government privatization policies, they have not been able to resist the tide of rising informalization and the rising use of contract labor in Indian industry. Bata shoes suggests one reason for that failure. Bata, in which the Bata Shoe Organization of Canada owns 51%, suffered heavy losses in the first part of 1995, but turned profitable again in the later part of the year and in the first part of 1996. The entrance of Adidas, Nike, and Reebok have assumed much of the athletic shoe company's market share. Under the new management of Managing Director Keith Watson, Bata shoes are being made more affordable and the labor force is being cut through voluntary retirement schemes. At the same time, Bata has offered its workforce a productivity based contract, which workers, as of May 1996, have yet to accept.

What makes the case of labor force restructuring at Bata interesting is that the major concern of workers in the industrial city of Batapur is the informalization of production, yet

---

of Himachal Pradesh and successfully bid USD 24 billion for the nine zones, despite having revenues of only USD 57 million.

Rabin Majumdar, the leader of the Bata Employees Union, an Indian National Trade Union Congress (INTUC) affiliated union, is in favor of industrial restructuring. Mr. Majumdar, a labor advocate and President of the International Federation of Bata Employees, is also the Vice-President of the West Bengal unit of INTUC, and a strong proponent of India's economic liberalization and international economic integration. (Majumdar 1991) The forces leading to the informalization of Indian manufacturing and of Indian labor markets are, of course, more complicated, and less personalized, than the contradictions of Mr. Majumdar's stand. But the restructuring of Bata shoes does suggest an inherent limitation in negotiating industrial restructuring with politically affiliated unions.

Nowhere has the struggle between organized labor, political unionism, and labor force restructuring been more intense than in the Bombay Textile strike of 1982-83. The principal demand of the 1982-83 textile strike was the derecognition of the INTUC affiliated Rashtriya Mill Mazdoor Sangh [National Mill Workers' Union]. Under the corporatist Bombay Industrial Relations Act (BIR), trade union recognition is industry-wide rather than by individual units. As a result, the Congress-affiliated Rashtriya Mill Mazdoor Sangh (RMMS) has since the inception of the BIR been the sole recognized union for 60 mills in Bombay and Gujarat. (Naik 1992) Textile workers regard the RMMS as an instrument of management not as a union that represents textile workers.[4] Workers were so determined to strike against the RMMS that even after being turned down by the Lal Nishan [Red Banner] Party labor leader and Communist Party of India labor leader S. A. Dange, they enlisted the independent Dr. Datta Samant. Samant was uncompromising, as were the millowners. At least 100,000 workers lost their jobs in the strike

[4] On the attitudes of workers toward the RMMS see Van Wersch 1992: 380-388. In an aside, the connection between the RMMS and organized crime might be noted. Shankerrao Jadhav, the RMMS negotiator and a former General Secretary, is alleged to have gained control over the union with the aid of alleged Bombay crime boss Arun Gavli. In an effort to check the influence of organized crime over the RMMS, the former Maharashtra Chief Minister Sharad Parwar had even required that collective bargaining arrangements be approved by the government before they were signed (Vijapurkar 1994). The RMMS allegedly uses organized crime to persuade workers to agree to the relocation of mills. The Khatau Mills workers, for example, were persuaded to move from central Bombay to the suburbs of Borivli by threats of violence from organized crime. The state government had to inform the central government managing the restructuring (the Board for Industrial and Financial Reconstruction) that despite the workers' unanimous consent, the relocation plan was not acceptable because it was secured under duress. India's most corporatist industrial labor regime, in the Bombay textile industry, is rife with thuggery. Murder attempts have been made on Shankerrao Jadhav himself. (Ibid.)

(Bakshi 1992) which has yet to be called off officially. Most of the textile employment moved to poorly paid and unregulated informal powerloom production.

Textile workers worldwide face an industry rapidly moving toward capital intensive production. But in some Indian industries workers have embraced technological change. The public sector company Bharat Earth Movers, which manufactures construction equipment, uses a robot for welding in its manufacturing at its Mysore, Karnataka plant. Rather than opposing such labor saving innovation, the labor union at the plant regards the machine not as a threat to jobs but as a source of employment promotion, by raising the quality of their work in a highly competitive market. Indeed, in a tie up with IGM Roboter System of Austria, Bharat Earth Movers itself will begin to manufacture robots for manufacturing. (Kumar 1994)

Other Indian public sector companies have introduced labor force restructuring without privatization. Bharat Electronics, which manufactures electronic equipment, is significant for its successful use of workers' participation in management schemes to improve product quality. Since its establishment in 1954, Bharat Electronics, a public sector enterprise, has grown to a labor force of 19,000, a sales turn-over of Rs. 7.1 billion ($ 215 million), and an after-tax profit of over Rs. 350 million. Most of the nine production units are located in the South. The Ghaziabad, Uttar Pradesh unit employs nearly 3,000 individuals.

In 1993, more than two thirds of the 1,100 workers at the Ghaziabad, Uttar Pradesh, based Sriram Pistons and Rings Ltd. (SPR) were illiterate. (Mohan 1995) The foundry workers in the large machine parts factory, are mostly from Andhra Pradesh and Bihar, are were typically illiterate, while the machine shop workers, mostly from the South, were literate. Within two years, literacy programs ensured that workers were educated to the 8th standard. Quality improved according to Executive Director K N. Rattan. Workers submit 1,500 suggestions for shopfloor improvements annually, which include ideas that have also improved quality. The change in the shopfloor climate is reflected in the fact that company officials refer to employees as managers, rather than technicians, and employees have begun to better maintain their shopfloor work areas and machines. The management of SPR made a decision to institute the workers' education program and a total quality management plan in 1989 in an effort to achieve a 10-20% export component. The company is preparing to be the chief supplier of pistons, pins, and valves to the Tata-Cummins engine manufacturing project. SPR has a 20 year old collaboration with Kolben-Schmidt.

