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REGULATION OF WAGES AND OTHER  
PROBLEMS OF INDUSTRIAL LABOUR  
IN INDIA

Patna University

*(Banaili Readership Lectures, 1939-40)*

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## PREFACE

THIS publication embodies the lectures delivered by me as Banaili Reader of the Patna University from 26th March to 2nd April, 1940, at Patna. They are printed substantially as they were delivered with only a few verbal alterations and the addition of reference material, etc. In the case of Lectures 4 and 5, the division in the actual delivery was different from that in the publication in order to achieve an even distribution in time.

When I received the invitation from the Patna University to deliver these lectures, I had been for some time engaged on the work of the Bombay Textile Labour Enquiry Committee. This explains the choice of subject. It might also explain, at least partially, the somewhat scrappy character of the exposition. The contents of these lectures were largely determined by the plan of the reports of that Committee. I desired to avoid dealing at length with all the subjects that were being treated in detail by the Committee. For a large number of topics not dealt with adequately here, I would, therefore, refer the reader to the reports of the Bombay Textile Labour Enquiry Committee. It follows that I am specially indebted to the members and the associate members with whom I worked on that Committee. It was chiefly work on this Committee that gave shape to my ideas on this subject, and most of what might be found to be of value in the lectures is the result of the joint deliberations and enquiries with my colleagues on the Committee. I have also been fortunate in being able to draw freely upon the wide and deep knowledge of Indian labour problems possessed by my friend, Mr. S. R. Deshpande.

Ordinarily the lectures would have, in course of time, been printed by the Patna University. As, however, I was anxious to publish them early, the authorities of that University were kind enough to permit me to do so. My thanks are due to the Manager, the Oriental Watchman Publishing House, Poona, for bringing out the publication within a very short period. An early publication was also made possible by Messrs. N. V. Sovani and D. V. Deodhar, who looked after the larger part of the work of seeing the lectures through the press.

D. R. GADGIL.

12th January, 1943.  
Gokhale Institute  
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## LECTURE I

# WAGE LEVELS—IN THEORY AND PRACTICE

It is not my intention in this series of lectures to treat in an exhaustive manner all the varied problems in connection with industrial labour that confront us today in India. Such a task would be both beyond my powers and beyond the scope of a lecture series of this type. What I intend to do is chiefly to indicate the nature of the more urgent problems that we face today and the main directions in which, in my opinion, their solution has to be sought.

In doing this I shall not attempt an exhaustive description of the conditions under which industrial labour works and lives; nor shall I attempt a detailed historical survey of the manner in which these conditions and their regulation have developed through many decades past. Fortunately, there have become available during the last ten years many excellent accounts dealing with both these aspects of Indian labour problems. While eschewing detailed description I shall, however, try to base my exposition on an adequate amount of concrete illustrative data. Without such illustration the treatment of a subject like this must lack reality, and this is a defect which above all others I am anxious to avoid. In the sphere of applied economics, and I personally believe in the entire sphere of the science of economics, it is the facts of the real world that are our raw materials. The economist is concerned with arranging the observed facts in an intelligent manner; in such a manner, that is, that their inter-connections and their inter-actions may be brought out significantly. It is only if the economist succeeds in doing this that the statesman and the businessman can take stock of the past in order to guide their actions in the present and to plan for the future.

I shall begin with a consideration of the central problem of wages. The wage that a labourer receives has perhaps greater significance for him than any other feature of the structure of industry. The manner and the extent to which he is able to feed, house, and clothe himself and his dependents is closely related to this direct payment that he receives in return for his services. The wage largely determines the standard of living of the wage-earner. As I shall have occasion to observe later, the standard of living of the labouring classes may also be influenced by a number of indirect receipts in the form chiefly of services rendered by common, co-operative, or state agencies. The extent of such services is, however, extremely limited in India at the present, and today the wage has with us a decisive influence on the manner in which industrial labour lives. Naturally, the labourer is more concerned with the maintenance and increase of the size of the wage than with other questions. A diminution of the wage received, cuts into his already meagre standard of living, and in a steady increase of the wage upward lies his chief hope of obtaining decent living conditions for himself and his family. It is no wonder, therefore, that the Indian labourer,

like his confreres in other countries, holds tenaciously to what he already receives and seeks every opportunity of getting the wage increased.

To the employer the wage level is a matter of almost equally close concern. The wage payment represents for him an important item of his cost of production. In some industries—as for example coal mining—it may represent overwhelmingly the most important item in the cost structure. But even in others the wage bill is always of a significant magnitude. The wage bill again is often amenable to control by the employer; it is an item which appears to the employer more possible to influence than many other items of expenditure. The cost of raw materials or the transport charges that he has to bear are, for example, payments whose level is determined by forces that ordinarily lie outside the sphere of control of the individual employer. Wages, however, are not similarly placed for the large majority of employers in India. In these circumstances it would not be unnatural to find employers often resorting to an adjustment of wage rates whenever the need for economy arises.

As a consequence, wages represent the chief point round which industrial disputes are centred. The official statistics relating to industrial disputes in India reveal the importance of the role played by wage rates and wage payments. More than half the total number of disputes in 1938, for example, took place because of a difference of opinion between the two parties regarding this question.\*

The determination of the size of the wage and the methods by which the wage may be paid thus constitute the most important problems relating to industrial labour in India. How shall a wage be paid? What is the level at which wages shall be pitched? How shall appropriate adjustments in the method and the level be made in changing circumstances? These are questions to which all who would study problems of industrial labour must address themselves. In their proper solution lies the main hope of a smooth working of industry and the maintenance of cordial industrial relations.

In a consideration of this question it may naturally be supposed that we would be greatly helped by economic theory. If we could ascertain the factors that play the dominant role in the determination of wages and observe the manner of their working, we should be able to appreciate the nature of the problem and consequently be in a favourable position to attempt its solution. I shall, therefore, begin with a brief statement of what appears to me to be the present position in respect of the theory of wages.

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\*INDUSTRIAL DISPUTES IN INDIA CLASSIFIED ACCORDING TO CAUSES OF DISPUTES

Year	Wages	Bonus	Personal	Leave and Hours	Others
1930	69	4	34	7	34
1931	69	2	39	20	36
1932	68	3	32	2	14
1933	95	2	20	5	25
1934	107	1	24	6	21
1935	91	2	21	10	21
1936	96	1	24	6	34
1937	234	4	73	12	60
1938	209	3	98	21	74
1939	232	2	74	12	86

In this, as in other branches of economic theory, it cannot be claimed that any unanimity of opinion exists. But the position of the main body of economic theorists seems in this respect to be clearly defined. The most authoritative expositions of the theory of wages today follow the marginal approach and explain wages as a distributive share earned by labour in accordance with the contribution made by it to the value of the product. It is not possible at this place to explain the various steps taken in arriving at the conclusions embodied in this theory, neither is it necessary for me to do so. It is only necessary that the broad postulates and implications should be pointed out and the conclusions flowing from them be indicated. The first postulate is, of course, comparatively free competition among producers, and the second, a certain degree of mobility on the part of the factors of production, including labour. Given these conditions and an absence of external interference, economic theory holds that "*Laissez faire* tends to bring about equality of incomes; for in competition similar factors of production tend to receive the same rewards in every industry. Labour tends to move into the industries which are paying the higher wages, until the wage-rate is the same in all industries."<sup>1</sup> On these general assumptions an elaborate structure is built explaining the manner in which wages, among other distributive shares, come to be determined in a competitive society. The implications of this elaborate theory of wages are well summarised in the following extract:

"The marginal productivity theories of wages which are upheld by many economists are based on various combinations of the following principles: (1) Entrepreneurs tend to find out by experiment the resultant effect on the value of the joint produce, which follows upon employing just a little more, or just a little less, labour—other things equal—and competitive pursuit of profit induces entrepreneurs to hire labour up to the point where the marginal or 'last' man's wages nearly equal the increase in product which results from adding him to the preceding productive combination. (2) All units of similar labour must sell for the price of the marginal unit. (3) No one entrepreneur is a perfect experiment station for such determination, but each one has considerable opportunity to vary his combinations of productive resources; and so at any time the whole economic system is tending to settle into an equilibrium of prices of products and prices of factors which ideally might be described by a vast system of simultaneous equations."<sup>2</sup>

If the market functions in accordance with these expectations, a certain level of wages for each occupation will be reached. Prof. Pigou calls a wage at such a level a "fair wage." He describes in the following terms the relation that a "fair wage" in any occupation should hold to wages in other occupations and to the general system of wages:

"As between exactly similar persons it is evidently equivalent to a relation of equality of real wages. My definition thus conforms to that given by Marshall when he writes that, in any given industry, wages are fair relatively to wages in industries in general, if, allowance being made for differences in the steadiness of the demand for labour, 'they are about on a level with the payment made for tasks in other trades which are of equal difficulty and disagreeableness, which require equal natural abilities and an equally expensive training.' As between persons who are not exactly similar, fairness in the above sense implies real wages proportioned

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<sup>1</sup> Meade—"Introduction to Economic Analysis and Policy," 1936, p. 212.

<sup>2</sup> Dickinson—"Compensating Industrial Effort," pp. 150-1.

to 'efficiency'; the efficiency of a worker being measured by his net product conceived as marginal, multiplied by the price of that product."<sup>3</sup>

It is obvious that an exact correspondence between the marginal product of labour and its remuneration is a purely theoretical concept, and that such a correspondence cannot be observed in practice. The labour market is not static, and apart from the efficiency of the labourer himself the value of the net product depends on the other co-operating factors of production and the value of the finished product. Prof. Pigou has himself analysed in detail one aspect of the difficulties involved in expecting a close correspondence. He writes:

"In pure theory it would seem that adjustments should be made continually from day to day or even from moment to moment. To this sort of adjustment, however, there are insuperable practical obstacles. Time is required for the collection and arrangement of the statistics upon which the changes must be based. Considerations of book-keeping and ordinary business convenience come upon the stage, and fix a lower limit, beyond which the interval between successive adjustments must not be reduced. Of course, this limit is not always the same. In a small local industry, for example. It will probably be lower than in a great national one. But in every industry it must lie considerably above the infinitesimal level which pure theory recommends."<sup>4</sup>

Prof. Pigou unfortunately nowhere explains at length the influence of these difficulties on the validity of his theoretical structure. Other writers, however, acknowledge them and attempt to indicate the limitations under which the forces may be supposed to work. Prof. Hicks, in what may be regarded as the latest systematic exposition of the traditional theory of wages, thus deals with the problem. He writes:

"There is no necessity whatsoever for the wage a man receives at a particular moment to equal his marginal product. In so far as that term 'marginal product' can be given any sense at all in a changing community, it can only mean the wage a man would ultimately receive if the fundamental conditions of equilibrium—the number of people in the market, their tastes, their ability to labour, and the property they possess—were made eternal as they exist at the moment, and the process of settling down followed to its furthest limits. This marginal product is a regulator of wages, but it does not determine their precise magnitude. For the marginal product of a man's labour, defined in this way, changes incessantly, and wages do not incessantly change. Sometimes the wage must fall below the marginal product, sometimes exceed it. But any such difference, if it is maintained for long, slowly bends wages to meet the new situation. The forces elucidated by equilibrium analysis are the forces which, in nearly every case, cause wages to change.

"Like Professor Clay, we must conceive the wages of labour (at least over a very large part of the labour market) as a 'system,' a system with considerable internal stresses of its own. As economic conditions vary, they bring about changes in the system, but external changes have to reach a certain magnitude and a certain duration before they can break down the internal resistance."<sup>5</sup>

I have felt it necessary to quote this passage at length to show in what manner the limitations of the marginal approach are recognised and explained. The importance of this lies in the fact that in spite of the limitations they recognise, economists go on to base conclusions in respect of the working of the econo-

<sup>3</sup> Pigou, A. C.—"The Economics of Welfare," 3rd Ed., p. 549.

<sup>4</sup> Op. cit., p. 623.

<sup>5</sup> Hicks, J. R.—"The Theory of Wages," 1933, pp. 86-7.



mic system and to proffer advice in respect of economic policy which is based essentially on the marginal analysis. Thus Prof. Pigou reaches a conclusion very important from the point of view of wage policy when he lays down that the interests of the national dividend will be best promoted under a system of piece-wage scales controlled by collective bargaining.<sup>6</sup> This conclusion, it should be noted, is arrived at by a compromise between theoretical and practical considerations. A piece-wage is preferred to a time-wage because under the former system there is greater possibility of a closer approach of the earnings to the marginal product than under the latter. Collective bargaining is, however, introduced not on account of similar reasons, but rather in order to get over what is realised as a partially justified opposition of workers, or certain sections of them, to a piece-wage system. A piece-wage is preferable; but it is realised that it provides opportunities to the employer to nibble at the rates and thus to cut earnings surreptitiously. Collective bargaining is suggested as a safeguard against possibilities of nibbling. It is unfortunately not made clear whether collective bargaining will have results other than those of merely preventing "nibbling," whether it will not tend, in certain circumstances, to move away the wage rate from the level of the marginal product. That at least seems to be the fear entertained by many other marginal economists.

To cite another instance. Prof. Hicks, as a result of what he evidently considers a very realistic study of the problem, arrives at the conclusion that any attempts at regulating wages are futile because of the adjustments that the entrepreneur will make in order to avoid the effects of such regulation. "The entrepreneur," we are told, "has learned more tricks than are easily reckoned with."<sup>7</sup> The conclusion of Dr. Hicks has a very important practical bearing. To all those who would pin their faith on the possibility of bettering conditions of labour or of obtaining a more equitable distribution of wealth through the agency of the State or Labour Organisations, he utters a grave warning. And yet the conclusion is based almost entirely on the traditional assumption of close and continuous adjustments made by the entrepreneur. It is assumed throughout the analysis that such adjustments are always possible and that, in fact, the entrepreneur always makes them.

I am not concerned at this stage with the validity of these conclusions. My intention was chiefly to draw attention to the fact that the traditional wage theory is not only expounded in the form of a logical structure built on the bases of certain assumptions, but that this exposition is used by some of the most notable amongst economists to yield significant practical advice. When it is so used it becomes necessary to examine not only whether the exposition is logically valid within the limits of the assumptions, but also whether the facts of the real world are at all similar to the world of the economist.

I shall, of course, talk of the facts of Indian economic life alone. It is unnecessary for the purpose in hand to go abroad for examples. I may, however, note that even in England economists like Prof. Clay and Mr. Rowe, who have approached the study of wage theory through a previous realistic study of wage problems, have expressed themselves much more cautiously, in part almost

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<sup>6</sup> Pigou—*op. cit.*, Part III, Ch. VIII.

<sup>7</sup> Hicks, *op. cit.*, p. 229.

sceptically, in these matters. In the first instance I should like to emphasize that the theory of the free market is applicable, perhaps more closely to certain spheres of Indian economic life during the last 100 years, than to almost any other period of economic history in any other country. This is especially true in respect of those parts of our life where tradition and custom had little hold. Such was the case in the life of the new industrial cities that grew up in India in the 19th century. The chief influence that in the other spheres of our economic life is held to modify the action of free competition—traditional modes of thought and behaviour—was obviously absent from the working of the new mechanised industry that came to prominence in India in the last quarter of the 19th century. In other countries the two forces that hampered the action of the free forces of competition were the authority of the state and the power of organised bodies of employers and the employed. In both these respects, however, the position of modern industry in India was very happy. The state in India, especially before the War of 1914-18, had raised *laissez faire* into a principal so sacred and powerful that it enjoined a veto on the creation even of a provincial department of industries. Competition among entrepreneurs, on the other hand, was keen and reckless; and the employees were for the larger part a floating body of disunited and ignorant persons. The pre-war (1914) conditions in Industrial India may thus be well described as the paradise of the *laissez faire* economist. Some change has no doubt come about during the last two decades. Even so I believe that the Indian labour market still approximates more to free market conditions than the labour market of almost any other country in the world. The state takes nowadays a little more on itself than it used to formerly; the most significant departure has been in the grant of protection to certain industries. The Factory Acts are also more elaborate and better enforced; but no kind of wage regulation is yet in evidence and the state does not yet undertake any of the indirect services such as unemployment benefit or sickness insurance, which may have an important influence on the supply of labour in other countries. The employers are much better organised than in the previous period, but it is only in rare instances that they combine to determine collectively wage and working conditions. Labour is more conscious of itself and more aware of the rights that it may claim and the privations from which it suffers, but it is almost nowhere sufficiently organised to exert continuous influence on the wage bargain. An occasional instance of successful collective bargaining serves to emphasize the immense extent of the "free" area left out of its scope.

I note these facts in order to point out that if a comparatively free labour market can today be said to exist anywhere, it exists in India. If, therefore, the working of the free market is supposed to lead to certain results and adjustments in respect of wage levels and working conditions, these must be reflected in the conditions of industrial labour in India. I proceed now to examine wage conditions in modern industries in India, with special reference to the manufacture of Cotton and Jute. Conditions of cotton textile labour I shall exemplify chiefly from the Province of Bombay in which the industry originated, and which is still the most important producer of cotton factory piece goods in India. Of Jute labour, Calcutta with its environs is the only important centre. The State has not yet affected conditions in the Jute industry either by its fiscal policy or by regulating conditions of wages or of labour supply. The Cotton in-

dustry enjoys today a protective tariff; it should, however, be remembered that protection by tariff has been substantial only since 1930. In the Jute industry again employers take no combined action to regulate the recruitment of or wages of labour, and trade unions of labourers are almost non-existent. In the cotton textile industry collective bargaining has, to a greater or less extent, characterised Ahmedabad for some years past. In Bombay, while trade union action is not effective, millowners have lately begun to regulate wage levels conjointly. In other centres of the industry employer and employee organisations are yet very weak. Both these industries have a comparatively long history, so that if there are any trends or results which would operate only in the long period there has been sufficient time for them to be visible. The following descriptive account should be examined in the light of these remarks.