A more common feature of Indian trade unionism is illustrated by Century Textiles and Industries, the leading textile company in India, belongs to the B.K. Birla group. Century Textiles workers are said to be the highest paid workers in the Rayon industry. The 5,000 member workforce of the Century Rayon plant in the Bombay mill at Kalyan was locked-out in April 1988 when inter-union rivalry among politically affiliated unions led to "violence and disruption" at the factory. (Economic Times 3 April 1988)

The New Central Jute Mills, based in Calcutta, West Bengal, is one of India's five workers cooperatives. In April and May 1990, the Board for Industrial and Financial Reconstruction (BIFR) arranged for employees to invest Rs. 90 million in the modernization, expansion, and debt repayment plan and to control 52.5% of shares in the new company. The state government agreed to invest Rs. 70 million, much of it in soft loans, and was allocated just over 41% ownership. The New Central Jute Mills' 11,000 permanent workers and 8,000 temporary workers recorded profits of Rs. 5 crore in 1992, but by 1995 suffered cash losses in excess of Rs. 100 crore. The 15 unions representing the large work force are locked in rivalry. (Joglekar and Dutta 1995: 134)

Curiously, workers' management and ownership schemes are advocated by trade union federations but rare in fact. There are currently only five worker owned and operated manufacturing industries in India. The case of Kamani Tubes Ltd. in Bombay, manufacturer of metal tubes, is the most celebrated. Kamani Tubes, once privately owned and operated by members and associates of the Kamani family, began manufactured metal tubing for use in sugar refineries in 1960. Company performance began to decline in 1969. "Internecine feuds and litigation among Kamani family members" and "imprudent and undesirable management practices" together with outdated machinery made the enterprise unprofitable. (Government of India, Ministry of Finance, 1991)

The Industrial Development Bank of India and a national bank devised refinancing and rehabilitation schemes, giving the company fresh capital. Still, Kamani management was unsatisfactory. In 1987, the Kamani Employees Union won a Supreme Court judgment referring the company to the Board for Industrial and Financial Reconstruction. The Kamani Employees Union devised a plan to cut the labor force and finance operations through reductions in salaries and use of provident funds. The worker managed company became profitable within two years of operation.

The Kamani Metals and Alloys Ltd. (KMA) company followed a similar path of management failure, plant closure, and successful take-over by a workers' cooperative. KMA was incorporated in 1944, when it began making non-ferrous metal strips and sheet in Bombay. In 1972, a plant was also established in Bangalore. When the plants were handed down from the founder Ramji Bhai Kamani to his grandson, Ashish Kamani, the company suffered from family disputes, legal proceedings, fraud, and mismanagement. The Kamani Employees Union alleged that management manipulated stock positions and embezzled Rs. 350 million. In March 1991, the management suspended work in the Bombay factory and declared a lock-out soon thereafter.

West Bengal's first attempt to privatize a state operated enterprise failed when the workers at the Great Eastern Hotel refused to allow the property to be handed over to the prospective buyer, Accor Pacific group. The Financial Times (London) describes the failure of the West Bengal government to hand over the 180 year old hotel, prior to its nationalization one of Asia's finest, to the French group as one of the two deepest blows to foreign investment in India, on par with the cancellation of the USD 2.8 billion Dabhol power company project by the government of Maharashtra. (Bose 1995)[5]

The Indian National Trade Union Congress (INTUC) affiliated union, the dominant union in the hotel, in a rare partnership with the rival Centre for Indian Trade Unions (CITU),

[5] The International Herald Tribune regards the privatization of the Great Eastern Hotel as "a prominent test case for the future of India's economic reforms." (Murphy 1994)

has fought the offer. According to Sougata Roy, an INTUC official and Congress Member of the West Bengal Legislative Assembly, "there was no transparency in the deal with Accor. The Great Eastern property was undervalued. [And] the workers were not offered adequate compensation." (Ibid.) INTUC opposition to the privatization was so intense that CITU, in contradiction to the instructions given by the Communist Party of India Marxist (CPI-M), was forced to join the anti-privatization effort.

The Under Secretary Atiar Rahman, the Great Eastern Hotel Staff and Workers' Association is attempting to renovate and run the hotel under workers' management. Rahman claims that the hotel has done badly since its nationalization because state government officials have treated the hotel as a professional perquisite, running up unpaid expenses for personal purposes.

In countries undergoing comparable industrial restructuring, including Pakistan, workers' management and buy-out schemes have been central to the industrial restructuring process. The Government of Pakistan negotiated an agreement with a federation of Pakistani public sector employees unions in 1991. More that a dozen enterprises were purchased and are now managed by workers. The workers' management schemes may have smoothed the way for the privatization in other enterprises. In India, the long history of advocacy by government and by national trade union federations alike of workers' participation in management has proven to be largely rhetorical. Workers, however, remain strongly interest in workers' management, especially if industrial closure is the likely alternative.

4. State-Level Labor Regimes

It is important to understand industrial restructuring against the backdrop of distinct states labor regimes. The enterprises examined in the following section are located in three states which span the range of industrial relations regimes in India. Karnataka, Maharashtra, and West Bengal have developed markedly different labor institutions. A brief comparison of the labor regimes and industrial restructuring records in the three states supports the conclusion that emerged in the comparison of Indian and Pakistani labor institutions. Labor regimes supportive of autonomous unions manage industrial and labor force restructuring more readily than labor regimes that promote political party affiliated unions. Karnataka and its capital city, Bangalore, is home to a number of large public sector enterprises, particularly in engineering. In the 1950s, the central government opted to locate several strategically significant industries in Bangalore, including Bharat Earth Movers, Bharat Electronics, Hindustan Aeronautics, Hindustan Machine Tools, and Indian Telephone Industries. Karnataka has a reputation for good industrial relations, based on a tradition of stable and strong internal trade union leadership, comparatively low trade union multiplicity, low trade union rivalry, and low political affiliation. (Ramaswamy 1988: 129-174) "It is quite common for workers to refuse to affiliate to a national federation even as they seek outside leadership." (Ibid.: 130) Those trade unions which are affiliated are typically affiliated either to the Communist Party of India's All India Trade Union Congress (AITUC) or the more militant Communist Party of India (Marxist)'s (CPI-M) Centre for Indian Trade Unions (CITU) Another significant dimension of Karnataka's industrial relations regime is that successive governments have not typically favored specific labor leaders or specific political parties' labor wings.

West Bengal, stands in contrast to Karnataka. CITU, the trade union wing of the CPI-M, grew powerful and militant in West Bengal in the early 1970s. In keeping with Leninist ideology, however, CITU deferred to the Party after the CPI(M)'s electoral victory in the state in 1977. West Bengal's industrial relations regime is interventionist. "Almost every industrial dispute in Calcutta goes through the labour department and ends up with the political executive of the state." (Ibid.: 134) At the same time, management has been generally pleased by labor's deference to the stability of West Bengal's government and industry and consequent aversion to disputes or strikes. (Ibid.: 175-202) The CPI(M)'s recent overtures to business, and support to privatization and industrial closure plans has provoked criticism from the West Bengal left. (Nagarik Mancha 1991)

Maharashtra, which is home to one quarter of the country's industry, is characterized by both strong independent (i.e., unaffiliated to a political party) unions and a corporatist industrial relations regime. The Bombay Industrial Relations (BIR) of 1946, which regulates industrial relations throughout the state, requires that a single union in each industry be recognized by government as the sole collective bargaining agent for all workers in that industry. The basis for such recognition are unverified membership lists supplied by the unions themselves (the check-off system) This has allowed some affiliated and external unions, such as INTUC's powerful Rashtriya Mills Mazdoor Sangh (RMMS), to dominate industrial relations in their industry, which itself causes considerable industrial unrest.[6] Variations between states' industrial relations laws structure Indian trade unionism and trade unions' responses to industrial restructuring. In an economic climate in which state governments must compete with each other for foreign investment, these variations will become increasingly important.

5. Indian Labor Institutions

This section turns attention to four national level institutions that are important to India's industrial labor regime: (1) the Industrial Disputes Act (IDA) of 1947, which extends employment security to workers in organized industry; (2) the Board for Industrial and Financial Reconstruction (BIFR), a central government agency established in 1987 to rejuvenate, or to closed down, ailing industries; (3) the National Renewal Fund (NRF), a central government fund to retrain workers and ease labor force restructuring, and (4) the Landholding Ceiling Act, a central government act designed to limit landholding which effectively requires government approval before an industry can be relocated. [N.B. These are not given full attention in the present draft.]

Before discussing these institutions, it is useful to survey briefly trade unionism organization in India. Presently, there are ten trade union federations in India. Each is affiliated to a major political party. Together they claim to represent nearly nine million workers. In some

[6] The 1982-1983 Bombay textile strike was the world's largest strike action as measured by number of workers involved or by workdays lost.

trade union federations, there is a regular exchange of officials between trade union and political party. This is particularly true for the trade union federations on the left, where the organization of working classes is an integral component of the party's political program. Minister of Parliament Inderjit Gupta, for example, rose from General Secretary of the Communist Party of India's All India Trade Union Congress to become the present General Secretary of the Communist Party of India. Even officials of the centrist Indian National Trade Union Congress occupy seats in Parliament and in state legislative assemblies. Listed below are the ten largest federations and their political party affiliation.

Table 1

Ten Largest Indian Trade Union Federations and Political Party Affiliations

trade union federation by date established and political party affiliation
All India Trade Union Congress (AITUC) est. 1920 Communist Party of India
Indian National Trade Union Congress (INTUC) est. 1947 Indian National Congress
Hind Mazdoor Sabha (HMS) est. 1948 Janata Dal
United Trade Union Congress (UTUC) est. 1949 Communist Party of India - Marxist Leninist
Bharatiya Mazdoor Sangh(BMS) est. 1955 Bharatiya Janata Party
United Trade Union Congress (Lenin Sarani) (UTUC(LS) est. 1959 Communist Party of India-Marxist Leninist
National Federation of Independent Trade Unions (NFITU) est. 1967 Naren Sen (former Congressman) (West Bengal)
National Labor Coordination Committee (NLCC) est. 1969 Indian National Congress (independent West Bengal INTUC federation)
Centre for Indian Trade Unions (CITU) est. 1970 Communist Party of India - Marxist
National Labour Organization (NLO) est. 1972 independent Gujarat federation of the Textile Labour Association formerly affiliated to INTUC)*

Sources: Datar 1987 and Ghatower 1992. * The NLO formed after the INTUC Ahmedabad Textile Labour Association split with INTUC in debate action over INTUC's commitment to Gandhian objectives and methods.

Scholarly debate in Indian labor institutions has focused on the employment impact of the IDA (Mathur 1992, Datta Chaudhuri 1996) The IDA provides broad employment protection to workers in large enterprises. Section 25 of the IDA requires government permission for retrenchment in enterprises employing one hundred or more individuals. Such labor rigidity is thought to restrict industrial restructuring and inhibits employment generation, in the name of its protection. (Chaudhuri 1996, World Bank 1991) But the effects of the IDA may be rather complicated. The IDA may have encouraged Indian industry to develop more capital intensive industry as well as to make non-wage commitments to the existing labor force, such as job training and children's education and welfare schemes. The unregulated informal sector employment, against which employment growth in organized industry is measured to gauge the employment dampening effect of the IDA (Lucas 1992), is certainly far lower in productivity and in conditions of employment.

There has been significant demand for the adoption of a policy that would give employers the right to terminate employees at their discretion. The adoption of the so-called "exit policy" has been effectively halted because it requires amendment to the IDA and would provoke a conflict with the major trade union federations. Congress and Janata Dal governments at the center have attempted to revise the central features of India's national industrial relations regime through the amendment of the IDA. The most recently drafted bill to amend the IDA was circulated by the Congress government in December 1992. The most controversial components of the present draft is the revision of section 25 of the IDA, substituting Negotiating Councils' retrenchment permission for government permission to retrench and raising from one hundred to three hundred employees the threshold for the permission requirement. The national trade union federations staunchly opposes these measures and have effectively prevented the bill's consideration by Parliament.

The IDA's impact on democratic unionism is important to productive industrial relations but under-studied. The IDA does not specify how workers are to select their trade union representatives or how employers are to recognize them. Amendments proposed to the IDA by the Congress and the Janata Dal governments and many national trade union federations similarly avoid these long-standing and unresolved issues in Indian industrial relations: how are trade union membership claims to be verified and how are trade union representatives to be selected?[7] The absence of secret ballot elections and of specified criteria for the recognition of a union as a representative collective bargaining agent invites political manipulation into the Indian workplace and into Indian unionism.[8] The amendment of the IDA will transform Indian labor institutions. The advantages of secret ballot election of trade union leadership and verifiable trade union recognition for workers' training, participation, and productivity should be more closely examined before the IDA is amended.

The Board for Industrial and Financial Reconstruction (BIFR) was not designed to regulate labor, but has significant influence over labor force restructuring. The BIFR was designed to enable industries to resume profitable production, by devising rehabilitation and negotiating financing programs. The BIFR has authority to order that failing industries be closed. It is thus a potential vehicle for industrial closure without amendment to the IDA.

In December 1991, the BIFR was granted authority, through Parliament's amendment to the BIFR's enabling legislation, the Sick Industrial Companies Act of 1985, to close unprofitable enterprises in the public sector. As the BIFR is staffed by government officers, seconded from the Ministry of Finance, the BIFR's expanded mandate allows the government a certain degree of insulation from unpopular decisions on the closure or privatization of public sector units. The BIFR has determined that a number of the private sector enterprises that were reported sick would be purchased and managed by employees.