The most reliable and exhaustive data relating to wages of industrial labour in India are to be found in connection with the Cotton textile industry in the Province of Bombay. A number of sample censuses and one complete wage census have been conducted in this Province by the Government Labour Office. There are also available the results of a special official enquiry into the wages and employment in the industry in 1934. A study of the results of these censuses and enquiries should enable us to arrive at an idea of the nature of wage movements and the relation between the levels of wages paid by different units. At the outset I should like to point to certain difficulties involved in the use of these statistics. The first difficulty arises from the possibility that the same occupational grade may not always be indicated by the same occupational name in all units. The investigators of the Bombay Labour Office were, it is reported, aware of this difficulty, and care has been taken in the results published by that office to guard against any confusion arising out of it. Classified lists of occupations were usually prepared in advance of the censuses, and investigators and mill authorities were notified of the uniform nomenclature adopted. This difficulty may, therefore, be ignored when dealing with data published by the Bombay Labour Office. The second difficulty is more formidable. For the purpose we have in view it is necessary to ascertain the rate of payment per unit of work performed. When workers are paid on a time-rate, the unit in terms of which payment is made is a unit of time—an hour, a day, a week, a month, etc. The wage data which are presented in terms of actual earnings for a unit of time correctly reflect, for these workers, the level of rates of payment also. This, however, is not the case with workers paid on the piece-rate system. The variations in the earnings of these workers do not necessarily reflect variations in rates of payment for a standard job. A variety of reasons, including differences in the efficiency of the individual workers, may bring about variations in earnings even though the rate of payment is the same. The data regarding the earnings of piece-workers have, therefore, to be used with caution and cannot by themselves be used to prove differences in the level of rates of payments.

I shall begin by indicating from the results of the sample wage census of 1937 the variations in the level of payments in the same occupations in various centres of the industry in the Province of Bombay. A few figures should suffice, and I choose for illustration from the spinning side of a cotton mill three im-

portant categories of time-workers, whose duties are well-defined. These three classes are doffers, tarwalas, and ring spinners minding one side of a frame. In 1937 the average daily rates of wages of a doffer in Bombay were found to be As. 10-5. The corresponding figures for the other two important centres, i.e. Ahmedabad and Sholapur, were As. 9-11 and As. 7. These figures relate to industrial labour employed in particular cities. Turning to averages regarding scattered units in certain regions we get at even lower levels. Thus the doffer in mills in Gujarat (other than those at Ahmedabad) earned As. 7-6 per day, in Khandesh As. 6-1, and in certain mills in the Central and Southern divisions only As. 5-3 on an average. The figures regarding the average earnings of tarwalas and single siders are set out in the following table:<sup>8</sup>

	Tarwala	Single sider
	As.	As.
Bombay	12-11	13- 8
Ahmedabad	—	15- 6
Sholapur	7- 6	8-10
Gujarat	—	11- 4
Khandesh	8- 3	10- 9
C. D. and S. D. districts	5- 1	7- 7

These data serve only to bring out the wide divergence in the rate of payment to time workers in standard occupations in an old established industry between contiguous regions in a province. They indicate that in this industry as between different centres and regions the level of wage rates is widely dissimilar.

I shall next examine the level of rates paid by different units in the same centre of industry so that no consideration regarding costs or difficulties of transfer need enter into the calculations. The results of the wage censuses of 1934 and 1937 are not available in a form which would enable us to compare rates of wages in different units. The results of the sample wage census of 1926 and the special enquiry of 1934 have, therefore, to be used for the purpose. The first enquiry shows that the average daily earnings of siders paid on time-rates varied in the 19 mills in the sample for Bombay from As. 14-3 per day to Re. 1-2-11 per day, i.e., a variation of As. 4-8. The corresponding variation in earnings in Ahmedabad is smaller because a certain amount of regulation of wages by collective bargaining was already in existence in this centre in 1926. Even so, the range of the average earnings of siders in the 16 mills in the Ahmedabad sample was shown to be from As. 14-6 to Re. 1-0-3. Tables giving frequencies of earnings which are incorporated in this report cannot be used for the purpose in hand because they present the data by departments. It is, therefore, difficult to ascertain from them the range of variation between payments to workers in specific occupations. They merely show the range of variations between payments to all types of workers in the same department. In the enquiry into wages and unemployment in the cotton textile industry conducted by direction of the Government by the Labour Office in 1934, special attention was paid to the variations in average earnings

<sup>8</sup> Figures taken from the Interim Report of the Bombay Textile Labour Enquiry Committee, 1939, pp. 31-2.

and rates of payments between different units in the same centre. Of the occupations studied in this enquiry that of the ring sider was the only time-rated occupation. Hence I shall confine my attention to that occupation. The enquiry took place after the considerable cuts in wages that were made in Bombay during 1933. It was found that as a result of the cuts the range of variations in the earnings of siders, instead of having been diminished, had actually increased. This range which was As. 4-8 in 1926 (as shown above) had increased to As. 5-4 in December 1933. The author of this report observes, "In most industrial countries it is generally found that wages in the same kind of work in different units of the same industry, situated in the same locality, are ordinarily very nearly the same." Examining variations in earnings of operatives in different wards in the city of Bombay in the light of this principle, the following facts were noted relating to the average daily earnings of ring siders minding single sides. In the 10 mills covered by the enquiry in the E Ward, these earnings varied from As. 13-11 to Re. 1-0-11; in the 13 mills covered in the F Ward they varied from As. 12-10 to Re. 1-1-6, and in the 19 mills covered by the enquiry in the G Ward the corresponding figures were As. 11-7 and Re. 1-1-4. It is noted in the report that "while the variation as between mills in the same ward are large, the variations as between the different wards are less striking." This is to be explained by the fact that the ward figures are averages and that there was no reason to expect a concentration of either high or low wage paying mills in particular wards. The report of the enquiry also yields information regarding Sholapur, and it is shown that the average daily earnings of single siders in this centre varied from As. 9-6 to As. 12-11. The range of variation shown for Ahmedabad for this occupation was, however, small. It was reported that in 56 out of 73 mills the single siders were getting an average daily wage between 16 annas and 17 annas per day. The report adds, "The explanation of this presumably is that in this occupation there is the standardization of wages already referred to." Wide variation in wage rates was thus the normal feature in centres where wages were unregulated. This was also a persistent feature and showed no signs of diminishing in extent by the mere passage of time.

The figures cited above have been taken only from the time-rated occupations for the sake of presenting the picture with materials whose validity for the purpose cannot be challenged. The conditions in the piece-work occupations are, however, of the same nature. Earnings of workers, as the published reports of the enquiries show, vary widely from centre to centre and from unit to unit in the same centre. The basis and manner of calculating and grading piece-rates are again diverse. The actual piece-rates are themselves not usually available. Even when they are available a comparison between the weaving rates is rendered impossible because of the complicated structure of rates in this department. In other departments comparisons are possible. In recent proceedings before the Industrial Court, Bombay, it has been shown that the reeling and winding rates paid by different mills in Bombay stand at levels wide apart, and in information available to me for some other centres of the textile industry in the province I have noted differences of the degree of 25 per cent and over between the highest and the lowest rates in the winding, reeling and warping rates paid by contiguous mills in the same centre.

I have laid stress on conditions in the cotton textile industry in the Province of Bombay not only because I am best acquainted with the wage position in the industry in that province, but also because we possess the most reliable and authoritative data in respect of it. But such data as are available about conditions elsewhere help to confirm the conclusions formed by a study of wages in the Bombay cotton textile industry. Let us for example turn to information contained in the report of the Cawnpore Labour Enquiry Committee (1938). This report contains (pp. 15-18) important wage statements furnished by the Employers' Association showing the wage position in the industry in 1929 and 1937. The following table sets out, for certain fixed-wage occupations, the monthly wages paid by mills paying the highest wage and the lowest wage in that occupation.

	1929		1937	
	Lowest Rs.As.Ps.	Highest Rs.As.Ps.	Lowest Rs.As.Ps.	Highest Rs.As.Ps.
Blow Room	14- 2- 9	19- 8- 0	14-10- 0	19- 8- 0
Ring (Weft)	14-14- 0	19- 0- 0	16-14- 0	27- 0- 0
Sizing (Front)	22- 8- 0	30- 0- 0	22- 8- 0	38- 0- 0
Drawers in	22-12- 0	30- 6- 0	24-13- 1	46-15- 0

It is not known whether all the figures given in these tables are strictly comparable. Whatever the allowance that may have to be made on this account, it is clear that the position revealed by them is one of great disorder. In this connection the following remarks of the Millowners' Association which accompanied the wage statements will appear instructive: "There was a difference in the rates of time wages paid by the various mills; this difference being due to unavoidable factors, such as the age and design of machinery, lay-out of the factory and quality of the material worked, etc. . . . Piece-rates for different operations were calculated and based on traditional practical experience, and on such factors as the speed of machinery, type of material being made, etc."<sup>9</sup> Two other notable features of these Cawnpore wage statements should also be observed. These are that mills cannot be always graded uniformly according to the rates and earnings in all occupations. There are some mills in which the general level seems to be indubitably high or low, but there are others which show in comparison a high level in some occupations and a low level in others; and the incidence of such variations cannot be explained on any readily observable grounds. The other feature is that the movement of wage rates between the two dates, i.e., 1929 and 1937, for which statistics are available, is also not uniform. The comparative position regarding the wage level as a whole, and regarding wages and earnings in particular occupations of the mills changes appreciably as between the two dates. There is, however, no movement towards an approximation of the general or particular levels of the various mills to a uniform average by passage of time. If anything, the gap seems to have become wider recently.

Evidence of a like character can be adduced for the cotton textile industry in South India. This is embodied in the report of the Court of Enquiry ap-

<sup>9</sup> Report, pp. 12-3.

pointed to enquire into the disputes between labourers and employers in the textile mills in Coimbatore (1938). In one way this evidence is specially instructive, for it relates to a centre where the operating unit is comparatively small. The total number of workers employed in Coimbatore at the time of the enquiry was 25,791, and the number of factories was 25. Under the ordinary assumption of economic theory, the forces of competition should work with particular effectiveness in these circumstances. In actual fact conditions appear to be even worse here than in the Bombay Province or in the United Provinces. The Court of Enquiry found that there was "pronounced variation" in the "rates paid to the same kind of operative between mill and mill." A few figures relating to certain time-rated occupations in the spinning section will make this clear. Blow Room scutcher Rs. 14-0 (H.), Rs. 9-12 (L.): Can-tenter (carding) Rs. 12-0 (H.), Rs. 5-11 (L.): Grinder Rs. 16-0 (H.), Rs. 6-8 (L.): Spinner Rs. 14-8 (H.), Rs. 9-12 (L.):<sup>10</sup> making all allowances for extreme cases and for some element of non-comparability the figures in this report still call for a serious consideration at the hands of all students of economic theory.

The cotton textile industry is the most important and the oldest-established factory industry in India. The conditions that obtain within it cannot be taken as representing a phenomenon that is either temporary or peculiar. In respect of the variation in wage rates the position is similar everywhere else. The evidence for other industries is not plentiful. For the other important textile industry, viz, jute, we have no statistical data which can be used with confidence. The only recent statistics regarding wages in the Jute industry that I have come across are those contained in Appendix 9 to the report for the year 1933 of the Chief Inspector of Factories in Bengal. These wage statistics are presented in the form of frequency tables indicating the number of factories which pay the persons in particular occupations the average wages within certain limits of average monthly wages. It is difficult to interpret these data; for, we do not know how the averages were calculated and whether particular occupations are paid on time-rates or piece-rates. Except in certain occupations, however, the dispersal revealed by the frequency tables is very wide. Though we do not possess suitable statistical data we have a description given by the Government of Bengal of wage conditions in the Jute industry in its evidence submitted to the Royal Commission on Labour in India. This description, as the following extract will prove, shows wage conditions in this industry to be at least as chaotic as those in the cotton textile industry.

The Bengal Government writes:

"Perhaps in no industry in the world, situated in such a circumscribed area, is the wage position more inchoate. The mills, grouped under different managing agents, work under wage systems which have developed many local idiosyncrasies during the long or short years of their existence. Even in mills under the same managing agents, there are differences which, to persons not acquainted with the position, seem incredible. For example, in two mills situated in the same area and separated from each other by little more than a boundary wall, under the same managing agents, there is practically not a single entry of wages which is the same."

<sup>10</sup> Report, p. 39.

H.—Highest  
L.—Lowest

In three mills under the same managing agents, situated within a stone's throw of each other, the rates in one mill have for many years been higher than those in the other two mills. In other groups of mills, situated close to each other and under different managing agents, the wage rates in individual mills are kept, or are supposed to be kept, strictly secret. The total earnings are not necessarily kept secret, but each prides itself on having been able to declare piece-rates or bonus-rates which are better than the rates of the neighbouring mills."<sup>11</sup>

Lest it may be thought that variability of rates of wages is a characteristic only of the older industries in India, I shall close this descriptive part with a quotation from the final memorandum presented by the Government of Bihar and Orissa to the Royal Commission on Labour in India.<sup>12</sup>

#### "Methods of Fixing Wages.

"Jharia Mine Field.—There is no recognized system by which wages have been fixed in the coalfields for skilled or unskilled labour and they are not standardized.

"1. Factories.—In general, wages have not been fixed either by negotiated agreements or by any other means. Thus it is found that wages vary fairly considerably even in the same area, as the figures<sup>13</sup> given below showing the rates of wages for (a) Tatas and Tinplate Company, which are both situated in Jamshedpur, and (b) the figures of the Locomotive Works at Jamalpur, and the Peninsular Tobacco Company, both of whom are situated in the neighbourhood of Monghyr, will show."

Similar instances could easily be multiplied. There is, however, no virtue in mere repetition. I have for the description chosen only the oldest centres and the most well-established industries, so that it may not be said that an unfair sample was taken or an exaggerated impression was sought to be conveyed. A study of these conditions seems, at least to me, to show conclusively that the assumptions made ordinarily in the formation of the theory of wages and in prescribing policy on the basis of that theory do not hold good in India. In a free market there ought not to obtain divergences of anything like the magnitude we find in the above instances. Prof. Pigou categorically lays down that "as between persons exactly similar in quality fair wages mean—equal wages."<sup>14</sup> Here we have instances of large masses of unskilled workers, within whose ranks there is little scope for differences in quality and whose work involved such little difference, employed in contiguous establishments in the same industry at widely varying rates of wages. It would be easy to give instances taken from the reports of the elaborate wage census conducted by the Bombay Labour Office in 1934 which show that payments in the same centre in different industries to persons in the same or similar occupations vary widely. But it is even more convincing to have instances of workers of similar quality in the same occupational grades obtaining significantly different rates of payment in contiguous establishments. And this cannot be taken as a temporary state of affairs: so far as is known this has been a phenomenon always characteristic of conditions in Indian industry. Faced with these facts can we talk of the tendency in *laissez faire* to bring about an equality of incomes? Is there under these conditions any criterion which can

<sup>11</sup> "Report of the Royal Commission on Labour in India," 1931, pp. 215-6.

<sup>12</sup> "Evidence," Vol. IV, Part I, pp. 68-9.

<sup>13</sup> Table not reproduced.

<sup>14</sup> Pigou, *op. cit.*, p. 585.



enable us to determine a "fair wage"? Are we still to suppose that entrepreneurs are continuously making wise and clever adjustments and it would be folly resulting in the possible destruction of capital to interfere in the normal working of the natural laws of marginalism?

I am aware that, faced with such facts, the economists talk of imperfect competition, the stickiness of certain payments, of the time lag in adjustments, etc. There is no denying that the conditions illustrated above reflect the working of a market very different from the theorist's competitive market. My only contention is that, in the circumstances, a perfect market is an illegitimate assumption. For, I may repeat, in India the three types of interferences which economists hold chiefly responsible for making impossible the smooth working of a market—interference on the part of (i) State, (ii) the organised bodies of employers, and (iii) the Trade Unions—are almost non-existent. If even here the imperfections of the market are so glaring, the postulate of the perfect market, while perhaps useful for purposes of analysis, is a hazardous basis for the formulation of policy, and *laissez faire* a prescription that has no theoretical validity and which bears no practical proof.

Let me for a moment recapitulate the argument. I began by pointing out that the problem of wages was the central problem in our subject. I then went on to indicate briefly what economists had to say on the subject of the determination of wages. It was found that an influential body of theoretical economists held that in the absence of external interference, wages for similar kinds of labour tended to equality, that the forces of the market tended to approximate wage rates to the marginal product of labour, and that when they were so approximated they could be called fair. The same economists were broadly found to hold, as a result of this type of general reasoning, that interference could achieve little and that attempts at regulation were likely to prove harmful and were at best futile and bound to be evaded. If one subscribed to this type of reasoning there was little left but to advise everybody to leave matters to shift for themselves. On a study of the facts of the Indian situation it was, however, found that the actual conditions differed widely from the assumptions made in theory regarding the working of the market. I, therefore, reject the theoretical structure raised largely on *a priori* grounds as unsatisfactory, and feel that at least so far as India is concerned no theory which does not explain the facts of the situation adequately should be allowed to sway our judgments in matters of policy. The divergencies and discrepancies revealed by a study of the actual Indian wage conditions are so large that we cannot, in face of their existence, rely on the natural working of the market to bring about a proper and equitable distribution of resources and adjustment of payments.

We have advanced so far only to a negative conclusion. Facts disclose to us that in India much weight cannot be attached to the theoretical objections to attempts at regulation. But they do not necessarily dictate a positive policy, at least we have so far not addressed ourselves to the question as to whether they dictate such a policy. It may be argued that while imperfections of the market and consequent inequalities of payments exist, external interference could not mend matters or that it may even worsen them. We must, therefore, consider what are the unsatisfactory aspects of the present situation, in what respect they

create problems of labour management, and what step can effectively be taken in order to remedy the situation. The main evils in the present wage situation in India are as follows: Firstly, there is the very low level of payments to certain classes of workers. Secondly, the differences in payments from unit to unit in the same industry create unfair conditions of competition among employers. Thirdly, the same facts give rise to discontent among workers and are the occasion of frequent wage disputes. We shall defer consideration of the first aspect of this problem. The second aspect is often referred to as the under-cutting of wage rates by competing employers. The complaint of low wage costs enabling employers in one region or country to hold their own in the market is one that is heard universally. When one country or one region complains against another on the score of "unfair competition," the difference in wage costs is explained by costs of transferring labour and capital or to lack of mobility induced by artificial restrictions. The efforts of the International Labour Office at obtaining a certain uniformity of Labour standards in all countries of the world may be taken to have the elimination of such "unfair" advantages as one aim. But, as we have seen, such under-cutting can and does take place in India even within areas within which there appears to be no lack of mobility or no heavy costs of transfer. The disadvantages of under-cutting from the point of the employer paying the higher wage rates are obvious. They enable his competitors who pay a lower wage to maintain a competitive position from which they would otherwise be dislodged. It, no doubt, often happens that the employer who pays the higher wage is also the more efficient in production. His business is perhaps better organised, his equipment is of better quality and better maintained, and he has perhaps some special advantages in respect of the market in general or some special part of it. On account of these advantages he is able to produce at lower costs per unit, and a part of the total advantage is passed on to the wage earner in his establishment. It may also be that he gets into his employment a better type of worker on an average than his low paying competitors, that there is less friction in his establishments, and less absenteeism and turnover. But the extra efficiency of labour cannot amount to much especially in highly mechanised industries where the work is mostly of a repetitive character, and all the advantages together cannot compensate the employer fully for the extra wage paid by him. It is clear what, in these circumstances, would happen in a free market. The employer who pays higher wages would tend to lower his wage rates and at the same time, as a consequence of the advantage obtained by such lowering, to extend the scope of his operations. The employer paying less would on the contrary have to increase his rates under stress of competition and to curtail the extent of his business. Both these tendencies would continue to operate until a point of equilibrium was reached where the wage rate paid by all employers for similar types of workers was the same, and then the point at which the market was divided between entrepreneurs with different degrees of efficiency would be the optimum. In India, at least, market conditions do not seem to work in that manner, and this problem of the possible subsidising of the inefficient employer because of low wages has to be faced. Unless the less efficient employer is forced to pay the same wage as the more efficient, he would have no incentive to improve his methods and he would continue to produce on a scale

larger than the one to which he is properly entitled. The resources of the country would continue to be distributed amongst employers in a manner that is not the most economic.

That a wide disparity between wage payments for similar kinds of work by contiguous units leads to discontent and friction is a statement that also needs no elaborate proof. Such a state of affairs, if it is chronic, as in India, may not, of course, lead to constant wage disputes. It is, however, one factor in such disputes when they occur; this has been made clear by recent experience. Moreover, these disparities invariably create difficulties in the process of the settlement of disputes. Any modification of the level of wages or the method of paying wages which is proposed in order to bring about a settlement will, when conditions are divergent, affect different groups of work people in different ways. Often some of the more usual methods of wage adjustment have the effect of accentuating the existing disparities. Even if variations in wage payments, when chronic, may not lead actually to disputes, they certainly seem to have two important effects. Firstly, they add to the volume of labour discontent. Recent scientific enquiries seem to lend support to such a view. Under certain conditions workers may not constantly think of an absolutely low wage. It was, however, noted during the investigation, that "if the wages of any group were lower than those of other groups employed on fairly similar types of work, the individuals so affected were inclined to complain about the rate of payment. The wages question then began to occupy a more prominent position in their thoughts and tended to create a background of discontent."<sup>15</sup> The disparities must also encourage an increased turnover of labour. We have yet had few careful enquiries into the problem of turnover of labour in India. But it is obvious that the possibility that exists when wage payments vary, of getting a higher rate by change of employ must lead to a certain amount of avoidable turnover. The desire to better one's prospects, whether it eventually fructifies or not, is, to my knowledge, one of the reasons often given to those who enquire from workers into the reasons of their leaving their former employment.

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<sup>15</sup> "Fatigue and Boredom in Repetitive Work," Medical Research Council, Industrial Health Research Board, London, Report No. 71, 1938, p. 51.

## LECTURE II

# WAGES AND EMPLOYMENT

WE MAY now revert to a consideration of the first issue raised in enumerating the disadvantages of the present wage position in India. This is the very low level of wages obtaining in certain industrial occupations in certain units. I shall consider some important aspects of this question in the last lecture on the standard of living. At this stage I shall pay attention only to the aspects of practicability of regulation. We are not concerned here so much with why it is desirable that a low wage should be raised as to whether it is possible by regulation to raise a low wage, and as to what will be the direct and indirect consequences of such an action. In the last lecture I drew attention to the fact that the variations in wages paid from unit to unit are large and that in the same occupational grades some units may be paying a much lower wage than others. The question to be considered now is whether under these conditions some kind of regulation is called for and whether it will be effective and also beneficial if both its direct and indirect effects are taken into account. In one of its aspects the problem could be visualised as one of raising the level of wages in units in which it is unduly low. From such a point of view its nature would approximate to the problem discussed by Prof. Pigou of the effects of interference in order to raise unfair wages; there would, however, be this material difference between the two cases, that we have no yard-stick of the fair wage, and with us it is not necessarily caused like ignorance or costs of movement that are holding the wage down. We have to act thus not on some definable cause of unfairness such as cost of movement or ignorance and watch the effects of the interference on the wage, but have to act directly on the wage itself. So long, however, as we confine ourselves to a consideration of raising the wage rates in establishments where they are very low, we are facing a problem essentially of the type of enforcing a minimum rate in establishments where wage earners are sweated. The chief question to be tackled in this connection will be the effect of the measure on the employment offered by the low-wage establishments and by all the establishments in the industry taken together. Regulation may, however, aim at raising the wage not only in specially low-wage paying units but in all the units, on an average, in particular occupational grades, or it may aim at raising the general level of average wages in the industry as a whole. In such circumstances the reactions of the regulatory measures will have to be studied over a wider field. The reactions on the occupational structure of the industry and the effects that the regulation may have in the direction of the displacement of labour in particular processes will have to be watched. There may also be wider effects on the fortunes of the industry as a whole, and if the industry is big enough the repercussions of the particular wage regulation on employment of capital and labour in economic activities outside the regulated industry will also have to be studied.

At this point it will be appropriate to take a brief review of what appears to be the present position regarding the connection held to subsist between the movement and the regulation of wages on the one hand and the volume of employment in industry on the other. Prof. Pigou in his analysis of the problems of industrial peace in his "Economics of Welfare" seems to hold the traditional view of wages as the price mechanism which controls and helps to clear the Labour Market. The demand for labour is taken by him to move broadly in response to the fluctuation in the wage rate. Dr. Hicks in his "Theory of Wages" follows essentially the same approach. The conclusions which follow this approach are so important that I give below a number of extracts from the chapter on "Wage-Regulation and Unemployment,"<sup>1</sup> in this book. The particular question posed by Dr. Hicks is as to what will happen if Trade Unions insist on a wage higher than would have been paid in a competitive market. The terms of his reasoning are, however, general and are broadly applicable to all movements of wages, upwards or downwards. Dr. Hicks writes:

"Very simple and familiar economic reasoning suggests at once the main answer—unemployment. A raising of wages above the competitive level will contract the demand for labour, and make it impossible to absorb some of the men available. As the employment of labour contracts, the marginal product of the men still employed will rise; when the marginal product has risen to a level corresponding to the new wage, the increase in unemployment will stop."<sup>2</sup>

"It should be clear from our analysis of the Marginal Productivity theory in Chapter I that the effects on employment of artificially high wages may easily be slow in making their appearance."<sup>3</sup>

"In an expanding industry, where profits were abnormally high, the artificial raising of wages may cause, not contraction, but only a retarding of expansion. For the reduction of the abnormal profits, caused by the rise in wages, diminishes the incentive to transfer capital to this industry; it therefore diminishes the incentive for the old firms to expand, or for new firms to enter; and the expansion of the whole industry is therefore less than it would otherwise have been. In a contracting industry, where profits are already abnormally low, high wages will accelerate decline."<sup>4</sup>

"Whatever may be the case with the ordinary Trade Unionist, no one with an economic education is likely to deny what has just been established with perhaps unnecessary detail—that a raising of wages in one industry will diminish the demand for labour in that industry. But even economists sometimes find a difficulty in seeing what is admittedly true for each industry separately is also true for all industries taken together. Once we have universal Trade Union action, the *ceteris paribus* assumptions, with which Marshallian economics is accustomed to work, break down; it is no longer fair, for example, to suppose that the demand curves for the products of the industries remain unaffected by the changes; and a way of looking at the problem which had sufficed with one industry considered alone, becomes unsatisfactory in the more complicated case.

"But it is not really difficult to adjust our views to this case. It is true that we must not look at the various industries successively; we must look at them simultaneously. But we can then prove conclusively that an all-round rise in wages

<sup>1</sup> Pp. 179-97.

<sup>2</sup> Hicks, *op. cit.*, p. 179.

<sup>3</sup> Hicks, *op. cit.*, p. 181.

<sup>4</sup> Hicks, *op. cit.*, p. 184.

must cause unemployment (apart, again, from reaction on the efficiency of labour) by supposing it does not, and then proving the continuance of such a situation to be impossible."<sup>5</sup>

I do not think that it would be unfair to Dr. Hicks to state that he seems, from the way he argues the matter, to look upon the wage rate as the main instrument which controls the market for labour.

Since the experience of the depression, economists have learned, however, to be much more cautious in the expression of their opinions in this matter. Already before the depression Prof. Clay had pointed to the need for caution in interpreting and analysing the situation.<sup>6</sup> Prof. Clay was concerned with the specific problem of the hard core of unemployment in Great Britain during the twenties and with examining the suggestion which derived indirect support from the writings of economists that this unemployment could not be reduced without a lowering of the wage level. It should be pointed out that he did not dispute the validity of the general prevalent approach; what he, however, stressed was that the existence of chronic unemployment could not be always taken as evidence of the fact that the general level of wages was high, that the situation had to be analysed industry by industry; that it would as a result be perhaps found that wages were unduly high not in the expanding industries where they were absolutely high, but in the non-sheltered declining industries where they were low; that in these industries a further reduction of wages would not help to reduce unemployment. It was thus evident that the main problem in Prof. Clay's opinion was not the adjustment of wage rates but a proper distribution of the labour supply.

"To sum up; the connection between wage levels and unemployment is complicated by a number of other factors which differentiate the post-war from the pre-war industrial situation, and render it a dangerous abstraction to isolate one factor and attribute to it the whole of the present abnormal unemployment. The maldistribution of labour brought about by the war is a more important cause of unemployment, the influence of which has been limited by the lowering of wage-rates in the overcrowded industries, and is being reduced by a fairly rapid spontaneous redistribution of labour. And the same factor in the problem, the uneconomical distribution of labour, so affects the productivity of industry that it reduces the average wage that can be paid without causing unemployment."<sup>7</sup>

A similar idea was expressed in a characteristically emphatic manner by Dr. Cannan when he wrote in an article in 1930 as follows: "The true remedy for long-term unemployment always applied through history, and always effectual, is neither rationalisation nor reduction of wages, but redistribution of labour force between the different occupations."<sup>8</sup>

After the depression, however, the efficacy of the wage rate as an instrument for clearing the labour market came to be questioned more universally. It was found during this time that in particular industries, and also in all industries together, employment could not be increased beyond a certain point however low the reduction effected in wages might be. It was obvious, there-

<sup>5</sup> Hicks, *op. cit.*, pp. 185-6.

<sup>6</sup> Prof. Clay—"Problems of Industrial Relations," 1929, p. 117-8.

<sup>7</sup> Prof. Clay, "The Problem of Industrial Relations and Other Essays," 1929, pp. 117-8.

<sup>8</sup> Prof. Cannan, "The Problem of Unemployment," in *Economic Journal*, March 1930.

fore, that at least in times of a severe depression other factors were much more important than the level of wages in determining the total volume of employment offered by industry. For the time being, at least, wages fell into the background as a factor responsible for creating or maintaining unemployment. The full extent of the resulting reaction on theory is to be seen in Mr. Keynes' "General Theory of Employment, Interest and Money." Mr. Keynes is definite that the classical approach to wage theory is useless. He says: "Professor Pigou's 'Theory of Unemployment' seems to me to get out of the Classical Theory all that can be got out of it; with the result that the book becomes a striking demonstration that this theory has nothing to offer, when it is applied to the problem of what determines the volume of actual employment as a whole."<sup>9</sup>

He follows this up by challenging most of the conclusions obtained as a result of analysis on the traditional pattern. It will be remembered that on the basis of the marginal productivity approach the conclusion reached was that a flexible wage was at least theoretically desirable. The result arrived at by Mr. Keynes is the direct opposite of this. He lays down: "To suppose that a flexible wage policy is a right and proper adjunct of a system which on the whole is one of *laissez faire*, is the opposite of the truth. It is only in a highly authoritarian society, where sudden, substantial, all-round changes could be decreed that a flexible wage-policy could function with success."<sup>10</sup> It is no wonder that with such a complete alteration in the attitude towards the wage level the practical advice offered, and the share of praise and blame distributed also change radically. Thus Mr. Keynes comments in the following manner on the general attitude of workers and trade unionists towards a change in wages:

"Thus it is fortunate that the workers, though unconsciously, are instinctively more reasonable economists than the classical school, inasmuch as they resist reductions of money-wages, which are seldom or never of an all-round character, even though the existing real equivalent of these wages exceeds the marginal disutility of the existing employment; whereas they do not resist reductions of real wages, which are associated with increases in aggregate employment and leave relative money-wages unchanged, unless the reduction proceeds so far as to threaten a reduction of the real wage below the marginal disutility of the existing volume of employment. Every trade union will put up some resistance to a cut in money-wages, however small. But since no trade union would dream of striking on every occasion of a rise in the cost of living, they do not raise the obstacle to any increase in aggregate employment which is attributed to them by the classical school."<sup>11</sup>

Thus the trade unionist who had been the general target of criticism of the economist a few years before—he is accused of special obtuseness by Dr. Hicks in the quotation given above—suddenly finds himself praised for remarkable perspicacity. Perhaps he deserves the one no more than he did the other. It is, for example, not quite true to say that the trade unionist did not concern himself about changes in the cost of living. Mr. Keynes should have noted that quite a large number of collective agreements in Great Britain include in one form or another arrangements to vary the rate of wages accord-

<sup>9</sup> P. 260.

<sup>10</sup> *Ibid.*, p. 260.

<sup>11</sup> *Ibid.*, p. 15.

ing to a sliding scale connected with an index number of prices. Whatever that might be, there has been wide acceptance of Mr. Keynes' ideas on the subject, and the conclusions of economic theory today on the connection between wages and employment are largely of a negative character. They are best exemplified in the following extract:

"Any change in money wages will set up a number of complicated repercussions, which may lead to a change in employment, in one direction or the other, to some extent, but (apart from reactions upon the rate of interest, which we shall discuss later) a change in money wages is not likely to lead to any great change in employment in either direction."<sup>12</sup>

Two important reservations must be made in the application of this body of conclusions to the series of problems with which we are concerned. It should be remembered in the first instance that the main reason which leads Mr. Keynes and his followers to dispute the conclusions yielded by the classical approach is the effect of the reduced wage rate on the purchasing power of consumers. The workers themselves, it is argued, form the bulk of the consumers, and the size of the income of the workers determines to a large extent the demand for consumable goods in the community. An attempt to stimulate the labour market by reducing wage rates is bound to fail because while it may increase employment temporarily in industries where the wage is reduced, it must at the same time reduce employment elsewhere because of the smaller size of the income of the workers and the consequent decrease in their demand for commodities. It is clear that an argument of this character has great force in a country which is highly industrialised. The greater the proportion which the income of the workers bears to the total income of the whole body of consumers, the greater the validity of the reasoning. But where workers as a whole and industrial labourers in particular form a small proportion of the total population, the argument has not to be regarded to the same extent. Secondly, most of the new writers mostly leave out of consideration the problem of the relation between real wages and employment. As a matter of fact it would seem that while any connection between money wages and employment is denied, such a connection between real wages and employment is, by implication, often conceded. We are concerned not with a regulation of money wages alone but with a possible regulation of real wages also. An examination of the connection between real wages and employment is, however, analytically very difficult. Once you give up the classical structure which confines itself to reasoning in terms of real goods and introduce the monetary mechanism as an important integral factor in the situation, you must first establish some connection between money wages and real wages before you can analyse the situation as a whole. But no invariable connection between money wages and real wages can theoretically be postulated, and such light as statistical studies can throw on the problem seems to be yet meagre and inconclusive.<sup>13</sup>

This account of the present position of economic theory is not of material help to us. It would seem that while a large body of modern economists may

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<sup>12</sup> Robinson, J., "Introduction to the Theory of Employment," 1937, p. 51.

<sup>13</sup> J. M. Keynes, "Relative Movements of Real Wages and Output," *Economic Journal*, March 1939. Dunlop, "The Movement of Real and Money Wage Rates," *Economic Journal*, September 1938.



not oppose wage rigidity in a country like Great Britain, their attitude towards wage-regulation is not clear. Thus while trade union action in collective bargaining may receive support at their hands it is not sure that they would hold state interference to be justified. Further, the arguments usually urged by them would not apply with equal force to Indian conditions. In any case they would at least not apply to regulation or even collective bargaining which involved an attempt at raising the level of real wages in any occupation or in the industry as a whole.

Before we revert to a consideration of the specific problem before us I may note a result which the depression of 1929 has had on practical policies. I have remarked above that during the depression it was found that it would not be possible to reduce unemployment by a mere lowering of the wage rates. The result of noticing this was a change in the position of the theoretical economist regarding wages. The practical consequences of this phenomenon on the labour market were very serious. During the depression there was in certain industries practically no level below which wages could not be reduced. If a lowering of the wage rates could not increase the volume of employment offered, the existence of an undiminished labour supply must lead, in the absence of collective action by workers, to continuous rate-cutting by employers which could not be resisted by labourers and which would not lead, in the ordinary course of events, to any corrective movements. The bottom would thus be knocked out of the labour market. This is what actually happened in a number of occupations in a number of countries in the period of the depression after 1929. The result was that under pressure of public opinion laws regulating minimum wages were adopted widely all over the world and the lesson was not unlearned even when the depression lifted. The Labour Year-Book (1936-37) describes this lesson of the depression and its results in the following terms:

"It is a point worthy of note that the development of minimum wage-fixing machinery has continued with unabated vigour during the period of economic recovery. When the depression was at its worst, and the pressure for wage reductions most severe, the need for such legislation as a measure of protection for unorganised or weakly organised workers was clearly demonstrated. As conditions improved, the danger of cut-throat competition at the expense of wage rates was lessened; but the continued development of minimum wage-fixing machinery is evidence of a recognition that this danger is never entirely absent, and that such machinery forms a necessary part of the normal mechanism of economic control."<sup>14</sup>

It will be noticed that, in the view of this Year-Book, wage regulation has now reached the position of a necessary part of the normal economic mechanism. But it is not enough for our purpose that an institution or a practice should be well-nigh universally established; for, its existence or adoption does not mean that the practice or institution is either necessary or justified. Economists are very fond of harping upon the contrast between the enlightened views that they hold and the practice of government and the slogans current in the public at large.