[N.B. The following institutions are to be given further attention.]

The creation of a National Renewal Fund (NRF) was announced by Finance Minister Manmohan Singh during the presentation of the New Industrial Policy on 24 July 1991 and the 1991-92 budget. The Fund is designed "to ensure that the cost of technical change and

---

[7] As early as 1968, the National Commission of Labour identified as the chief problem of Indian labor policy that trade union centers were given consultative status by the government because of their political party affiliations and without any attempt to verify membership claims or to ensure that these centers were representative.

[8] Pakistan's industrial restructuring and privatization program, which has gone further than India's, has involved less labor unrest in large part because employers are able to negotiate with legally recognized, secret ballot elected trade unions officials who serve as workers' sole collective bargaining agents for two year periods. See Candland 1995.

modernization of the productive apparatus does not devolve on the workers." (Manmohan Singh, cited by Maniben Kara Institute 1993) USD 500 million was loaned to the government of India in December 1992 to establish the NRF as a source for workers' retrenchment compensation and retraining. To date, the NRF has performed poorly as a vehicle for labor force restructuring.

The Urban Land (Ceiling and Regulation) Act, 1976, while designed to prevent the concentration of urban land ownership, effectively prevents companies from selling surplus land or relocating. [N. B. Detail will come from interviews that have been conducted with officials at the Reserve Bank of India.]

6. Comparative Labor Institutions: India and Pakistan

> The Pakistanis, who have always been in awe of India's industrial prowess and envious of our democracy, can today be proud of having stolen a march on us. For once, we have something to learn from them.... Unlike India, where reform is taking the slow, ponderous pace of an elephant, Pakistanis are zipping toward liberalisation.... Clearly, Pakistan is plugging itself into the global economy faster than India.
>
> - Aroon Purie[9]

Pakistan began its liberalization program more than two years before India. Pakistani industry has undergone considerable restructuring under the structural adjustment program begun in 1988. Privatization of industry and banks has been the central feature of Pakistan's adjustment. Like India, Pakistan had developed a large public sector beginning in the mid-1950s, a fact which is often obscured by Pakistan's professed economic conservatism.[10] Comparison of Indian industries undergoing privatization or labor force rationalization to privatization and labor rationalization in Pakistan, where the national industrial relations regime is enterprise-based and less protective, renders insights about Indian labor institutions.

As governments in both countries have embarked upon economic adjustment programs designed to dismantle features of their statist economies, the differences in Indian and Pakistan

[9] Purie 1992. The cover story of this issue of the major Indian business magazine is the "frenetic pace" of economic liberalization in Pakistan.

[10] In 1987-88, prior to the recent adjustment efforts, public sector investment was 57.9% of total investment in Pakistan. (Government of Pakistan 1991: 16) In India, gross domestic capital formation in the public sector in that fiscal year was 45.3% of total capital formation. (Government of India 1991: S-9)

labor institutions are highlighted by organized labor's response to industrial restructuring. India's trade union movement has obstructed privatization, a key element of the government's structural adjustment program. Pakistan's trade union movement has not obstructed privatization. Indeed, the agreement negotiated between the Ministry of Manpower and the 115 union strong All Pakistan State Employees Workers Action Committee facilitated the retirement of public sector workers and the privatization of the manufacturing and the power sectors. Indian organized labor's power to obstruct derives from political unionism, itself a product of India's electoral political system and social democratic economic ideology. Pakistan's labor institutions, including the system for labor representation, are based upon enterprise unionism, foisted upon Pakistan by past military regimes. Enterprise unionism has been less successful in exercising the political power to obstruct privatization than has political unionism. (Candland 1996)

Although a gradual movement in favor of economic liberalization beginning in the late 1970s gained the support of all the major non-communist political parties, movement toward economic adjustment in India has been politically contentious. (Candland 1994: 11-14) Currency transactions have been liberalized, tariffs lowered, and industrial licensing restrictions lifted. But the central government has not succeeded in privatizing a single industry or financial institution.

The Government of Pakistan signed and began to implement an IMF structural adjustment agreement in December 1988. The Government of India signed and began to implement its most recent IMF structural adjustment agreement in July 1991. The memoranda of understanding signed by each government and the Fund outlined nearly identical three year programs. Indian and Pakistani currency was to be devalued and ultimately made convertible. The Indian and Pakistani governments were to deregulate and to privatize domestic industry. Import tariffs were to be lowered to permit greater access to foreign products and services, including financial services, and to place greater competitive pressure on domestic industries. The state's direct management of the economy was to be reduced, particularly by privatization of public sector enterprises. Foreign investors were to be encouraged and the financial sector was to be deregulated and denationalized and opened to foreign banks. (Wajid 1992)

The 1988 IMF structural adjustment loan to Pakistan was quickly negotiated and signed after General Zia ul-Haq's death by an interim government earlier appointed by him. The government of Prime Minister Benazir Bhutto, elected subsequently in December 1988, reluctantly but effectively implemented the structural adjustment program. The Government of Pakistan was able to move rapidly in adjustment. In India, adjustment has been gradual and the privatization program has been halted. The Government of India announced in June 1991 that unprofitable public sector enterprises would no longer be permitted to rely on the government to make up their losses. Four years later, however, the central Government has not initiated direct privatization. The Government has sold shares in public sector units, but most of these shares have gone to government financial institutions, effectively transferring public debt from public sector units to public sector financial institutions. Of the 248 public sector enterprises managed by the central Government by the end of the 1994-95 fiscal year, only 39 have been subject to any disinvestment, and these at an average of only 8% of equity. Why has privatization, a central conditionality of India's and Pakistan's similar structural adjustment programs, not been implemented in India, while it has been rapidly and thoroughly implemented in Pakistan? Why has labor been so much more resistant to privatization in India? Answering that question is aided by a brief review of the Pakistani economic liberalization and political developments since 1988.