We must, therefore, go on to examine the possible effects of an attempt at a regulation of wages in India on the volume of employment offered. How

is the volume of employment in particular industries in India and the total volume of industrial employment likely to be affected by a movement of the wage rates? While no general answer to such a question seems possible, certain broad considerations in connection with it may well be set down. In the first instance attention may be drawn to certain peculiarities of the employment of Indian industrial labour. One is that Indian labour is reported to be working at a very low level of efficiency. This factor may lead to either of two opposite results in the events of a wage increase which forces up the rates. On the one hand, it may result in a substitution of machinery for labour and thus mean a reduction in the volume of employment offered. On the other hand the higher reward offered to labour may increase its standard of living and consequently its efficiency. With increased efficiency it may be as profitable to employ labour in given numbers at the higher rate as it was at the lower rates previously. Hence the volume of employment offered may continue undiminished at the new level of wages. Possibilities of this character are, no doubt, to be visualised in the labour situation in any country. But they are, with our standards of living and standards of efficiency, more readily observable in India than elsewhere. I shall deal later with both aspects of this phenomenon.

Another peculiarity of the Indian labour situation to which attention may be drawn is the allegation that an increase in wage rates in India results in a falling off, at least temporarily, of the labour supply. The allegation is of long standing and has at every stage been reiterated by employers. The employers of labour in coal mines have, for example, always alleged that the better the condition of their labouring classes the shorter was the labour supply. The bulk of labouring class in the main coalfields in India consists of members of families of local aboriginal agriculturists. It is said that a famine makes the labour supply at mines plentiful, while an increase in rates has the result usually of inducing a labourer to absent himself from work for a longer number of days than he would otherwise do. The following extract relating to this question from the evidence submitted by the Government of Bihar and Orissa to the Royal Commission on Indian Labour will be found interesting: "Wage changes may be said to have practically no effect on labour supply. In the coalfields it is commonly stated that an increase in the rate paid per tub of coal raised is likely to be followed by a decrease in output. This statement was also commonly made at the strike period of 1920-21, when the Deputy Commissioner reported: 'I tried to obtain some figures on this point, but the conditions vary so greatly from time to time and the factors which determine the amount of output are so many, that I could find no proof one way or the other. So far as I can judge, however, a sober and industrious man does not relax his work because he gets better pay, but I should say that the tendency of the less industrious class is undoubtedly to work only when they require money and to be idle when they have money in their pockets, and to this extent a raising of wages means a lessening of effort.'"

The Indian Mining Federation reports that the raising of wages in 1921 by roughly 25 per cent had the result that the average working days per week dropped from 6 to  $4\frac{1}{2}$ . The facts that: (a) In some mines an increase in the rate per tub raised on Monday is offered and yet fails to attract any ap-

preciable number of miners to work on that day, (b) all colliery managers consulted stated that an increase of rates per tub in the busy cultivation seasons would not prevent the miner leaving the mine at those seasons, seem to show that a rise in wages would not be followed by any increase in the labour supply, as the labour works when it wants to and then only.”<sup>15</sup>

This is not conclusive one way or the other, and there are, unfortunately, no statistical data available which could definitely settle the issue. It should further be noticed that in no case could it be maintained that the effect is more than temporary. It is usually urged by employers that wage rates and earnings have been steadily moving upwards during the last few decades. If there was a definite correlation between higher earnings and higher absenteeism there should have been evident *pari passu* a tendency towards increased absenteeism during all this period. No such tendency is even alleged to be in evidence. Yet connection between higher wage rates and higher absenteeism still continues to be often harped upon. It was, for example, maintained by the Millowners' Association, Bombay, before the Textile Labour Inquiry Committee, that as a result of the wage increase granted in March 1938 an increase in absenteeism was observable in the months following. The main ground on which the mill-owners based their case was the statistics of absenteeism published by the Bombay Labour Office. These statistics no doubt reveal an increase in absenteeism in the months following February 1938 as compared with the first two months of that year. The Millowners' Association was, however, not justified on this account in drawing the conclusions that they did; for the increase in absenteeism in March and subsequent months is a recurrent phenomenon which is to be observed in the absenteeism statistics year after year. And though it is true that the absolute level of absenteeism in 1938 is higher than in previous years, the proportionate rise between the first two months and the subsequent months is not greater in 1938, than in 1936 or 1937. It is clear that the level of absenteeism as such rose in Bombay from about the middle of the year 1937 and kept high for the subsequent period of increasing production. This increase in the level of absenteeism, however, could have had nothing to do with the wage increase as it preceded the grant of increase by many months. It was most probably due to the greater prevalence of night shift working—in which absenteeism is usually greater than in day shift—and the employment of a considerable body of recruits new to the industry. It should in addition be noticed that statistics of absenteeism collected and published by the Bombay Labour Office for the Cotton Textile industry in Ahmedabad and Sholapur, on the same basis as those for Bombay, fail to reveal any marked movement in March 1938 even though the increase in wages was of a similar size and was granted at the same time in all centres of industry in the province. This question has been referred to at this stage merely to point out how old ideas die hard and how statistical data needs to be handled carefully.

We shall now turn our attention to the short time repercussions of a wage increase on the employment situation. It is obvious that the extent of these repercussions will depend largely on the measure of importance attached to wage costs in the total expenses of production. In industries in which wage

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<sup>15</sup> Royal Commission on Labour in India, Written Evidence, Vol. IV, Part 1, p. 70.

costs bear a high proportion to the total, movements of wages may have considerable influence on the volume of employment offered by the industry. The mining of coal seems to be the one major industry in India in which labour costs play an important part in this manner. In the major manufacturing industries in India, however, their share, though important, is not dominant. For the Cotton Textile industry of the Province of Bombay it has been calculated that costs of labour work out at between a fourth and a fifth of the cost of the finished product. Now, in industries like the Cotton industry or the Jute industry in India, wage rates are stationary over comparatively long periods, and the volume of employment offered in these industries varied over short periods by means of greater or less short-time working as in the Jute industry or by a lesser or greater resort to night-shift working as in the Cotton industry centres of Bombay and Ahmedabad. The level of wage rates or their movements have little effect on these short-time adjustments in the extent of employment offered. These adjustments seem to depend almost entirely on the temporary changes in the state of trade and industry. The various steps taken from time to time by the Jute industry to regulate hours of working within it during the last twenty years seem mostly unconnected with the movements of rates of wages. The same remark may be applied to the short term variations in the volume of employment in the Cotton Textile industry in the Province of Bombay. This, of course, indicates nothing more than that an adjustment of wage rates is not attempted by employers whenever a temporary variation occurs in the fortunes of industry. Such a temporary variation has, on the other hand, influence on the total volume of employment offered by the industry.

It is entirely a different question as to what the effects of a wage increase will be on these short term movements in employment. According to ordinary reasoning the effect should be to reduce the amplitude of the upward movements of employment. Doubts may, however, be expressed whether in reality there will always be such an effect. It is, for example, not all establishments that can resort to night-shifts. It was found that in the Bombay Province difficulties in connection with getting a sufficient supply of skilled labour made it unprofitable for mills in all the smaller centres to undertake night-shift working. Even in centres like Bombay and Ahmedabad it is not all mills that undertake night-shift working. The number of mills that do not undertake night-shift working is quite substantial. What is the extent to which those that do undertake night-shift working are likely to be affected in the extent of night-shift working by a movement of the wage level? No categorical answer can be given to this question. But I suggest that the usual assumption that there is a very large number of employers who can be arranged in a closely graded series and their marginal operations would be affected all along the line by any wage movement, which is usually at the bottom of theoretical reasoning, does not seem always to hold good even in an industry like the Cotton Textile industry. The difficulties involved in the assumption may be well drawn out by putting the question in another form. It is well-known that for a considerable period after the beginning of 1937 the Indian Cotton Textile industry experienced a sharp upward movement in trading conditions. The result was an agitation for an increase in wages by workers all over India. During 1937 and 1938 wage increases of varying proportions were granted by employers in response to this agitation and

owing to pressure exerted by governments in almost all the provinces. The upward movement in trade was reflected in an increased production of piece-goods by the Indian industry throughout this period. The increase was evidenced first in the third or fourth quarter of the year 1936 and went on progressively almost month by month till about the end of 1938. Production of piece-goods by Indian cotton mills went on increasing progressively for many months after substantial increases in wages had been granted in the various provinces. It should further be noted that there was no contemporaneous movement of the cost of living commensurate with the upward movement of wages in this industry. The rise was, therefore, not a rise only in money wages, but must be regarded as a rise in real wages as well. Can it now be argued with certainty that the volume of output and the volume of employment offered by the industry would have been greater if the wage rates had not been increased?

If one watches the figures for the production by provinces, no check to the movement upwards of production or to the number of persons employed on night-shift is to be observed in months immediately following the months in which the increase in wages was granted in the particular province. It is arguable that the volume of both these would have been greater if the increases had not been granted. Considerations of the technical and financial capacity of individual units and the total volume of skilled labour available in any particular centre could, however, well be made to support a strong case on the other side. It seems to me that when a trade recovery is well under way all units who can afford to expand production expand it readily and continuously, and that such expansion is governed mostly by considerations of their individual capacity and their estimation of the future trend of the fortunes of industry. In determining the extent of the expansion, an increase in wage costs would ordinarily not have much weight, unless it was unusually large. It should be made clear that I am not arguing for holding that for short periods all movements in wage rates have no connection with the volume of employment offered by industry. I merely suggest that it is necessary to pay close attention to the limited capacity of concerns to offer immediate increased employment, the limited number of concerns in any industry that can increase production or employment readily, the size of the inducement required before most concerns will take action in this direction and the paramount part that estimates regarding the state of industry and trade must play in all decisions regarding increased production. If all these considerations are properly weighed it would appear that movements of wage rates of a limited size should have little effect on increases in production or employment in industry during a short period. Similar considerations will apply to a short term downward movement of trade and industry.

I shall now turn to a consideration of the long term effects on employment of regulation which attempts to increase wages. We shall have to distinguish between at least two different kinds of aims towards which regulation may be directed. Regulation might aim at fixing the wage at the level of the general average or a little above it as is usual in an attempt at standardization or in the working of English Trade Boards. Regulation may, however, also aim at fixing wages for certain occupational categories or the average wages

for a whole industry at levels much higher than ruling current average wages. The effects of regulation or interference of the two types will have to be considered separately. As regards the first type of regulation it may be noted in the first instance that we have no factual data in India from a study of which we can judge of the possible effects which such regulation may have on employment. There has been hitherto an almost complete absence of any regulation of wages in India. We can, therefore, not draw upon the results of any experience of such regulation under Indian conditions. Regulation has, however, been quite common of late years in other countries. In Great Britain and in most of the Dominions minimum wage legislation has been in operation for a comparatively long period. We cannot in this instance utilise the experience of Australia where wage regulation is perhaps of an older standing and more all-pervading than anywhere else. We cannot do this because minimum wage fixation in Australia for particular industries operates within the framework of national minima of wage rates. Where the whole system is thus regulated it becomes difficult to judge of the special effects of particular measures of regulation. We have, however, the experience of the working of English Trade Boards to draw upon. In a recent study of the British Wages Boards, Miss Dorothy Sells examines in some detail the effect on employment in industries in which Trade Boards have been established. It should be remembered that in Great Britain Trade Boards are established only in those industries in which labour is unorganised and in which the general rate of wages or at least the wages in some establishments rule at a specially low level. The industries in which Trade Boards are established are, therefore, usually those which are of minor importance and which are not among the more prosperous. As a result of her investigation Miss Sells found that "with the establishment of each new Trade Board there has been a tendency towards elimination both of the least efficient workers and the least efficiently managed business from the industrial field."<sup>16</sup> There has, however, been in her opinion no tendency as a result of the establishment of Trade Boards towards a diminution in the volume of employment offered. She notes that in the period after 1921 a large number of complaints emanated from certain groups of industries that the fixation of minimum rates by the Trade Boards had resulted in unemployment. She, however, finds on examination of certain specific complaints that the unemployment caused was due principally to fluctuations in the state of trade and industry and not to the action of the Trade Boards. The conclusions of this study are stated by her in the following terms:

"During the transition period of the early twenties when new Trade Boards were being established in a number of industries, they were made the scapegoat for unprecedented conditions in several trades other than those named. Mistakes were doubtless made by some of the relatively inexperienced Boards, notably those covering dress-making and millinery, but other factors such as changes in fashion, depreciated foreign currencies, previous exploitation of workers, or other circumstances peculiar to the trade in question, invariably offer major explanations for the unemployment then laid at the door of the Trade Boards. As employers have become accustomed to the Trade Boards and the Trade Boards have had an opportunity to grasp the whole problem with which they have to deal, charges that they have caused unemployment are rarely, if ever, heard. Even during the severe

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<sup>16</sup> British Wages Boards, 1930, pp. 294-5.

depression of the thirties no cry of unemployment was raised against minimum wage legislation, in spite of the fact that Trade Board rates maintained remarkable stability during that period."<sup>17</sup>

In the same section Miss Sells points out that the employment of home-workers has diminished considerably in industries in which Trade Boards were established. This, of course, was one of the consequences which was partly anticipated and also desired by those who advocated the establishment of Trade Boards. The result of the investigation seems to be this: that while Trade Board regulation has little effect on the total volume of employment offered in the industry, it seems to leave less room in these trades for the employment of the less efficient workers, the aged and the infirm, etc.

It has already been pointed out that in Great Britain trades and industries subjected to Trade Board regulation constitute a somewhat special class. They are likely to contain more sweated and inefficient workers than other trades and also similarly a larger proportion of inefficient, ill-equipped, or uneconomic units. Any effects on employment that regulation may have, should, therefore, be specially marked in this group of trades and industries. If regulation is adopted in India almost no industry could be exempted from it, and it would perhaps begin with the larger and better organized industries. If the analogy of English experience could be applied to Indian conditions, the effects on employment of regulation of the Trade Board type should be even less marked in India than they are in Great Britain. There seems no special reason for holding that the results of English experience in this matter are inapplicable to India. As labour is much less organized and employment and wage conditions more diverse in Trade Board industries than in other British industries, their general character approaches that of Indian industries. Hence their experience is more relevant to us than experience gained in the working of the other parts of the British industrial system.

On a *priori* grounds again there is no reason to believe that regulation which levels up the average wage in establishments which pay a comparatively low wage will result in the creation of unemployment. Such regulations may no doubt lead to the elimination of the least efficient units and the curtailment of the size of the operations of some less efficient units. But this should not mean a diminution in the volume of total employment, as the gap left in the market by the effect on the less efficient should be compensated for by the increased activity of the more efficient. The only exception to this proposition would be an industry in which the labour force employed per unit of output by the more efficient units was markedly less than the labour force employed per unit of output by the less efficient. This does not, however, seem to be the case in the major Indian industries. On the other hand, there is little doubt that regulation will certainly affect the employment offered to that class of specially inefficient workers whom the industry can absorb only at very low wages. Such classes of workers will tend to be eliminated from industrial employment.

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<sup>17</sup> Op. cit., pp. 300-1.

It is appropriate at this stage to introduce considerations regarding the effect of a higher rate of wages on the efficiency of workers. It has often been argued that the Indian employer can afford to pay a higher wage, for it will be repaid to him by the increased efficiency on the part of his workers. This is, of course, nothing more than the argument about the economy of high wages which is heard of everywhere and which was specially prominent in discussions before the depression of 1929. As applied to an individual employer, the argument can be taken also to imply that an employer who pays wage rates which are distinctly higher than those of his competitors will get the pick of the labour supply. If the complement of workers of an individual employer is specially efficient, then his cost of production per unit of output may even be less than that of his competitors in spite of his paying higher rates of wages. This aspect of the argument cannot, however, apply when we are considering the effect of regulation on industry as a whole. The average efficiency attained by the worker in industry must be taken to be the same after regulation is introduced as before it, unless regulation itself can be shown to have some direct effect on it. A slight improvement in average efficiency will no doubt take place by the elimination, as pointed out above, of the least efficient class of workers. The direct effect with which we are concerned is, however, the effect on the efficiency of workers after they are in receipt of higher wages as a result of the regulation. It has been usually conceded that the worse the condition under which the labourer lives and works, the more marked is likely to be the effect on his efficiency of an improvement in his standard of living. A large part of the system of regulations enforced under the Factory Acts has been justified on the basis of similar reasoning. The case for a reduction of hours of work has usually been put forward on the plea that long hours of work are essentially uneconomic, and that with shorter hours the output will be unaffected because of increased efficiency. This seems to be supported by actual experience after each successive revision of the Factory Acts, though no statistical proof has been forthcoming on a large scale. Some months after hours of work in factories were reduced from 10 to 9 in 1934, the Labour Office of the Government of Bombay carried out an inquiry into the effect of this measure on the efficiency of workers. The enquiry was confined to piece workers. It showed that both in Bombay and Ahmedabad, workers had made up to a considerable extent, within a few months, the deficiency in earnings caused by a reduction of hours. The experience of employers generally tallied with the results of this enquiry. Similarly the Chief Inspector of Factories of Bombay Province holds that the installation of an air-conditioning plant by large factories in the province is economic, because he has found as a result of investigations that the increased efficiency of workers consequent upon the improved atmospheric conditions due to the installation of the plant brings about savings to the employer more than sufficient to compensate him for the expenditure in installing and maintaining the plant.