On 6 August 1990, Pakistan's President, Ghulam Ishaq Khan, dismissed the government of Benazir Bhutto and appointed Ghulam Mustafa Jatoi, the IJI opposition leader, interim Prime Minister. The subsequent elections of October 1990 led to the victory of the IJI and the National Assembly's selection of Nawaz Sharif as Prime Minister. In his first address to the nation as Prime Minister, Nawaz Sharif announced that the new government intended to move quickly on privatizing the public sector and deregulating private industry. According to Sharif, Pakistan's privatization program would be more rigorous than anything that Margaret Thatcher could implement and would serve as a model for the entire Muslim world. ("Privatization" 1992: 7)

In November 1990, a Disinvestment and Deregulation Committee was formed to identify units to be privatized and to suggest deregulation measures. The Committee recommended that the government "retire from the production of industrial goods." (World Bank 1993: 49) One hundred and five units were identified for privatization. These included all nationalized banks as well as the Telegraph and Telephone Corporation of Pakistan. The Commission decided against privatization in only two of the cases it has considered, the National Bank of Pakistan and the military owned and operated Pakistan International Airlines. The government then established, in January 1991, a Privatization Commission to handle the privatization process. Senator Saeed Qadir, a retired general, was appointed Chairman of the Commission.[11]

By the time Nawaz Sharif left the Prime Minister's office in 1993, in a deal struck for him by the military, the Privatization Commission managed to sell 67 of the 105 public sector units and two of the four national banks that it had identified for privatization in 1990. Units sold to the private sector included 11 cement factories (at Rs. 4.658 billion), eight automobile factories (at Rs. 1.043 billion), five chemical and ceramics factories (at Rs. 1.030 billion), 15 *ghee*, or vegetable oil, mills (at Rs. 626 million), two fertilizer factories (at Rs. 457 million), seven rice mills (at Rs. 165 million), four engineering firms (at Rs. 141 million), and thirteen *roti* factories. (World Bank 1993: 51) Under Prime Minister Nawaz Sharif's tenure between October 1990 and June 1993, privatization eliminated 60,000 Pakistani public sector jobs. (Mir 1995)

As negotiated by the Pakistani military, elections to the National Assembly were held in October 1993. The Pakistan Peoples Party, with the support of smaller parties and independents, formed the government. Pakistan has been hit by massive flooding in 1992, followed by drought and further flooding in 1993, with consequent massive crop infestation and disruptions of hydro-electric supplied power to industry. These natural calamities had a serious negative impact on Pakistan's economic growth, as did the civil unrest in Karachi, Pakistan largest and industrially most important city. Growth in gross domestic product in 1992-93 was only 2.3% and only 3.9% in 1993-94. As the Economist Intelligence Unit (EIU) put it, "in the

[11] Under the present Pakistan Peoples Party government, the Senator has been incarcerated on corruption charges dating to his tenure at the Privatization Commission.

face of such adversity the government's commitment to the adjustment path is laudable." (EIU 6/94: 9)[12] Between returning to power, in October 1993, and the end of 1994, Mrs. Bhutto sold twenty two additional public sector units. (*Middle East Economic Digest* 12/94) Two state companies were sold in May 1994, a *ghee* mill and a fertilizer factory. In July and October 1994, 16 more units were sold for a total of Rs. 8.83 billion ($289.5 million). (EIU 11/1994: 30) The government is also selling four large financial institutions: the National Development Finance Corporation the Industrial Development Bank of Pakistan, Habib Credit and Investment Corporation, and Banker Equity. (Ibid.: 34.)

The most pronounced difference between the Indian and Pakistani privatization experiences is that the Government of Pakistan has been able to privatize dozens of public sector units, in the industrial and financial sectors, while the Government of India has been unable to privatize a single public sector unit and seems unlike to do so in the near future.

Comparative historical study of India and Pakistan suggests that political regimes lay down deep institutional roots, especially in the formative periods of post-colonial industrialization. But Indian and Pakistani labor institutions are not replicas of the political regimes that created them. Electoral democracy in India has encouraged the incorporation of labor institutions that are politically powerful but often represent political parties better than workers. Pakistani authoritarianism has allowed for a greater degree of trade union democracy than has India's political unionism. Workplace elections for trade union representation in Pakistan helped to de-politicize labor and facilitate the process of industrial restructuring. The comparative analysis of Indian and Pakistani trade unionism, like the factory and state level studies, highlights the importance of labor representation.

[12] In fiscal year 1993-94, Prime Minister Bhutto brought the fiscal deficit down to 5.8% from 8.0%. (EIU 11/1994: 21) In fiscal year 1994-95, contraction of credit and money supply surpassed World Bank and IMF targets, the expansion of exchange reserves exceeded expectations, and the fiscal deficit was estimated at 4.0%. (Ibid.: 22 and EIU 6/94: 9)

7. Labor Representation and Industrial Restructuring

The strength of trade unionism in South Asian countries parallels the comparative strengths of other social institutions, including business and professional associations, development and welfare organizations, human and civil rights groups, and environmental and consumer action groups. In those South Asian countries with histories of relatively open political regimes and relatively large bureaucracies, such as India or Sri Lanka, social groups are generally well organized and effective in slowing, even obstructing, government policy. In countries wherein the state has been less involved in social and economic welfare, more concentrated in defensive activities, and relatively authoritarian, such as in Pakistan, the institutions of social life are relatively fewer and weaker.

The labor regimes of South Asia were established according to British industrial relations. But the working classes and their organizations were afforded markedly different roles in the economic transformation of independent India and Pakistan. That the newly independent states of India and Pakistan inherited identical colonial labor legislation makes the difference between the roles proscribed for trade union bodies in India and Pakistan even more pronounced. The trade union movement born under colonial rule in British India, developed very different relationships with their governments and political parties after its bifurcation at Independence. The Indian National Congress, which dominated the independence movement for six decades and elected parliaments in India for at least three, maintained a strong programmatic concern for labor from at least 1920 with the founding of the All India Trade Union Congress. The All India Muslim league, the party that successfully petitioned for the creation of Pakistan, in contrast, had no such concern for labor and did not develop relations with organized labor in its campaign for Pakistan. In India, trade unions were incorporated by the dominant political parties. The major Indian trade unions become electoral vehicles for political parties and instruments for political rivalry in the industrial sector. India's party based system made trade union registration simple. The elected governments in India permitted politically powerful, nation-wide and industry-specific unions, but ensured that these trade unions were dependent upon political parties.

It is significant that the political incorporation of the labor movement in India came during the independence struggle. In Pakistan, in contrast, attempts to control the labor movement followed Independence and still remains incomplete. Ruth Berins Collier and David Collier's argument that the timing of labor's incorporation by state or party has a critical effect on subsequent political development is supported by the comparative history of state-labor relations in India and Pakistan. The close ties between Indian trade union federations and the major political parties has strengthened the Indian trade union movement but also made it vulnerable to political party priorities and rivalries.