It may be pointed out that the effect on the efficiency of workers of such measures, as the reduction in hours of work or the installation of an air-conditioning plant, is direct and is likely to be observed immediately or with only a short lapse of time. An increase in wages could not be argued to have an equally direct or immediate effect. It is expected that with a higher level



of wages the worker's standard of living will be raised. This may mean for him more and better food, better housing, better protection of clothing against inclement weather. He may thus become physically more fit, may have more stamina, and be less liable to suffer from ill-health. He may also be more contented and thus psychologically better fitted for his work. To the extent that any of these effects take place they are bound to affect the efficiency of the worker. Changes in the standard of living, however, take place slowly, and the effects that they may have on efficiency can become apparent only gradually. These effects are thus not readily measurable and are not likely to be counted in or appreciated by the individual employer. They, however, possess great importance from the point of view of the community as a whole. It is not possible at any particular stage to estimate the indirect effects of this character on efficiency which a given increase in wages may bring about. But this aspect of the Indian situation cannot be ignored in any consideration of the question. The standard of efficiency of our workers is notoriously low, and there is general agreement that perhaps the most important cause of the low level of efficiency is their deplorable state of physical well-being. A rise in wages, in so far as it affects the worker's standard of living and improves his physical condition, may not mean an addition to the unit cost of production. It may be urged that such increased efficiency on the part of workers may mean unemployment for some even though it does not lead to an increase in the unit cost of production; for, with increased efficiency, a smaller labour force will be required to produce the given output. This will, however, happen only in case the market for the product of the industry was entirely rigid. As a rule, however, we may, in India, count upon markets which are fairly elastic.

Before we proceed further it is necessary to take account of a more fundamental and comprehensive objection to regulation than any we have noted before. The economist argues that while it may be proved that wage regulation has not resulted in any unemployment, this does not mean that it has not checked expansion that might otherwise have taken place in the same industry or in other occupations. The data regarding production, persons employed, or unemployment percentages which are usually used in such discussions are incapable of disproving a hypothetical argument of this character. And if *a priori* considerations are strong for holding that a certain effect must take place, the non-observance of it in a particular case can only lead us to believe that its presence is concealed in the statistical data; that other forces, such as, for example, those making for an expansion, were operative at the same time, and that the statistics reflect a neutral position gained as a result of two contrary forces mutually cancelling each other's effects. It can further be argued that while wage regulation may succeed in a particular industry, its effects on employment in general must always be harmful. The general argument proving the inefficacy of wage regulation may best be presented by means of extracts taken from a recent article written by Prof. W. H. Hutt. Prof. Hutt writes:

"The starting point of all serious studies of the poverty question must be the acceptance of a quite simple truth, namely, that the fixing of wage rates by the state or by trade unions cannot benefit workers in general. . . . On the other hand, it must be recognized that individual groups of workers may benefit from wage-

fixation or trade-unionism; that individual groups of capitalists may benefit from state restrictionism and privately arranged monopolies; and that both capitalists and workers in particular industries may benefit from the fixation of prices of commodities by control boards or through collusive arrangements. . . . The group gains which are achieved in these cases are partly at the expense of the community at large (i.e. of 'the consumers'), and partly at the expense of those whose labour or resources are excluded. Thus, a legally enacted wage-rate in a trade often acts in very much the same way as a restriction on the number of workers allowed to be employed in it. The higher the wage-rate in any occupation, the smaller the amount of work it is profitable to pay for. Nevertheless, the aggregate earnings of the workers in that trade may be increased by a wage-fixation, and the numbers employed in it need not fall if the hours of work can be reduced or *ca'canny* can be practised.

"Wage-fixation is certainly against the capitalists' interests as a class, for every diversion of labour from its most profitable fields of utilization implies a parallel diversion of the co-operant capital resources. But this does not prove that there is any gain by labour at the capitalists' expense. . . . A group of workers can only gain at the expense of the capitalists when circumstances are such that the group can successfully force the abandonment of labour-saving machinery or labour-saving organization; i.e. when it can eliminate capital resources which compete rather than co-operate with it. And although this is sometimes practicable, it can be shown that labour's opposition to machinery, when successful, has universally been against the long-run interests of the working class as a whole. . . . High wage-rates may cause unemployment. But it is, in general, wrong to imagine that the fixing of wage-rates above the competitive causes unemployment. In the long run, the effect is more often to cause a larger proportion of workers to be employed in the lower-paid types of occupations and to cause the rates of pay in any uncontrolled employments to be lower than they would otherwise be. Employment continues to be offered, but only in those sorts of work for which low wage-rates can be earned. . . . It follows from the above reasoning, that all arguments to the effect that minimum rates for unskilled labour would result in an increase of purchasing power are completely fallacious. Other things being equal, the nearer to the competitive level wage-rates happen to be, the greater the aggregate earnings of labour as a whole will be. Moreover, as wage-rates generally move towards the competitive level, the earnings and the wage-rates of the lower-paid groups will tend to rise. For expanding employment in well-paid trades means relative labour scarcity for the low-paid jobs."<sup>14</sup>

The views of economists are strongly coloured by their environment—a proposition abundantly proved once for all by Cannan in his "Theories of Production and Distribution." One can, therefore, well appreciate the point of view of Prof. Hutt, writing as he does from South Africa—a country afflicted with more obstructive and iniquitous wage laws and regulating practices than any other in the world. On the other hand, we who have been cursed with *laissez faire* in practice for over a century may well feel entitled to raise a dissentient voice. Prof. Hutt's reasoning is logical; but is not the whole structure raised entirely on the assumptions of a perfect market? We have the picture of a hypothetical world of all-knowing entrepreneurs who are all the time making the appropriate adjustments closely and continuously. The result is the optimum distribution of resources and the maximum production of wealth and welfare. But does anything approaching this hypothetical world exist in reality? I am convinced that it does not, at least so far as India is concerned.

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<sup>14</sup> "Economics of Wage Fixation" in "Race Relations," Official Quarterly Journal of the South African Institute of Race Relations, Fourth Quarter, 1939.

I have already given enough evidence regarding wage levels from major industries in India to prove that *laissez faire* means in practice not a perfect market but chaos. Where even wages do not tend to move into position of a competitive equilibrium there is no wonder that other parts of our industrial structure reveal equal symptoms of maladjustment and rigidity. The data presented by me in the last lecture are proof enough for the purpose in hand, but I shall supplement them by pointing to some instances of other types of maladjustments which should convince anybody how utterly irrelevant the hypothesis of the competitive market and conclusions flowing from it are in Indian conditions. The present economic system is known to be motivated entirely by the profit incentive. Entrepreneurs are supposed to be on the alert all the time in order to reduce costs and increase profits, and the adjustments made by each individual entrepreneur and each concern towards this end lead all together, by an inscrutable decree of providence, or in the modern version, by the operation of a statistical law, to an economic arrangement full of optima and maxima. The worst that can be said of an entrepreneur or an entrepreneurial concern under such a system is that it does not seem responsive to the fluctuations in profits and losses. For, here is a party that does not act according to the rules of the game and is, therefore, liable to upset the whole of this beautiful structure. In the world of Indian business the behaviour of concerns does not follow the proper pattern. Because of a variety of conflicting financial interests and incentives operating on those who actually control industry, the profit incentive does not seem always to work effectively. Consider, for example, the following instance. In Bombay, which is even today the most important centre of the Cotton Textile industry in India, there is a group of ten mills which are under the management of one agency house. The mill companies are separate independent concerns, but the managing agents of all the mills are the same. The result is that management policies are commonly laid down and centrally administered for all the mills. The group of mills is a large one, and accounts in the aggregate for roughly a quarter of the total block account of all cotton mills in Bombay. It is well-known that this group of mills taken together has made almost no profits now for a period of nearly fifteen years. The following table, compiled from figures published in the interim report of the Bombay Cotton Textile Enquiry Committee, sets out the profits and losses of this group as compared with the rest of the Bombay industry for a period of three consecutive years. It should be remembered that these three years came at the end of a long period of depressed conditions and were regarded as generally favourable. The losses of the group for the earlier period must, therefore, have been very large.

Table<sup>19</sup>

	No. of mills making				Amount of (Rs. Lakhs)			
	Profits		Losses		Profits		Losses	
	Group	Rest	Group	Rest	Group	Rest	Group	Rest
1934	7	34	3	10	2.07	75.43	3.42	6.67
1935	0	41	10	7	0	57.43	18.74	4.48
1936	0	37	10	8	0	70.12	10.54	4.48

The table serves to bring out sharply the peculiar position regarding profit-making capacity of the particular group. By all ordinary suppositions the group should either have improved its profit-making capacity or should have been forced into liquidation. Neither of these eventualities, however, came about or seemed likely to come about. It continued, in the meanwhile, to influence the statistics of the profit-earning capacity of the Bombay industry when questions of grant of protection or an advance in wages, were under consideration. It is further by all accounts and by no means an inefficiently managed group. It is not necessary for me to discuss why such phenomena arise. I only pose the question whether in these circumstances the effective operation of the profit incentive in the management of each particular member of this group could be taken for granted. I am not contesting the possibility of the existence of other economic incentives. I merely question the hypothesis that each concern does necessarily make continuous and close adjustments in its search for profits or else ceases to function in the economic system on which reasoning like that of Prof. Hutt is based.

I have stressed often enough the variations in wage payments. But large variations are to be observed in the payment also to those who direct industry. This is not the place to enter into the great variety of arrangements under which the managing agency firms shoulder the burden of directing our industries. The basis of payment differs from place to place and industry to industry, and when the basis is the same even the scale many times differs substantially from unit to unit in the same industry and the same centre. In Ahmedabad where the commission by managing agents is charged uniformly on sales, its rate differs from 2½ per cent to 4½ per cent from mill to mill. The following table taken from the interim report of the Textile Labour Enquiry Committee compares the net profits obtained by the Cotton industry as a whole of each of the three important centres in the Province of Bombay with the total charges paid to managing agents by the industry in those centres for four consecutive years:<sup>20</sup>

	Annual commission actually charged				Net profit or loss as per Profit and Loss Account			
	1933	1934	1935	1936	1933	1934	1935	1936
	(Rupees in Lakhs)							
Bombay	6	11	8	10	-18	43	21	40
Ahmedabad	24	29	28	25	27	32	21	13
Sholapur	-	1.5	1.0	2.6	-	5.8	1.0	0.5

The table brings out a number of points. These are (i) the very high level of these charges in certain centres, (ii) the great difference between the charges from centre to centre, (iii) the great variation in the relation of these charges to net profits in the same centre from year to year. I do not feel it necessary to comment further on this table. I would, however, note, in order to avoid misunderstanding, that managing agents' charges are not in the nature of residual shares, but are costs proper, charged to the mill company on a given basis before profits are taken out.

One last instance in order to reinforce the argument. Not only do payments to workers on the one hand, and to those in control of the industry on the other, vary from unit to unit; it seems that the scales of remuneration for similar services performed by outside agencies such as brokers also vary. The most notable instance of such variation is perhaps the difference between scales of commission on sales of yarn and cloth that is paid in Bombay and that paid in Ahmedabad. While in Ahmedabad the usual scale of commission charged is  $\frac{1}{2}$  per cent, in Bombay the charges are as high as  $1\frac{1}{2}$  per cent to 2 per cent. The difference in the character of service performed by the commission salesmen in the two centres is not substantial enough to explain the very high difference in the scale of charges. It could not also be said that the difference in managing agents' remuneration in the two centres is partly compensated for by the difference in the commission on sales, because the parties who receive the two sets of commissions are not identical.

The phenomena to which I have drawn attention are no doubt capable of being explained in the light of the history or the structure of the industry in each centre. I am not concerned here with the adequacy or reasonableness of such explanations. Whatever their character the facts clearly indicate that the present working of the economic system in India does not seem to bring about, or even to tend to bring about, a similar scale of charges levied on the product of the industry for similar service rendered to the industry.

### LECTURE III

## REGULATION OF WAGES

I BELIEVE that I have adduced sufficient evidence to question the existence under Indian conditions of a competitive or fair wage level or of any tendency towards the establishment of such a level. I have also indicated that other charges on or shares in the product of industry are also not levied or obtained in a uniform manner. It cannot then be taken for granted that the working of a competitive market is naturally leading to a determination of fair levels of payments and bringing about a distribution of resources in a manner that is the best possible. In these circumstances, there can be no presumption in favour of holding that actual payments correspond to the net marginal product of the different factors of production. The marginal concept has theoretical validity and practical importance only if it could be held or shown that the margin is the same not only from unit to unit in the same industry, but is also the same in all industries; a margin which differs even from unit to unit and centre to centre is of no use for analytical purposes. And we have seen that for similar work, payments made not only to wage earners but also to managers of industry differ widely. It is, of course, not suggested that these payments are made in a manner that is entirely haphazard. The total net product of any economic activity must always remain, under existing arrangements, the ultimate governing factor. It is this that gets distributed between the various co-operant factors in production. What is questioned is the measure of accuracy and definitiveness that is sought to be imported in the determination of the respective shares by the marginal analysis. There is no evidence for assuming such even and measured determination of wage or other payments. And because we cannot presume the operation of the marginal principle, in this manner, we cannot also give importance to the conclusions that seem to flow from that type of analysis.

The *a priori* considerations against wage regulation are then not relevant in a consideration of the Indian situation. In India wages seem to be determined not by the uniform operation of an inexorable economic law, but according to considerations into which the particular circumstances of each locality and each unit seem to play a great part. And in the mass of historically and institutionally determined levels of payments the forces of the competitive market seem to operate only slowly and unevenly. Under such conditions it is unrealistic to talk of regulation importing rigidity into the system or making for a deviation from the norm. The system is itself comparatively insensitive, and it is difficult to discern any norms in it. We are then not justified in rejecting

regulation outright, but must consider each proposed method of regulation in the light of the effect it is likely to have on the actual situation.

The determination of wages in India may be likened to the proceeds-sharing arrangements that are to be found in some collective agreements. Only with us the manner of proceeds-sharing seems to differ from unit to unit. Low wages in particular units or industries or in the industrial system as a whole may be due to either of two factors, (i) an absolute low level of the total proceeds to be shared, (ii) a low share of the proceeds accruing to the wage earners. The former can be affected only by an increase in industrial efficiency; the latter may be affected by an increase in the bargaining power of the workers or by outside interference. Of course, when all scales of payments are supposed to be determined accurately at the margin it can be easily proved that an increase in bargaining power can avail little, and if interference forcibly increases payments, it will have consequences which are in the ultimate analysis undesirable. As we see that such a distribution does not actually take place we must hold that the proportions in which proceeds are shared are all amenable to change as a result of either collective bargaining or outside interference. The structure of industrial costs is essentially not rigid. A considerable number of adjustments are possible and are always made under external pressure; and ideas regarding the proper magnitude of commissions, dividends, and other business charges can also alter or be made to alter.

The effects of a diminution in the share accruing to the entrepreneurs may be varied. It may mean a cut in their incomes which they may merely acquiesce in, or it may lead them to take steps to prevent waste and ensure an economical working of their concerns which they might not have thought of otherwise. Studies of the operation of Trade Board regulation in England have shown that in most industries where regulation has been introduced an improvement in the methods of production and management have generally taken place, especially among the less efficient concerns. There are, of course, limits to such increase in efficiency. In case a diminution in the income of the entrepreneur class is the result of the increase in rates of wages, it may be apprehended that this would have some effect on the formation of capital and thus on the progress of industrialisation. Such effects are, however, of a secondary character and cannot be of a significant magnitude as long as outside interference is limited in extent.

Most of the foregoing considerations can be illustrated by reference to the history of wage rates in the Cotton Textile industry in Ahmedabad during the last twenty years. Twenty years ago the level of wages in the industry at Ahmedabad was distinctly lower than that obtaining in Bombay. Today it is distinctly higher than in the latter centre. During these twenty years the industry in Ahmedabad has been expanding continuously. Its production and the number of persons employed by it have both increased in a large measure. The efficiency of units has been all the time on the increase, and it is generally conceded that the Cotton Textile industry of that centre is, at present, one of the most progressive in the country. The efficiency of labour in the centre is also generally held to have improved considerably during the last twenty years. The installation of modern plants and up-to-date labour saving

machinery has also been a marked feature of the industry in Ahmedabad. Labour in the industry is certainly better organised in Ahmedabad than anywhere else in India. Collective bargaining and, to a certain extent, standardisation of wages have been established for many years past. I do not believe that it will be possible for anybody to unravel what may with any certainty be called casual relationships in the complex of this situation. The various factors are interdependent to a very large extent and the effects of any one cannot easily be isolated. I may, however, raise certain specific questions in order to throw some light on the subject under consideration. In the first instance, would the level of wages in the industry have moved upwards in the absence of a strong organization of labour? It may be doubted whether this would have happened; it may equally be doubted whether any noticeable increase in the efficiency of workers would, in that event, have come about. Perhaps in the absence of a fairly high level of wages the incentive to progress towards more efficient methods of production may also not have operated to the same extent; but of this one cannot be sure in the situation in Ahmedabad. On the other hand would the industry have expanded to a larger extent, and would the volume of employment offered in the centre have been greater if the wage had been lower? No categorical answer can be given to this question; but taking into account both the general considerations which lead to expansion of industry in particular centres and the relation of this to the efficiency of the worker it seems difficult to believe that with a lower wage level a greater expansion of industry would have taken place in Ahmedabad during the last twenty years. It may, of course, be also pointed out that without certain favourable circumstances collective bargaining may itself not have come into existence. Looking at the situation as a whole it would certainly appear that a favourable environment, an alert and progressive class of employers, and an organised body of workers all helped.

The three main grounds on which I have put forward the case for attempting the regulation of wages in India are (i) the unduly low wages in particular occupations and units, (ii) the undesirable effects of the possibility of the undercutting of wages by employers, (iii) the difficulties created, for the maintenance of industrial peace, by disparities in wage-rates between unit and unit. By the term unduly low I indicate at this stage nothing more than a wage that is at a level lower than is warranted by existing conditions in other similar units or similar occupations. Without regulation all these defects will persist.

Regulation of wages may be brought about by a number of different agencies and through a number of different devices. We shall consider only the more usual and important types of regulatory agencies and measures. These are (i) collective bargaining between both sides, (ii) one-sided regulation by one party to the wage bargain, (iii) action by the state. Of these three methods collective bargaining is generally considered as the most desirable. For the purpose we have in mind it is, however, necessary that the field covered by collective bargaining should be fairly wide; because if only a part of the total field of labour employment is covered by collective bargaining and the rest is left unregulated, there may still remain diversities in wage rates of the type we wish to avoid. Regulation to be effective and useful must extend in a uniform



manner to all units in a contiguous region; otherwise it will not fulfil its purpose. The uniformity in rates brought about by collective bargaining is, however, in a number of countries limited in scope and area. When this happens the work of collective bargaining has to be supplemented or to be completed by state regulation. This was made clear during the course of the discussions at the Tripartite Technical Conference on the Textile industry held at Washington in 1937 under the auspices of the International Labour Office. The general conclusions of the discussions at the conference regarding this matter were summed up in the following manner: (1) Collective agreements are of special importance mainly in the regulation of matters which are not dealt with by legislation, and may serve as a useful preparation for future legislation. They may also be of great utility in the working out and application of the detailed execution of legislation, subject to and within the general limits laid down by the law. (2) Even in the national field, recourse to legislation in some cases is indispensable to secure a sure and comprehensive basis for the establishment of conditions of fair competition between employers and the proper regulation of conditions of employment. These two statements bring out clearly the utility as also the limitations of collective agreements. Legislation can usually be passed only in matters where rules of general applicability can be framed and where certain measure of agreed opinion exists already. For particular circumstances and for spheres in which as yet no agreement has been evolved, collective agreement is indispensable. Collective agreements can provide for a large variety of matters and can enter into details of arrangement in a manner not possible for general legislative regulation. On the other hand because the membership of either the organisations of the employers or of workers is not fully inclusive, the sphere of collective agreements may not be all-embracing. They may, a number of times, leave out workers from their scope who stand the most in need of protection. Collective agreements again do not afford as sure and permanent a system of regulation as legislative enactments. They may be denounced, with notice of a given period, by either party to the bargain; they thus rest on a foundation that sometimes appears to be precarious. Hence there is a general tendency at present to guarantee certain minimum conditions for labour universally by legislative regulation and leave the rest to collective bargaining.

In the specific matter of wage regulation there is usually no need to supplement the action of collective bargaining within the field over which it operates; for, the effect of collective bargaining is usually to standardise rates of wages for the occupations and the area covered by each collective agreement. The chief difficulty that arises in the matter is when collective bargaining only partially covers the field. In the United Kingdom, wherever collective bargaining has been in existence, the tendency has been gradually to broaden the field and to bring about standardisation of wage rates over larger and larger areas. In Lancashire, for example, the gradual adoption by neighbouring areas of standard lists of rates evolved in particular important regions led ultimately to an almost complete uniformity of rates over the whole industry. In the same manner in England, the twenties saw a standardisation scheme for the whole country evolved for the building industry, and a national standard scheme of rates established for a brief period in the coal-mining industry.

In India, however, collective agreements dealing with rates of wages are almost completely absent. The only instance in Indian industries of such an agreement is, to my knowledge, the arrangements existing in the Ahmedabad Cotton Textile industry. We cannot, therefore, depend on collective agreements to regulate, at least in the near future, conditions regarding wages in industry in India.

There is the alternative of either the employers or labourers regulating in a one-sided manner the rates of wages. Such regulation on the part of labourers is merely a theoretical possibility which may be neglected in a practical discussion. Employers' organizations may, however, and often do, act in order to lay down uniform working conditions or wage rates for all their member units. In India even such action is not, however, common. The absence of organisation on the part of labour has led naturally to a neglect on the part of employers of the regulation of conditions of labour. It was noted, for example, that one of the oldest and strongest among the organisation of employers in India, the Indian Jute Mills Association, never concerned itself with labour conditions till the big Jute Mill Strikes of 1929. "It was part of the creed of the Association that each mill or group of mills should be allowed to manage its internal affairs, including wages and shifts. The Association attended to general trade conditions and policy, and it was from action dictated by the association on trade policy that the 1929 strikes arose."<sup>1</sup>

In the Cotton Textile industry in the province of Bombay, employers' organisations have been acting together in these matters ever since the close of the last war. The Bombay Millowners' Association was chiefly instrumental in preparing the scheme for standardisation of wages submitted to the Bombay Strike Enquiry Committee (1928-29). This scheme was, however, never adopted, and the wage position in Bombay continued to be chaotic till 1934. Following the cuts in wages made by individual mills in 1933-34, however, the Millowners' Association felt that it was necessary to pay attention to the wage position. Hence partly under pressure from Government, and partly because all the better wage-paying units feared the consequences to themselves of continuous, unlimited cuts, the Association introduced in 1934 a schedule of minimum wages. This schedule was confined to certain important time-rated occupations, and no member mill was expected to pay a wage for any occupation lower than the rate given in schedule, and member mills were also not expected, without permission, to lower their wage rates if they were paying rates higher than those indicated in the schedule at the time of its introduction. The minimum Wage Schedule of the Association has been continuously in operation since 1934, and its scope has been increased a little in recent years. The Association is said to keep a continuous watch over the working of the Schedule, and it is said that it is observed in practice by all the member mills in Bombay (mills in Bombay which are not members of the Association are negligible in number). The framing and enforcement of the minimum Wage Schedule by the Millowners' Association, Bombay, has for us an important lesson. It shows that in times of depression the wage situation became so chaotic that the better

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<sup>1</sup> "Royal Commission on Indian Labour" Evidence, Vol. V, Part I, Government of Bengal, p. 12.

placed among employers felt it absolutely necessary to intervene. And the only effective way in which they could do this was by enforcing a minimum Wage Schedule. This mode of regulating wages is, of course, not one which can be copied elsewhere or commended for adoption generally, for, it is obviously regulation that is too one-sided. The level of minimum rates is fixed by the employers, it is also enforced by them alone. Neither in framing nor in enforcing it can it be presumed that careful attention will be paid to the interests of workers. And, however proper the action of the employers, it is not to be expected that it will inspire any confidence among workers.

We are thus left with the third alternative agency—the State. Regulation of the wages of industrial labour in India must be undertaken by the state itself. By the state here I mean the Provincial Government. It was urged by some witnesses before the Royal Commission on labour in India that the regulation of wages must be on an all-India basis. There seems no reason why this should be so. The provinces in India are large enough for the purpose. In Australasia and U. S. A. wage regulation differs from state to state, and even in U. K. the systems of wage regulation are not necessarily the same for England as for Scotland. The English Trade Boards again prescribe different regional rates within their jurisdiction, and the terms of the collective agreements for the coal-mining industry in England differ from district to district. With the great diversity of conditions of labour in India, it is not at all necessary that a uniform system should operate throughout the country, though it may be highly desirable that the various provinces should adopt a similar policy in these matters.

The question that arises next is the type of regulation of wages that should be adopted by provincial governments. The most suitable type under Indian conditions is the fixing of minimum wages. It is necessary in this respect to clear some initial misunderstanding arising out of the Draft International Convention of 1928. This Draft Convention laid down that wage regulating machinery should be set up in those trades wherein "no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low." It has been argued, among others by the Royal Commission on Indian Labour, that the second condition—that wages are exceptionally low—cannot apply to the major Indian industries, and that hence they do not stand in need of minimum wage regulation. It should, however, be noted that the Draft Convention was framed before the depression of 1929. Before the depression, minimum wage-fixing machinery was looked upon in the European countries as being needed only by sweated industries. It was presumed that in industries, other than those in which particularly unfair wages were proved to exist, fair wages would be obtained by the operation of ordinary economic laws. As pointed out above it was during the period after the depression that ideas on this question underwent a change. Today an exceptionally low level of wages could not be considered even in the European countries as a necessary condition precedent to the setting up of minimum wage regulation; for it has been found by experience that even in trades that normally pay a good wage there may be no limit, in the absence of labour organised to resist, to the cut that may be imposed in bad times. The only condition to be satisfied today before minimum wage regulation is introduced is, therefore, the absence of labour organisation

In India, of course, the conditions were bad enough even before the depression, and this was evidently realised by the Royal Commission on labour itself. While the Royal Commission did not seem to favour the establishment of minimum wage regulation in the major organised industries, it thought it highly desirable that standardisation of wages should be brought about in industries like the Cotton and Jute industries. Now, standardisation of wages is a step, that, in regulatory practice, follows and does not precede the establishment of minimum levels of wages. The minimum regulates merely the level below which nobody shall pay. Under minimum wage regulation it is still open for the more efficient employer to offer rates in all occupations or in particular occupations higher than the minimum rates. This is what happens under Trade Board regulation in England or in Bombay with the working of the Millowners' Association's minimum schedule. Under a scheme of standardised rates of wages no such variation is allowed, and all units must pay a uniform wage. Where, as in India, rates of payments differ widely from unit to unit and some concerns pay a very low wage, it is both more desirable and more feasible to introduce immediately a system of minimum wage regulation than that of standardisation. Standardisation would mean, in these circumstances, either too great an additional burden on some units or too great a reduction in the level of earnings of workers in some others. It is, therefore, difficult to reconcile the recommendations of the Royal Commission on Labour in this matter. One may merely note that in putting forward a forcible plea for the standardisation of wages in the major industries, the Royal Commission was emphasising the great need for establishing wage payment in Indian industries on a regulated, systematic, and uniform basis.

I shall now turn to the question of the most suitable system for the establishment of minimum wage regulation in India. There is large variety in the types of machinery adopted in different countries for enforcing minimum wage regulation. For our purpose we need examine only the two broad types in which such machinery can be classified. The first is the machinery of the type of an arbitration court, the second is machinery of the type of the Trade Board. (In some cases a minimum wage is fixed by an enactment, but this method is obviously very rigid.) In discussing the merits of the arbitration court method it is necessary to bear in mind the conditions under which it has been developed. The arbitration court arose chiefly in Australasia. In this country wage regulation was brought into being not so much to raise unduly low wages in sweated industries as to prevent industrial disputes and to protect a national standard of living. The machinery appropriate to settle industrial disputes was supposed to be an independent court, and to it naturally also fell the duty of determining minimum rates of wages that should rule in an industry. Concern with the maintenance of the national standard of living has further given rise in Australia to the concept of a basic wage as apart from a minimum wage. The basic wage may be described as the general national minimum. The basic wage decision binds the entire country and all occupations; the minimum wage for each industry regulates in addition particular industrial conditions. The determination of the national basic wage has been entrusted from the beginning to the Commonwealth Arbitration Court. It is in this manner that the minimum wage system has come to be

linked with the procedure of a judicial court, and minimum wages have been established as the result of awards of an arbitral tribunal. In England, on the contrary, the concept of the minimum wage was introduced mainly as a result of the agitation regarding conditions in the sweated, especially the home-work, industries. Opinion was pronounced against any measure of general regulation and Parliament was prepared to take only a cautious preliminary step. Hence the evolution of the trade board type. Each individual board, being composed of representatives of actual employers and workers, could be depended on not to recommend any drastic step forward. There was the desire not to disturb too much existing conditions. In course of time it has been found that the results arrived at by the two different methods do not materially differ from each other, and as Prof. Pigou has pointed out<sup>2</sup> the nature of the English trade board lists is much the same as that of the arbitral awards of Australian Courts. The method, however, of arriving at the result is materially different.

At this stage it may be profitable to turn aside and consider the principles and the procedure adopted by arbitral boards or committees of investigation in giving wage awards, for this will help us in understanding more clearly the nature of the award or finding. I may begin this discussion with quoting a somewhat lengthy extract from a recent study of the Industrial Disputes Investigation Act of Canada:

## THE BASIS OF BOARD DECISIONS: WAGES AND HOURS

### Boards Not Guided by Formulated Code or Precedents

No attempt has been made in Canada to build up precedents or to formulate a code of industrial principles to guide boards in their proceedings. Now and then the findings of some previous board may be quoted as precedents; other boards again explicitly reject considerations accepted in an earlier case as a basis for recommendations. But ordinarily each dispute is handled independently, and on its own merits. Nevertheless, a study of the arguments made before boards, and decisions handed down by them during the operation of the Disputes Act over the past 28 years, reveal certain broad uniformities in underlying principles. It reveals, also, modifications of these principles to suit changing conditions, as well as particular circumstances involved in any given dispute. In other words, board members, while bearing in mind certain economic and social considerations, have not attempted to establish an exact and absolute, but rather a relative and rough, justice—one that would work, that would maintain equilibrium and keep industry functioning with the consent of the parties concerned. That is why we find that the same principle accepted by one board is rejected by another board, or even by the same board sitting in a different case.

## ADVANCING CUSTOMS AND STANDARDS EMBODIED IN BOARD DECISIONS

On first view the practice just described may seem inconsistent and confusing. But the practical administrator will recognize that here may lie one clue to a way of maintaining stability and yet permitting progressive change in so dynamic a social situation as is involved in industrial relationships. Even more important, a review of decisions with the passage of time reveals how the advancing standards of industry receive consideration, enunciation, and finally acceptance. As industrial mores and customs progress to higher levels of welfare,

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<sup>2</sup> "Essays in Applied Economics," 1923, pp. 50-69.

board decisions tend to formulate them as standards of best practice. This significant tendency is illustrated in every issue brought before boards—in wages, hours, general working conditions—on all of which both new doctrine from developing economic theory and evolving custom in industrial relations receive formulation by board hearings and decisions. Still more impressively is it demonstrated by the manner in which the difficult issues of employees' representation and collective bargaining, once rejected as subjects for board procedure, have been assimilated into the agenda of adjudication, as after the War they become more widely, to use the language of the Act itself, "matters relating to any established custom or usage, either generally or in the particular district affected."

### SEVEN BROAD FACTORS CONSIDERED IN WAGE DECISIONS

The issues most frequently brought before boards in Canada, as is true in industrial disputes elsewhere, revolve about wages. From the initial passage of the Act to the present day, seven broad factors have been considered in evidence and decisions on wage matters, each, of course, comprising within its scope a variety of detailed arguments. These are: (1) general economic conditions; (2) financial condition of the employer involved; (3) the cost of living; (4) the standard of living; (5) comparative wages in similar trades, in similar localities, and in the United States; (6) the value of the service labour renders; and, in the most recent years, (7) broad policies of economic and social welfare, such as sharing in gains from technological improvements, maintaining wage levels to sustain purchasing power, and, conversely, reducing wages to stimulate revival. Though cases are found year after year that accept or reject one or more of these considerations in recommending wage rates, or, on the other hand, that use all of them, what becomes particularly interesting as one reviews the body of decisions is the new turns and the changing emphasis given the same arguments.

By and large, arguments based upon general economic factors and business conditions are given more consideration in times of depression. In recent years labour spokesmen, particularly, have sought to counter such arguments by introducing into specific cases the new doctrines of the "economy of high wages" and "social purchasing power." They have also shown an increasing tendency to challenge the cost of living as a major determinant of wage rates. The arguments based on comparative wages receive a varying emphasis, but boards are seemingly chary of accordng any considerable weight to them. Finally, while the value of labour's service has not been urged so frequently as the other factors, in recent years an attempt has been made to bring before boards the bearing of technological changes on wages.<sup>3</sup>

What has been said in this extract applies not only to Canadian Boards of Investigation, but to almost all bodies dealing with wage awards in most countries of the world. The decisions of Australian Courts, for example, though necessarily having more continuity than might be expected of the separate *ad hoc* Canadian Boards, show similar development in the range of considerations to which courts attach weight. The Australian Courts equally with the Canadian Boards establish a relative and rough justice rather than an exact and absolute one. And this is so not because no attempt has been made to achieve an exact and absolute justice, but because in wage determination this cannot be achieved. It is pertinent in this connection to point to two failures and one outstanding success in the history of Australian wage regulation. The failures are the failures of the Royal Commission on the Australian basic wage and of the Economic Commission on the Queensland basic wage. The first

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<sup>3</sup> Selekman, B. M., "Law and Labour Relations," Graduate School of Business Administration, Harvard University, March, 1936, pp. 11-2.

attempted to fix a basic wage in accordance with certain theoretical norms of a standard of living. Its recommendations could not find acceptance because the resultant figure was very much higher than ruling rates of basic wages. The Queensland Economic Commission, on the other hand, tried to move away entirely from considerations of standards of living and to fix a "scientific" relation between the level of wages and the capacity of the employer to pay. Its report may be considered as embodying a heroic attempt to devise a workable formula for linking the level of wages in a definite manner to the value of the product of industry. But the difficulties revealed in the solution of even the comparatively simple problem to which it set its hand demonstrated the essential impossibility of a determinate statistical solution in this direction. The failure of these theoretical attempts demonstrates convincingly the absence of any scientific or theoretical basis on which an absolutely just division of proceeds can be founded and on which an accurate assessment of wage levels can be made.

The particular achievement of the Australian system is the all round cut in wages that was imposed by the Courts at the time of the depression, a cut which was part of a deliberate plan towards attaining solvency. It was demonstrated in this manner that under state regulation, political forces, as had often been feared, do not necessarily prevent a downward movement of wages where such was urgently called for. The success of the English Trade Boards in maintaining the minimum level of wages during the depression was, on the other hand, equally remarkable. The two opposite cases taken together fully exemplify the efficacy of a regulated system in adapting wage policies appropriately to the needs of the times. And these may well be compared with the straits in which under a regime of *laissez faire* the Bombay Cotton Textile industry found itself when faced with the problem of making adjustments.

The recent tendency of arbitral bodies to go beyond the stock consideration into arguments based on advance in economic theory is also exemplified in the decision of the Commonwealth Court of Arbitration. For example, we find that court in the basic wage enquiry of 1937 summoning expert economists as witnesses and basing its decision partly on the argument that "unless wage rates were increased, the expectation of increased profits will cause entrepreneurs to start superfluous new enterprises or excessively expand existing ones," and further that a "redistribution of income in favour of wage earners, who unlike other classes spend their share of income without delay, will accelerate the demand for products and so provide solid support for legitimate expenditure on capital goods."

The essentially elusive and changing nature of the problem of wage determination may be further illustrated by the experience of the British Industrial Court. It might have been expected that in the decisions of the British Industrial Court a volume of case law would become available in course of time from which clear principles regarding wage fixation could be inferred. In actual fact this has not happened. The following extracts from a recent study of the working of these courts will be found illuminating:

"The principal grounds on which wage issues have been debated and decided by the Industrial Court may be summarized in the four principles involving:

the standard of living, the cost of living, ability to pay, and fair wages, all of which allow different combinations under different circumstances."<sup>4</sup>

"We may fairly say that in the particular cases brought before it the Industrial Court has failed to apply its general principles with the consistency required for the successful discharge of its function as a wage co-ordinating authority. Lord Amulree expressed the opinion that, in disclosing the general grounds of its decisions, the Court has taken a tentative step toward the formation of a body of industrial case laws. Our review of the Court's decisions seems hardly to warrant this conclusion, for the general principles enunciated by the Court have often served as a cloak, and have borne no real organic relationship to the point actually made in a particular decision. A direct relationship between general principles and a particular case is really the essence of the 'precedent' that is the key-note of any system of case laws. The actual result of the Court's decisions has been more in the nature of compromise or conciliation than of a strict award of justice as is shown in the following tables. It is interesting to note that in instances both of arbitration by the Industrial Court and of direct industrial action a large number of disputes were settled by compromise, with the percentage figures running practically as follows: 42-43 per cent compromise, 35 per cent in favour of the employers, and 22-23 per cent in favour of the workers."<sup>5</sup>

The grounds on which the Industrial Court based its decisions were no different from those which the Canadian Boards of Investigation took into consideration. And the work of the court is seen to be much more in the nature of arriving at a workable compromise than of enunciating a judicial finding.