Collier and Collier argue that:

> Labor policy during [an initial incorporation period] placed varying degrees of emphasis on the control of the labor movement and the mobilization of labor support, and these variations had a profound impact upon the subsequent evolution of politics, playing a central role in shaping the national political arena in later decades. (Collier and Collier 1991: 745)

According to Collier and Collier, the timing and nature of the incorporation of the labor movement is crucial to subsequent state-society relations. Incorporation is understood as the process by which the state institutionalizes the labor movement. Defining the state as both the bureaucratic and legal institutions and a set of political relations, Collier and Collier are able to distinguish between party incorporation, in which a political party mobilizes labor support, and state incorporation, in which the aim of government is the bureaucratic and administrative control of labor.

The concept of incorporation and the distinction between party incorporation and state incorporation are essential analytical tools for the study of South Asian state-labor relations. Indeed, South Asianists have noted a similar dynamic. Rakhahari Chatterji's study of labor formation in three Indian states notes that "the timing of industrialization as well as the type of industrializing elite made for important differences for the nature of the trade union movement." (Chatterji 1980)[13] The trade union movement in industrially advanced and early colonized West Bengal is more militant and at the same time better organized and better connected with the state

[13] Chatterji compares trade union formation in Karnataka, Rajasthan, and West Bengal from the onset of industrialization to the early 1970s.

government than is the more responsible and less political trade union movements of the late industrializing, formerly princely states of Karnataka and Rajasthan.

A labor regime may be defined as the structure of articulation of workers' concerns and interests to the owners and managers of productive assets. Labor regimes are overlapping and multifaceted. They are shaped by a variety of laws and social institutions. Labor regimes operate at national, regional, and local levels in all sectors of the economy, formal and informal. The state is a significant actor in the construction and maintenance of any labor regime. It is in many developing countries the largest, and often the model, employer. Labor institutions are structured by national and local legislation and the intervention of state administrative apparatuses, such as labor courts, factory inspectors, trade union registrars, and workers' welfare bodies. Where and in what manner the state permits employers, in the private and public sector, to evade labor legislation is also a determining feature of a labor regime.

Tariq Banuri and Edward Amadeo present a taxonomy of labor market institutions by region. (Banuri and Amadeo 1991)[14] They distinguish between four models, or regimes. In a decentralized regime, a divided labor movement plays little role in national politics. In a pluralist regime, labor organizations exercise political power only through their dependent relationship with established political groups, such as political parties or ethnic groups. In a polarized regime, labor is organized well enough to impose "real costs on the economy in defense of its interests." And in a social corporatist regime, labor, like other "functional groups wield power and transact affairs in their own right." (Ibid.: 176)

Banuri and Amadeo argue that East Asia and Southeast Asia are best characterized as decentralized; South Asia as pluralist; and Latin America and the Philippines as polarized. Banuri and Amadeo do make an important point regarding the broad association of historical, socio-cultural, and ideological factors, on the one hand, and economic and social institutions, such as labor institutions, on the other. Banuri and Amadeo persuasively argue that diverse regional

[14] Tariq Banuri and Edward Amadeo argue that the choice of macroeconomic policies in the developing world is not only a function of governments' "'tightness' or 'laxity'" in instituting economic policies. Historical, social, cultural, and ideological factors, they argue, constrain or otherwise influence the economic performance of these countries, thus explaining why the countries of a region typically share similar economic policies.

conditions, historical, cultural, and political, make a very real difference to the structure and functioning of national economies and that economic policy prescriptions must be sensitive to these differences. But due to a preoccupation with the unity of regional cultures in structuring social institutions, Banuri and Amadeo produce somewhat stereotyped versions of labor market institutions. By characterizing both India and Pakistan as pluralist, Banuri and Amadeo ignore substantial differences in the labor regimes of the two countries.

While the major Indian trade union federations are highly dependent upon the political parties to which they are affiliated, it can not be accurately said that Indian "labour groups wield power only through alliance with other identifiable political groups." (Ibid.) Many Indian trade unions are not affiliated with a political party, and many of these exercise considerable independent political power in India. Perhaps the most significant development in the Indian trade union movement since the late 1970s has been the rise of strong independent unionism. Indeed, some of these independent trade union movements have succeeded in launching their own political party,[15] not a mean achievement by the standards of working class movements anywhere, all the more so in a predominantly agrarian economy.

Banuri and Amadeo's definition of the polarized regime, not the pluralist regime, describes the Indian trade union movement best. The *polarized* regime is characterized as a:

> [b]road-based labour movement with a long history of mobilization, organization, conflict, and success; but with internal divisions along regional, craft, skill, or industry lines. Thus, while organized labour is capable of imposing real costs on the economy in the defence of its interests, it is not strong enough to impose a co-operative solution at the national level. (Ibid.)

The Pakistan trade union movement is most accurately categorized as following what Banuri and Amadeo refer to as a *decentralized* regime:

> Strongly circumscribed and divided labour movement with diffuse influence in some areas of the country; does not play a major role in national politics, nor is able to confront employers in any significant sense. Wage bargaining is always at the enterprise level. Operation of labour laws and labour rights considerably circumscribed. Right to strike strongly limited in practice even when it exists legally. (Ibid.)

[15] Dr. Datta Samant founded the Kamgar Aghadi [Workers' Party] on the basis of his leadership of the Bombay textile strike of 1982-83.

In Pakistan, the state has promoted trade union multiplicity and restricted the trade unions' national political participation. In India, industrial relation might best be characterized as polarized (or perhaps disarticulated) because the official unions have political power quite out of proportion to their social power or their constructive influence over economic policy.

In the same work, Banuri and Amadeo draw attention to a curious asymmetry in the treatment of industrialized and developing countries.

> It has become a commonplace, in the macroeconomic literature on *industrialized* countries, to regard differences in labour market institutions as critical determinants of macroeconomic performance. Yet, the far greater variety of institutional arrangements in the Third World has almost entirely been neglected... (Ibid., emphasis in the original)

Our comparative analysis of the development of Indian and Pakistan labor institutions and capacity to manage industrial restructuring demonstrates that the structure of labor market institutions in late industrializing economies is a critical determinant of macroeconomic performance. The social institutions developed in India during decades of social-democratic regimes created social institutions that exercise considerable influence over the process of economic reform. The comparison with Pakistan, where past authoritarian regimes discouraged the formation of social institutions that could mobilize resistance against government policies, supports the contention that strong social institutions, such as organized labor, are a product of India's competitive political party based electoral system, not of India's stage of economic development.

In the advanced industrialized countries of Western Europe and North America, an historic compromise was negotiated between organized labor and industry, through the mediation of a powerful state, itself willing to take on social welfare expenses for the benefit of private industry. In the developing world, states had forged their own compromise, but only with their own employees in the public sector. They did not negotiate a compromise with private industry.

It is not only the new economic climate that challenges Indian trade unionism. In the mid-1970s trade unions began to suffer a gradual decline in their collective bargaining power. At least as significant to the weakening of organized labor in India as the peculiarities of Indian labor laws was the stagnation in organized industrial employment growth that emerged in the mid-1960s. Even large employers and public sector enterprises have opted to employ casual and contract workers and to ban further recruitment for regular employment. (Chowdhury 1996)

It has long been recognized in analysis of the advanced capitalist state that economic, ideological, social, and political conflicts are generated by the rival requirements of accumulation and legitimation. According to James O'Connor, nearly every government agency and every commitment of state expenditure in the advanced capitalist state performs the dual function of increasing the productivity of capital and maintaining social harmony. (O'Connor 1973: 6-7)[16] Geon Lenhardt and Claus Offe also discuss the fiscal and legitimation crisis of the state only in the context of the advanced industrial world. (1987) But the fiscal and legitimation crises that the modern state faces are not peculiar to advanced capitalism. The basic contradiction in advanced capitalist economies (Keane 1987: 15) also applies to states in the developing world.[17] The fiscal crises facing the Indian state derive from the same logic of democratic capitalist development as the fiscal crises facing developed states. State expenditure is required to promote national unity, often by subsidizing or privileging particular classes and regions, as well as to promote the economic growth upon which state revenue is dependent. In the developing world, the conflicts generated by the rival requirements of accumulation and legitimation are even deeper than in the developed world. The depth of the fiscal crisis of the Indian state is especially acute, reflecting the degree of difficulty in achieving both legitimation and accumulation objectives within the Indian political economy.[18]

---

[16] Accordingly, O'Connor locates the crisis of the modern welfare state in a social-industrial complex. "In every advanced capitalist country, monopoly capital has socialized part or all of the costs of planning, construction, and developing and modernizing physical social capital projects." Ibid., 101.

[17] Indeed, Lipietz, 1984, 71-87 argues that the fiscal crisis — the conflict between the demands of society and the demands of capital — has been exacerbated in the developing world by the handling of the fiscal crisis by the advanced industrial countries' governments.

[18] Despite less room for maneuver in the Pakistani budget, under the present adjustment program, fiscal deficits have been contracted more rapidly in Pakistan than in India. Pakistan's greater "success" in structural adjustment is discussed in chapter two.

References

"9 killed in U.P. Firing on Workers," *Times of India*, 4 June 1991.
Ahluwalia, Isher Judge, *Productivity and Growth in Indian Manufacturing*, Delhi: Oxford University Press, 1991.
Ali, Subashini, CPI-M Minister of Parliament from Kanpur district, interview, 22 December 1991.
Bakshi, Rajni, "The Legacy of a Marathon Struggle," *The Hindu*, 20 September 1992.
Banuri, Tariq, and Edward Amadeo, "Words Within the Third World: Labour Market Institutions in Asia and Latin America," in Tariq Banuri, ed., *Economic Liberalization: No Panacea, The Experiences of Latin America and Asia*, Oxford: Clarendon, 1991, 171-220.
Bhattacherjee, Debashish, "Union-Type, Labor Market Structure, and Bargaining Outcomes in Indian Manufacturing: An Analysis of the New Unionism in Greater Bombay," Ph.D. dissertation, University of Illinois, Urbana-Champaign, 1987.
"Cabinet decides to privatize IISCO," *The Statesman*, 27 November 1993.
Cambridge, Richard, [Senior Country Economist for India, IBRD], interview, 17 July 1992.
Candland, Christopher, "India's Economic Reforms: 1991-1994," paper commissioned by the International Center for Economic Growth for USAID, December 1994.
Candland, Christopher, "The Institutional Legacies of Political Regimes: Trade Unionism and Industrial Restructuring in India and Pakistan," Ph.D. dissertation, Columbia University, 1996.
"Century Rayon, a Unit of the Birla Industrial House, has Announced a Lock-Out at its Shahad near Kalyan," *Economic Times*, (3 April 1988).
Chatterji, Rakhahari, *Unions, Politics and The State: A Study of Indian Labour Practices*, New Delhi: South Asian Publishers, 1980.
Datta Chaudhuri, Mrinal, "Labour Markets as Social Institutions in India," IRIS-India Working Paper No. 10, March 1996.
Chowdhury, Supriya Roy, "Industrial Restructuring, Unions and the State: Textile Mill Workers in Ahmedabad," *Economic and Political Weekly*, 24 February 1996, L-7-L-13.
Collier, Ruth Berins, and Collier, David, *Shaping the Political Arena*, Princeton: Princeton University Press, 1991.
Datar, B. N., "Trade Union Recognition," Karnik Lecture, Bombay.
Economist Intelligence Unit, *Pakistan/Afghanistan*, 2/1994, (8 June 1994).
Economist Intelligence Unit, *Pakistan/Afghanistan*, 4/1994, (25 November 1994).
Elster, Jon, *Nuts and Bolts for the Social Sciences*, New York: Cambridge University Press, 1989.
Ghatower, Paban Singh, "Answer of Deputy Minister in the Ministry of Labour to Question No. 711 of Dr. Sudhir Ray," 27 November 1992.
Gonsalvez, Colin, and Raju Damle, "Reasons Why Trade Unions Oppose the Changes in Labour Law Contained in the Proposed Industrial Relations Bill," Bombay: Centre Against Job Losses and Closures, 1993.
Gothoskar, Sujata, Priya Halal, Sharad Dudhat, Odile Flavia, and Girish Vaidya, "Job Losses and Closures: Management Strategies and Union Counter-Strategies," mimeograph, 1990.
Government of India, *Economic Survey 1990-91*, 1991, S-9.
Government of India, Ministry of Finance, Board for Industrial and Financial Reconstruction, *Industrial Sickness - Case Studies: Metallurgical*, volume 1, part 4, (July 1991), mimeograph.
Government of Pakistan, *Pakistan Economic Survey 1990*, 1991.
Haggard, Stepan, and Robert Kaufman, "Introduction: Institutions and Economic Adjustment," in Stepan Haggard and Robert Kaufman, eds., *The Politics of Economic Adjustment*.
International Labour Organisation, Asian Regional Team for Employment Promotion, *Employment and Structural Change in Indian Industries: A Trade Union Point of View*, Geneva: International Labour Organisation, 1989.