This somewhat lengthy digression on the procedure followed by investigational or arbitral bodies has been inserted in order to bring out clearly the character of consideration that must be taken into account by any authority that attempts a regulation of wages and the nature of the work that such an authority attempts. It must be emphasised, as a result, that the task involved is not so much of interpreting legal provisions or precedents in case law as of understanding and evaluating business and economic data. The guiding principles and methods again seem not to be fixed but to be changing fairly quickly with advance in economic theory, in statistical data and technique, and a change in public sentiments. The work is then one which calls for an acquaintance with actual business conditions and wage levels, and the expert testing required is chiefly that of economists and statisticians. This, of course, does not mean that a judicial tribunal like the Australian Commonwealth Court will necessarily fail in the work. What is implied is that it is not particularly suited to it. In Australia it may again be noted that a single bench deals continuously with these series of problems. Its members necessarily acquire, thereby, intimate knowledge of wage questions in course of time which, more than the judicial training, is helpful in dealing with questions referred to it.

The shortcomings of the judicial method of wage determination become even more apparent when we consider the detailed scheme of wage gradation and the problem of wage differentials. Boards of investigation and industrial courts are usually concerned with the general problem of weighing circumstances which may justify either an advance or reduction in wages. The

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<sup>4</sup> Ducksoo Chang, A. M., "British Methods of Industrial Peace," Columbia University, 1936, p. 155.

<sup>5</sup> *Ibid.*, pp. 166-7.



various factors enumerated above refer in the main to decisions regarding these general movements of wages. But minimum wage regulation involves not only the determination of the general level, but also the fixation of individual rates for each occupational category in the industry concerned. There are, no doubt, some minimum wage fixation arrangements which confine their attention only to a single general minimum and have nothing to do with the different occupational wages. Such arrangements are to be found chiefly in countries in which the main aim of the regulation of wages is the protection of the national standard of living. The Australian national basic wage is itself a fixed general minimum of this character. In new countries in which standards of living have been fairly high since the beginning of their colonisation, the desire to prevent a lowering of these standards has always played an important part in shaping political and economic policies. The wage policy of these countries has always aimed at preventing the deterioration of wage standards below a given level. The desire for the protection of the national standard of living inevitably led to an attempt to lay down a general minimum level. This general minimum had nothing to do with any particular occupation or industry, it was a national minimum applying to all employers in all walks of life. It often happened that wage policy was actuated by this single aim and no other. In such a case regulation would not go beyond the fixed general minimum. In older countries, however, a single general minimum covering all occupations and industries would be impossible to formulate, and if formulated it would be placed so low as to be, for all practical purposes, ineffective. In the older countries not much importance, in fact, could be attached to such a phrase as the protection of the national standard of living. The problem here is how to raise by a series of particular measures the standard of living of those in receipt of very low incomes.

The concept of the single general minimum or a fixed minimum is thus inapplicable to Indian conditions; it would not also fulfil the objectives which I have indicated should be the objective of wage regulation in India. Wage regulation is desired in India in order to prevent an unduly low wage in certain occupational categories, to prevent the subsidising of the low-wage paying employer, and to allay labour discontent. Wage regulation must, therefore, cover with us all the main occupational categories. A fixed minimum will give protection only to the lowest occupational category. This category accounts for only a small proportion of the total number of workers. Variations in wage rates and exploitation by employers, however, characterise all categories of workers, and these stand in need of protection as much as the lowest paid. It will be noted that the minimum wage schedule of the Bombay Millowners' Association covers all important classes of time-rated workers (including semi-skilled and skilled) up to the rank of jobbers and supervisors. This is also the case with Trade Board lists and schedules of minimum wages in most countries of the world.

Wage regulation in India must, therefore, take the form of schedules or lists of rates of wages which lay down the minimum rates for all occupational categories of workers included in the industry for which the regulation is framed. The framing of such a list naturally involves the consideration of

occupational gradation in industry and of the differentials in wages between the different occupations. This is a complicated task which would ordinarily require a close acquaintance with the processes in any industry and with the work performed by each class of worker. Occupational differentials in earnings depend on two factors. The first factor is the difference in the quality of the work performed by workers in different occupational categories; the second factor is the scale of differentiation in payment to be adopted as appropriate for given differences in the quality of work. According to the general theory of wages, the scales of payments for the important or key categories of various types of workers get settled by the operation of the ordinary economic laws of the competitive market. And once you have obtained these competitive norms they can be utilised as the starting points from which to measure, according to ascertained differences in the quality of work, the rate of payment to be made to any particular type of occupational category. It is held by many that scientific measurement of the difference in the type of work and effort called for from different classes of workers is possible within close limits, and that wage rates for separate classes can be determined in a scientific manner following such a measurement of the differences in the quality of effort required. This is the view evidently taken by Prof. Pigou in the chapter on "Fair Wages Inside Particular Industries" in his "Economics of Welfare"<sup>6</sup>

I shall proceed to examine certain difficulties which appear to me to intervene in the application of this view of wage determination to conditions in India. I shall, in doing this, ignore the absence of competitive market norms on which I have already laid sufficient stress. The first difficulty to be encountered is one which is largely peculiar to Indian conditions. This is regarding the spread between the earnings of different classes of workers. One of the peculiarities of the Indian system of graded payments to different types of work has been the very large differences in the level of payments to different classes of workers. I have in a brochure on the "Salaries of Public Officials in India"<sup>7</sup> described the extent of the variations obtaining between payments to different classes of public employees, and discussed the reasons which seem to have led to these variations and which seem to be responsible for their maintenance. A somewhat similar phenomenon is observable in the rates of payments to different ranks among industrial workers also. If one takes, for example, the difference in payments to the three broad types of workers in India—the unskilled, the semi-skilled, and the skilled—and compares these with similar differences elsewhere, one will be struck by the wide disparities that obtain in India. The disparities are even greater when the level of payment to workers is compared with levels of payments to the clerical, the technical, and the managerial staffs. These disparities are no doubt the result of certain forces which operated in the early days of large scale industry in India, and which perhaps continue to operate to some extent to this day. Machine industry was entirely new to India in the last century. In the centres in which it was established there existed no semi-skilled or skilled classes of even machine craftsmen. These classes of workers came into being as a result of the gradual process of training

<sup>6</sup>3rd Edition, Part III, Chapter XV. It is significant that the corresponding chapter in the 1st Edition was called "The Statistical Determination of Fair Wages."

<sup>7</sup>Gokhale Institute of Politics and Economics, Publication No. 1, 1931.

that they received in the new factories themselves. The general prevalence of illiteracy and the entire absence of any facilities for technical training rendered impossible the ready accession of any supply of such labour from outside. The numbers of semi-skilled and skilled workers were thus restricted, and their position in the industry was of vital importance. The numbers of unskilled workers were, in comparison, plentiful. These seem to be the main reasons for the great diversity in payments to different types of workers that is prevalent in India today. We may cite a significant feature of the present situation in support of this hypothesis. This is that the disparity in earnings between the skilled and the unskilled is greater in the smaller centres of industry than in the larger centres. Thus while the rates of payment to doffers and single side ring-siders are distinctly lower in Sholapur than in Bombay, the rates of payments to weavers in the two centres are almost the same. The explanation of this feature appears to be that while in the larger centres a fairly numerous class of semi-skilled and skilled workers has been built up in course of time, the paucity of skilled and semi-skilled workers continues to be marked in the smaller centres of industry. The levels of the remuneration of the higher technical staff seems to have been determined by the necessity for importing such staff from abroad in the initial stages. There is thus an adequate explanation available for the wide disparities. While they can thus be historically explained, their continuance today is neither equally necessary nor is it desirable in the long run.

The slowness with which adjustments take place in India is reflected in the continuance of these wide disparities long after the need for them seems to have passed away. Thus we find that the millowners of Bombay have always complained of the unnecessarily large spread between the earnings of spinners and weavers in that centre. The Tariff Board (1926-27) which examined this question at some length found that the spread was large in most centres of the industry in India, and that there was not sufficient justification in existing circumstances for its size. A similar contention has of recent years been raised in Sholapur where the disparity is even wider than in Bombay. Employers, as a rule, raise such issues in order to justify cuts in payments to particular classes of workers. I have cited the instances in order to indicate how obsolete factors continue to dictate for long the comparative levels of wages.

There are two ways in which these disparities can be acted upon from outside. In the first instance general and technical education can be made much more widely available and its impartation much more systematised than is the case today. This would remedy the differences that may exist in the supply of different types of labour available. This remedy, while of essential importance, is not sufficient by itself; for, as we have seen, the Indian labour market is slow to react to changes in underlying conditions, and a regulatory authority must, therefore, bear this fact in mind while determining norms of rates of payments for the different classes of workers in industry. The regulatory authority will then have to act in such a manner as to bring about, in course of time, a more even relation between the earnings of the different categories. By this I do not mean that it will so act as to bring about a reduction in the earnings of the categories that are paid higher today. What is rather meant is that the authority

will take every opportunity of acting in an upward manner on the wages of the categories who are paid the lowest, and further that it will not treat the existing situation as indicating a level of permanent equitable relations. It will consider the historical background that is reflected in the present average levels of earnings and taking a forward view have an elastic policy in this matter. I realise that an elastic policy and a changing relation between the earnings of the different categories of workers also characterise the situation in the other countries of the world. The situation is, however, more inequitable in India than elsewhere, and there is more need in this country for deliberate action on the part of the regulatory authority in this matter than elsewhere.

The other difficulty that has to be faced in determining occupational differences is the measurement of the differences in the quality of the work performed by different classes of workers and fixing the corresponding money differences. It seems to me that the word "scientific" is in this connection used very loosely. It should, in the first instance, be remembered that no agreed scales for the measurement of given types of efforts have yet been established. Even in simple uniform types of work the scales on which work of different intensity will be measured are not universally agreed upon; and the difficulties are enormous the moment one considers diverse types of works that workers are called upon to perform. It should be remembered that the work of even the unskilled labourer requires the putting forth of more than a single type of effort. In the least skilled of jobs the application of both physical effort and mental effort must be taken into account. The greatest advance in the scientific management of labour has undoubtedly taken place in the U. S. A., and even a cursory study of the methods evolved in that country will throw a flood of light on the difficulties involved. Mr. John W. Riegel, Director of the Bureau of Industrial Relations, University of Michigan, published some years ago a study of the methods actually followed by a number of leading companies in U. S. A., in the matter of grading workers for wage payment. Among the various schemes evolved for evaluating the differences in quality between various jobs that he describes, the least elaborate has six heads under which each job is rated. These are: (i) Mentality; (ii) Training Period (skill); (iii) Seriousness of Errors; (iv) Mental Application; (v) Physical Application; and (vi) Working Conditions. But some companies had occupational rating plans in which as many as twenty-five factors were considered. It is not my intention to enter into these technical details. I merely desire to point out that where such a variety of divergent factors are involved there is ample room, in a matter that is essentially one of subjective judgement, for wide differences of opinion. The weighting in importance of each of the factors involved, the allocation of points regarding each factor for each type of job and for the final composite grading of each occupation, are processes which, though essential and useful, could hardly be called scientific. For it should be remembered that considerable differences of opinion obtain amongst those entitled to speak on these matters, regarding even comparatively simple issues. Thus as a member of the Textile Labour Enquiry Committee I found that between representatives of employers from different centres of the industry no unanimity existed on such points as to whether the work of the doffer boy was more or less strenuous than that of the warping creeler. Naturally, when it comes to detailed calculations

regarding payments, the room for difference of opinion is even wider. Thus we find varying relations between the rates of payments to the front sizer and the back sizer and to the drawer-in and the reacher in different centres of the Cotton Textile industry in the province of Bombay. These are, it should be remembered, important and well established categories in the industry. When one goes on to compare the size of these differences in the various centres in India, the divergence is found to be even wider. And it could not be said with confidence that any one of these relations was absolutely the correct one.

A further consideration of this question will lead us to the major issue with regard to methods of payments to labour. On the one hand there is the tendency specially marked in U. S. A., towards a progressively greater development of job analysis and differentiation of category and individual payments. The methods of time and motion analysis are here applied to build up detailed systems of rating jobs and grading occupations, and not only are piece rates and occupational rates fixed after considerable study, but an attempt is made to fix, even in the time occupations, the rates of hourly payments to individual workers in accordance with measures of their individual efficiency. This is also the country in which a great variety of methods of incentive systems of payment have been evolved. The bulk of trade union opinion in countries like England is on the other hand opposed to the extension of such methods. It prefers a straight piece-rate system to the incentive wage systems, and looks with disfavour on differentiation in rates of payments to individuals within the ranks of a single time-rated occupation. The marginal economist should presumably welcome the American developments, though the work of Mayo and Whitehead in U. S. A., throws considerable doubt on presuming close correspondence between wage incentive and the resultant output even in that country. A concern for the solidarity of working classes and a distrust of the working of the method of payment by results under existing economic arrangements is at the back of the general trade union attitude. The economic and social policies inspiring the two sides are, therefore, widely divergent. We are, however, not immediately concerned with the controversy in India. Nobody, not even industrial engineers, I understand, advocate the adoption of incentive wage systems in India. Even the straight piece-rate is not, in this country, as widely prevalent as elsewhere. The significance of the controversy to us lies in giving an additional warning against the acceptance of the possibility of a "scientific" statistical determination of wage differentials.

All this leads to the conclusion that rates of wages in industry are best determined by the representatives of employers and employees in the industry itself; for, an outsider who has no intimate knowledge of conditions in the industry is apt to go wrong. This is also the opinion of those who have studied the Australian system. Mr. Anderson in his detailed study of the fixation of wages in Australia remarks:

"Now a system of wage fixation which requires a judge of an Industrial Court to prescribe wages for such varied industries—or even for one industry of which he does not possess some technical knowledge—may well be questioned; but unless representatives of employers and employees, experts in their callings, fix rates of wages at round table conferences, it is difficult to see how the position can be altered. Nevertheless we are forced to the conclusion that neither the Federal

nor State Arbitration Court is a proper tribunal to determine margins for skill, and we submit that the material presented in this chapter supports such a conclusion."<sup>8</sup>

Ordinarily we possess no detailed description of duties or analyses of jobs entrusted to particular categories of workers; the nature of these duties or the strenuousness of the effort required in them for particular types of work may again change from time to time with the advance of technical equipment or managerial methods. And though in the absence of proof to the contrary, current practice, as embodied in the average levels of rates, is the best guide in these matters, the current wage levels might themselves contain elements of local, particular or historical factors which should no longer be given weight. The presence of such elements can be detected and steps towards their elimination taken only by those in actual contact with conditions of work in the industry. I, therefore, feel that in India the most appropriate machinery for wage regulation would be that of a Trade Board. A board, the majority of whose members consists of an equal number of representatives of employers and employees, and which includes a few independent persons, would be most suited to solve the problems that I have so far indicated. A schedule fixed by such a body will again have a better chance of wide acceptance among both parties than a schedule fixed in any other manner.

Another machinery for the regulation of wages that is sometimes advocated is a General Board. The chief advantages claimed for a General Board are that it enables the application of a uniform set of principles to wage determination in all industries and enables the attainment of a comparatively uniform wage level in the entire economic system. The General Board, however, does not possess the chief feature of the Trade Board, which is, that the determination of the wage level should rest to a large extent with the trade itself. The General Board seems to be appropriate in a country where conditions are comparatively homogeneous and where a certain amount of regulation of wages has previously existed. In such a country it may be desirable to obtain a measure of uniformity in conditions in different industries through the device of the General Board. In India the chief problem with which we are confronted is the introduction of some measure of regulation in a situation that is essentially chaotic. Further, there exists in this country a very large element of diversity in every aspect of the industrial situation, with marked differences in conditions from province to province and from industry to industry. The extent of the development of the industry,—whether technical or financial,—the sources and the nature of supply of labour, the state of organisation among employers and labourers, in all these respects there obtain very considerable differences. In view of these it is too early yet for us to think of uniformity over all industries or over very large areas. The immediate step must be to take up individual industries in each province and to arrive at a measure of regulation of wages for them. From this point of view also minimum wage regulation through the machinery of the Trade Board would seem to be the most appropriate.

The criticism levelled by Prof. Clay against the working of wage regulation in Great Britain is also on the same account not applicable to the proposal

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<sup>8</sup> George Anderson, "Fixation of Wages in Australia," 1923, p. 301.

of setting up Trade Boards in India. Prof. Clay pointed out that in Great Britain almost all types of wage payments had by the twenties come to be regulated. In some trades and industries the regulation was through collective bargaining, in others through Trade Boards. The regulation, however, was entirely unco-ordinated. Wage rates were fixed in particular collective agreements or by particular Trade Boards with reference only to conditions of the particular trade and industry and under the influence largely of factors of a temporary character. Wage fixation, however, meant the embodying of particular or temporary advantages, into the wage system for a long period. As a result, unemployment, in Prof. Clay's opinion, no longer acted as a "barometer" for indicating necessary changes in wage rates, and nobody was concerned with the adjustment of the wage level as a whole or with the adjustment of the mutual relationship between wage rates in different trades and industries. While it may be useful for us to bear this criticism in mind in order to see that our regulatory system does not develop similar defects, the arguments of Prof. Clay do not raise any fundamental objections to the adoption of the Trade Board system itself.