International Labour Organisation, Asian Regional Team for Employment Promotion, *Social Dimensions of Structural Adjustment in India: Papers and Proceedings of a Tripartite Workshop held in New Delhi, December 10-11, 1991*, Geneva: International Labour Organisation, 1991.

Joglekar, Shilpa, and Sudipta Dutta, "The Rules of the Game," *Business India*, 10-23 April 1995, 134.

Krueger, Anne, *Political Economy of Policy Reform in Developing Countries*, Cambridge: MIT Press, 1993.

Kumar, Shyam, "Robots muscle in on Indian Production Lines," Reuters Asia-Pacific Business Report, 17 August 1994.

"Landmarks," *Business India*, (14-27 August 1995), 32.

Lenhardt, Geon, and Claus Offe, "Social Policy and the Theory of the State," in Claus Offe, *Contradictions of the Welfare State*, Cambridge: MIT Press, 1987, 88-118.

Lipietz, Alain, "How Monetarism Has Choked Third World Industrialization," *New Left Review*, 145, (May 1984), 71-87

Madhavan, Narayanan, "India: Indian Mining Plans Draws Opposition Ire," Reuters News Service, 31 March 1996.

Majumdar, Rabin, Vice-President, International Federation of Bata Employees, interview, Calcutta, 25 December 1991.

Maniben Kara Institute, "Concept Paper on National Renewal Fund," Bombay, Maniben Kara Institute, March 1993.

Mathur, Ajeet, "Employment Security and Industrial Restructuring in India: Separating Facts from Folklore: The Exit Policy Controversy," paper presented at the National Seminar on Restructuring Indian Economy, Indian Institute of Management, Calcutta, 17-18 January 1992.

Mathur, Ajeet, *Industrial Restructuring and Union Power: Micro-Economic Dimensions of Economic Restructuring and Industrial Relations in India*, Geneva: International Labour Organization, 1991.

Mathur, Ajeet, "The Experience of Consultation during Structural Adjustment in India (1990-92)," *International Labour Review*, (1993) 132: 3.

Mehta, S. S., "Privatisation in South Asia: The Indian Experience," in V. Kanesalingam, V. ed., *Privatisation: Trends and Experiences in South Asia*, New Delhi: MacMillan India, 1991, 50-78.

Middle East Economic Digest, (23 December 1994).

Mills, C. Wright, *The New Men of Power*, New York: Harcourt, Brace, 1948.

Mining Magazine, (June 1991), 412.

Mir, Amir, "Pakistan-Labor: Privatization Increases Labor Woes," Interpress Services, 14 May 1995.

Mohan, N. Chandra, "Literacy's Spin Offs," *Business India*, 11-24 1995, 142.

Murphy, Kevin, "The Race for Development: Calcutta Must Outrun Its Past to Win," *International Herald Tribune*, (8 September 1994).

Myrdal, Gunnar, *The Challenge of World Poverty*, Aylesbury: Penguin, 1970.

Nagarik Mancha [Citizens Front], *Against the Wall: West Bengal Labour Scenario*, Calcutta: Spokesman, May 1991.

Naik, Hariben, President Rashtriya Mill Mazdoor Sangh, interview, Bombay, 20 April 1992.

Nelson, Joan, "Organized Labor, Politics, and Labor Market Flexibility in Developing Countries," *World Bank Research Observer*, 6: 1, (1991), 37-56.

O'Connor, James, *The Fiscal Crisis of the State*, New York: St. Martins Press, 1973, 6-7.

Padmanabhan, Satish, "No to Privatization: A parliamentary committee wants the government to reconsider SAIL's proposal to modernise IISCO," *Business World*, 14: 3, (4-17 May 1994), 48.

"Panel favours IISCO's revival through SAIL," *The Statesman*, (29 December 1993), 13.

Papola, T.S., "Labour Institutions and Economic Development: The Case of Indian Industrialisation," in T.S. Papola and Gerry Rodgers, eds., *Labour Institutions and*

Economic Development in India, Geneva: International Institute for Labour Studies, 1992, 17-46.
Papola, T.S., "Restructuring in Indian Industry: Implications for Employment and Industrial Relations," in Gus Edgren, ed., *Restructuring, Employment and Industrial Relations*, New Delhi: ILO-ARTEP, 1989.
Peter, A., "Privatisation Debate in India: Some Issues," in V. Kanesalingam, ed., *Privatisation: Trends and Experiences in South Asia*, New Delhi: MacMillan India, 1991, 79-97.
"Privatization - Need for Checks and Balances," *Economic Review*, February, 1992, 7.
Purie, Aroon, "Letter from the Editor," *Business Today*, (22 March-6 April 1992), 1.
"RS Call for Probe into U.P. Firing," *Times of India*, 5 June 1991.
Ramaswamy, E. A., *Worker Consciousness and Trade Union Response*, Delhi: Oxford University Press, 1988.
"Reviving Innocence" *Business India*, 3-16 July 1995.
Rodgers, Gerry, and T. S. Papola, *Labour Institutions and Economic Development in India*, Geneva: International Institute for Labour Studies, 1992.
Roy, A. K., "IISCO Privatisation: The Real Issue," *Economic and Political Weekly*, 14 May 1994, 1171-1172.
Sharma, Dinesh, "India: Nation-Wide Strike Bound to Delay Telecom Privatisation Plan," *Bangkok Post*, (21 June 1995).
Shetty, S. L., "Exit Policy: Why Not BIFR Route?" *Economic and Political Weekly*, 22 May 1993.
Siddhanta, T. N., "Brutal Killings at Dalla Cement Factory," New Delhi: AITUC Publication, August 1991.
Tsuruoka, Doug, Paul Handley, Rigoberto Tiglao, Adam Schwartz, Sucheta Dala, and Michael Westlake, "Telecommunications 1992: Home Before Abroad," *Far Eastern Economic Review*, 155: 22, (4 June 1992), 42-46.
Vijapurkar, Mahesh, "Steps to check criminalisation of textile unions," *The Hindu International Edition*, 20: 43, (22 October 1994), 12.
Wajid, Sayed, Senior Economist for Pakistan, International Monetary Fund, interview, Washington, D.C., 15 July 1992.
World Bank, "Pakistan: Country Economic Memorandum FY93: Progress Under the Adjustment Program," Washington, DC: World Bank, 23 March 1993, 49.
World Bank, "Regulation of Labor and Labor Relations," *Industrial Regulatory Reform Sector Report - India*, (9264 sector report), unpublished, May 1991, 47-77.