I may in passing refer to the question of standardization of wages. The essential difference between minimum wages and standardized wages is that while under minimum wage regulation it is open to an employer to vary the wage in an upward direction, the standard wage rate cannot be varied in either direction. The advantages of standardization are that it does away with even that measure of diversity which is permissible under minimum wage regulation, and by bringing about a measure of fixity and determinateness in all wage payments, reduces still further the possibility of minor wage disputes. Standardization is, however, difficult to achieve and can be brought about only in special circumstances. Standardization cannot usefully be introduced in a new industry or in an industry which was still undeveloped in a region and in which conditions had not reached a certain degree of stability. It also requires the concentration of industry in a particular region. Standardization of wages has thus a limited field; but within that field it must be set up as an objective to be attained. The field of standardization may be indicated by saying that it may be possible and desirable in centres of Cotton Textile industry such as Bombay, Ahmedabad, Cawnpore, and Coimbatore; in the Jute industry in Calcutta and its neighbourhood; and in Coal-mining industry in the major coal fields. It may in this connection be pointed out that a development which is to be desired in this country is that the Trade Boards which regulate minimum wages should go on to standardize wages in particular regions whenever they find the conditions to be suitable. The Trade Boards can themselves be looked upon practically as agencies for collective bargaining, and the experience they gather in the work of minimum wage fixation will be of the same character as is required in evolving a scheme of standardized wages. I may in this connection refer to the plea forcibly put forward by Prof. L. T. Hobhouse for a permanent extended place for the Trade Board in a system of wage regulation.<sup>9</sup> Prof. Hobhouse points out that wage regulation even in England cannot be permanently confined to the fixation of minimum wages, but will have to tackle the

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<sup>9</sup> "Towards Industrial Peace," 1927, pp. 59-64.

problem of fixing rates in general as well. He says, "You have to find methods of adjusting rates for trades in general, and I think you will best find it not by enacting straight off that there must be compulsory arbitration, but rather by showing by experience that you can, by such a system as the Trade Board, fix rates of all kinds with success in a way which will command agreement and which will be found to work well. Therefore, I should like to see the Trade Boards expanded upon these lines."<sup>10</sup> He adds that he desires "an extension of the Trade Board method, not of course rigidly the same, not necessarily under the name of the Trade Board, but an analogous institution with two representative sides and an impartial element, backed and helped by the skilled bureaucratic advice which the Trade Boards enjoy in the extremely ably organised Ministry of Labour, and with ultimately a legal sanction at its back."<sup>11</sup> It may be noted that in England the chief obstacle in the way of such a logical extension of the Trade Board system lies in the opposition of certain elements in the Trade Union movement. These fear the weakening of the hold of labour organizations, if the area and sphere of Trade Board activity is extended. In India no such opposition will be forthcoming at this stage and if, in course of time, Trade Boards and Trade Unions develop side by side, the development of each will be mutually adjusted by the growth of the other, and no opposition may later come to be imagined between the two.

I have dealt in some detail with the case in favour of the regulation of wages, because in India this type of regulation has not yet been undertaken and no considerable body of public or official opinion has yet been organised in its favour. Further, even though it has been adopted widely in many countries, the academic economist has yet either looked upon it with disfavour or admitted its need only as an exceptional feature in the normal world of a competitive market. I have on the other hand tried to argue that, at least in India, regulation of wages must become a normal feature of the industrial situation. Non-interference has been a doctrine of state policy in India during the past. It has resulted in producing conditions not of an orderly competitive market but of chaos and disorder, in which unfair competition and low and uneven rates of wages have been prominent. *Laissez faire* having thus completely failed, we must have resort to regulation; and this is a lesson which, as we have seen, the better among even employers have now learnt.

So far the only measure undertaken by the State in India to regulate the payment of wages has been the Payment of Wages Act (1936). This has undoubtedly been a very useful piece of legislation, and it has prevented a number of abuses in connection with practices adopted by employers which had led, in a variety of ways, to indirect cuts in wages. No legislation is, of course, completely successful, and certain "clever" employers will always find means to evade some provisions of the legal restrictions. Mr. Mallick of the E. I. Railway Employees' Association alleges, for example, that the E. I. Railway Co. has found a way of practically evading the provision regarding fines in the Payment of Wages Act.<sup>12</sup> Instead of finding an employee, which the com-

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<sup>10</sup> *Ibid.*, p. 63.

<sup>11</sup> *Ibid.*, p. 64.

<sup>12</sup> "Labour Problems and Labour Legislation in India," *Indian Journal of Economics*, April 1940.



pany cannot now do beyond a certain limit, it reduces his salary. This practice Mr. Mallick states has become specially prominent since the coming into operation of the Payment of Wages Act, and has resulted in a greater loss to the employee than if he had been fined.

Another issue which has not yet been settled fully under the Act is the payment of bonuses, like the good attendance or efficiency bonuses. These bonuses are incentive payments, the power of granting which the employers are usually keen on retaining. I doubt whether in actual practice they are of much real use even from the employers' point of view. It should not be difficult to measure statistically the effects of the prevalence of a good attendance bonus. This effect should be directly visible in the statistics of absenteeism in the particular units or departments in which the bonus is paid. I have, however, not yet come across any instance of a case in support of such a bonus made out with the help of concrete factual data. Such examination as I have been able to make of the absenteeism statistics published by the Labour Office of the Government of Bombay and of some additional data collected by a research student, do not lend support to the case of the employers.<sup>13</sup> The case against the bonus rests on the ground that it enables an employer to window-dress his wage position. The returns for the full pay period made by the employer will ordinarily include the bonus, while in actual fact a large number of the employees might not get paid at the rate which is indicated in the return. Or to put the matter in another way, the bonus enables the employer to impose on his employees, what is in effect, a fine. If, for example, in a time-rated occupation a certain wage for a month of 26 days (inclusive of the bonus) is indicated, under the operation of a good attendance bonus system a man attending, say for 22 days in the month, will not obtain  $11/13$ th of the total wage but only  $11/13$ th of the wage indicated minus the bonus. All those who are unable to attend, whether on account of remissness on their part or not, for the number of days required to earn the bonus during the pay-period, are thus paid at a rate lower than the rate declared to be the standard. The effect of a bonus may then well be said to be the imposition of a fine on a certain number of workers, and the more exacting the standard of attendance required the larger will be the proportion of workers subjected to the fine.

The effects of an efficiency bonus are not as easily measurable as the effects of a good attendance bonus. But the haphazard manner in which such bonuses have been adopted by employers does not show that even the employers as a class are convinced of its utility. Such industrial engineers as operate in India do not, I believe, also advocate its adoption. A case for the efficiency bonus has yet to be established; the objections against it are of the same character as those against the good attendance bonus. There is an additional objection that the standard of performance which is laid down by the employer as the minimum to be attained before an employee becomes entitled to an efficiency bonus is necessarily fixed in an entirely one-sided manner. The employer fixes this standard, and the employees have usually no means of judging whether the standard is a fair one or not. Methods of wage pay-

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<sup>13</sup> Dr. M. M. Shah (unpublished thesis), "Labour Recruitment and Turnover in the Textile Industry of Bombay Presidency," 1940.

ments which involve the fixation of a unit standard job have always encountered this difficulty in all countries. The difficulty is comparatively much greater in India because the labourers are both uneducated individually and unorganised in the mass. Abuse of the system is, therefore, on the one hand more possible, and there is, on the other hand, a chronic attitude of distrust and suspiciousness on the part of the employees. Whether these bonuses are permissible according to the provisions of the Payment of Wages Act is a matter that has been variously interpreted in different provinces. On a balance of considerations it would seem that under existing conditions of industrial labour, it is desirable to prevent the payment of such a bonus.

Another peculiar type of wage payment that might in this connection be considered is payment in kind. This is prohibited by the Payment of Wages Act; but under special powers possessed by provincial governments under the Act, a grain allowance is paid at Sholapur in the Province of Bombay. This allowance has some features of a good attendance bonus and has led to chronic complaints on the part of employees regarding the quality of grain supplied. I do not desire to discuss the advisability of permitting such an allowance, as it constitutes an exceptional case, but I want in this connection to say a few words regarding a matter which has at the moment assumed and may continue to possess considerable importance in India. I refer to the practice of the establishment of cheap grain shops by employers. In the first instance, a clear distinction should be made between cheap grain shops established as a welfare measure and those whose services are counted as a part payment of a wage. There can be no objection to a good employer desiring in times of rising prices or even in normal times, to help his employees by opening cheap grain shops. The employees are, in this case, in receipt of the full current wages, and they can, if they find it possible and desirable, increase their real wages somewhat by expanding a part of the wage at the cheap grain shops. The case is entirely different when a part of the wage itself is supposed to be paid by services rendered by the cheap grain shop. In the first instance the whole procedure runs counter to a sound principle established as the result of experience over many decades in most countries of the world and accepted as basic by the Payment of Wages Act. Section 6 of the Payment of Wages Act lays down that "all wages shall be paid in current coin or currency notes or both." Payments in kind are notoriously open to abuse and corruption. Adulteration in the quality of the materials supplied and levying of extortionate and irregular charges in particular cases can easily be practised, and it would be foolhardy on anybody's part to claim that there can, in the case of numerous shops scattered all over an industrial centre, be sufficient supervision or inspection to guard adequately against malpractices. Further, even if we credited employers and those in charge of grain shops with an extraordinary share of good faith it would always be difficult to convince the employees that there was in fact no advantage taken of the situation and its possibilities. I should like to raise another question also in connection with the operation of these grain shops. A grain shop acts differently from a grain allowance. A straight grain allowance represents a payment of fixed quantities of certain grains in lieu of a fixed money deduction from the wages earned by a worker during a given pay period. If the market price of the grain allowance is higher than the

amount of the money deduction, the employee gains to the given extent. Even with a grain allowance complaints of malpractices may and do arise. Moreover, even with a grain allowance one has to take account of those who either cannot or do not want to take the fixed quantities of particular grains. There is loss of consumers' surplus if such workers take the grain even when they do not want it, and there is loss of the money equivalent if they choose not to receive the grain allowance. But with a grain allowance the gains or losses are at least measurable and they affect all employees in a uniform manner. This is not so with a cheap grain shop. You may either not use it at all, or you may use it to a large extent. The size of the wage of an individual is thus made to depend, in part, on his ability to take advantage of the services of a cheap grain shop. This surely ought to be an irrelevant consideration in the payment of wages, and it seems definitely wrong to attempt to pay part of what is admitted to be a just increase in wage rates in this manner. I have never as yet been able to understand how anybody can arrive at any estimate of the measure of advantage given to workers by a cheap grain shop, for, in such a calculation, the average is of no significance. The wage is an individual payment; the increase in the wage, if required by such a circumstance as an increase in the cost of living, must be obtained in justice by every individual worker in a given proportion. There can be no justification for paying it in a form which is not equally accessible to all employees and which is not equally desired by all of them. It can be no consolation to a wage earner who does not get the required benefit from the cheap grain shop that his loss is made up on the average by others who gain from the source an extra advantage. It is also not easy to understand the insistence on the part of employers for payment of part of the wage in this particular form. If, as they protest loudly, they really lose in money to a given extent by operating the grain shops, they ought to have no objection to paying the money out directly in the coin of the realm as required by the Payment of Wages Act. The establishment of the cheap grain shops to pay part of the wages seems to me to involve the acceptance of a position that is thoroughly unsound in principle and is liable in practice to give rise to much abuse and ill-feeling. It may well prove the thin end of a wedge which may progressively undermine the principle of the money wage established after much struggle and agitation. It is all the more unfortunate, therefore, that certain prominent labour leaders should have seemed to give it their support.<sup>14</sup>

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<sup>14</sup> This digression on cheap grain shops may appear unnecessarily long. The question had, however, assumed considerable importance during the early months of 1940.

## LECTURE IV

# RATIONALISATION

FROM a consideration of the problem of the general regulation of wages we may well go on to a problem of wage determination which arises out of the changing circumstances of industry especially because of an advance in its technical methods. The problem is, of course, not one of wages alone. Even from the point of view of labour it is a problem that has three aspects: (i) unemployment, (ii) increased strain, and (iii) additional wages. From the point of view of industry as a whole its ramifications are numerous and its importance immense. I refer to the progress of what is indicated by the generic term rationalisation. Rationalisation covers a wide variety of measures of improvement and reconstruction, and the term was much talked of especially before the depression of 1929 as the panacea for all industrial ills. The term itself has been the subject of careful scrutiny, and its meaning and its component parts have been elaborately defined in a number of international conferences. It is not my intention to go over this familiar ground again. I shall direct my attention toward those measures included in the term rationalisation which have some direct effect on the conditions of work and payment of industrial labour. Rationalisation embraces financial and commercial reconstruction, among other measures, within its fold. These have, however, little to do directly with labour. If as a result of these measures of reconstruction the value of the product of industry is increased, labour may, if it is sufficiently alert and sufficiently powerful, obtain an enhanced rate of wages. There are, however, other aspects of rationalisation which affect labour directly in a variety of ways. Chief among these are changes in the technique of manufacture and in the methods of labour management. The two are usually associated together, but are not necessarily co-existent. New and improved machinery may be installed without affecting the methods of labour management; these methods may, on the other hand, undergo a rational change without any material alteration in the plant and equipment of the factory. In India both these processes have been known under different names such as "rationalisation," "efficiency system," "intensification of labour," etc., and it is my intention to treat briefly of their progress and their effects on labour.

It can hardly be asserted that rationalisation in the sense of the attempt at an improvement of the technique of production in the light of a progressive development of ideas and inventions is a new phenomenon. It has always characterised in a greater or less degree human activity in all epochs. It has been, of course, specially prominent in the Machine Age. It may, however, be conceded that a large scale and deliberate attempt at improvement in all directions simultaneously, became specially marked during the twenties of this century. The aftermath of the period of inflation and the severe post-war depression that affected old-established industries in many countries made it both possible and necessary that something of this character should be attempted. The aim of all these measures was necessarily the reduction of the cost of

production per unit and the increase of the margin of profit, or alternatively the diminution of the margin of loss. Labour cost is in most industries an important component of the cost structure, and a reduction of the labour cost had also to be attempted. There were two ways in which this could be done. Either the rate of payment per unit of labour could be reduced or each unit of labour could be made to go further in the productive effort either by increasing its efficiency or by bringing about a reduction in the number of units of labour required in the different processes. The effort to reduce wages was usually made first, but was not always successful. In most important industrial countries the power of organised labour was usually responsible for preventing any immediate or drastic cuts in wage rates. Even in India, however, where labour organisation was notoriously weak, employers did not always find it easy to cut down rates of wages. The classic instance in this connection is that of the Cotton Textile industry in the City of Bombay. This industry entered in 1924-25 a period of depression, which lasted for almost a decade. The Tariff Board which reported in 1927 found that among other things the level of wages in Bombay was one of the reasons of its lack of competitive power. Efforts on the part of millowners to bring about a reduction were, however, stoutly opposed by labour, and it was not till 1933-34 that a radical adjustment of wage levels was actually effected. Prof. Clay states that the opposition to reduction in wage rates offered by workers in the depressed industries in Great Britain was justified by them on two main grounds. Firstly, the workers felt that the depression was so deep and widespread that any practicable reduction in wage-rates would hardly affect it. Secondly, they feared that they were being asked to make a sacrifice, not to revive trade but to lessen the losses or increase the profits of retailers, banks, loanholders, etc. It may be noted that when explanations were offered of the attitude of textile workers in Bombay City they were very similar to the arguments enumerated by Prof. Clay, and that they were about equally justified in the Bombay Cotton Textile industry and in the British industries.

In the circumstances, it was natural that the efforts to reduce labour costs per unit of output by ways other than a direct cut in the wage-rates should be made in Bombay. The main direction in which the effort was made was that of asking each operative to do more work or mind more machines than he was ordinarily used to. In this connection, it is interesting to compare the history of the progress of the Cotton Textile industry in the two centres of Bombay and Ahmedabad during the last twenty years. This history throws a sidelight on the problem with which economists are always concerned as to whether it is during a depression or a boom that methods of production in industry get improved. The Bombay and Ahmedabad industries were during this period in greatly dissimilar positions. The financial position of the Bombay industry was crippled, and it was losing the markets which it had previously built up for its stock products. The Ahmedabad industry was, on the other hand, making good profits and increasing the variety and quality of its production, and thus gaining new markets. In Ahmedabad, therefore, progress took the form of the installation of up-to-date improved machinery in new units and the renovation of the plant in older units. Considerable attention was paid in this centre to improvement in the character of production. In Bombay almost no

improvement which required any substantial capital outlay was undertaken. Thus new labour-saving machinery such as in the preparatory processes was much more prominent in Ahmedabad than in Bombay. Labour-saving practices, on the other hand, were mostly initiated and extended in Bombay, while they were comparatively unknown in Ahmedabad. Attention to improvements in production was also paid much later in Bombay than in Ahmedabad. A part of the difference in the history of the two centres is to be explained by the differing composition of the managing agency firms and the position occupied by them in the two centres; a part was, however, also due to the difference between the financial strength of the industry in the two centres. It is noteworthy by contrast that the Indian Coal Mining Committee<sup>1</sup> found that in the working of Indian collieries wasteful methods were followed both during prosperity and during depression.

When labour-saving plant requiring considerable capital outlay begins to be introduced in an industry, the problem created by it is usually not of an intense character. Because the process of the installation of such plant is necessarily a gradual one, it also takes place usually in an expanding industry and rarely results in the actual displacement of employed labour. It is unlikely that a depressed industry will attract any considerable amount of new capital; this was exemplified in the British export industries and in the Bombay Cotton Textile industry. The chief effect of the introduction of such labour-saving plant is, therefore, of not bringing about an expansion in the demand for labour to the same extent to which it would otherwise have taken place. This seems to have happened to some extent in the Ahmedabad Cotton Textile industry. It may also have happened in the Coal Mining industry in the Raniganj and Jharia coal-fields. In these fields, according to information published in the Report of the Coal Mining Committee, the number of collieries worked mainly or solely by steam or electrical power increased in a considerable proportion between the years 1919 and 1935, and there was a corresponding decline during the period in the proportion of collieries raising coal mainly or entirely by hand labour.

Rationalisation or efficiency systems of labour as undertaken in Bombay, however, create an acute problem, for they lead to a fear of direct unemployment amongst workers and that usually at times of a trade depression. It was natural, in the circumstances, that workers should strenuously oppose the introduction of rationalised methods of work.

Among the problems of labour management raised by rationalisation the problem of the additional strain involved is perhaps the easiest to solve. Additional strain and fatigue may be imposed on workmen as a result of asking them to do more intensive work. It is pointed out by employers that if conditions of work are improved, if the layout of the plant is altered, if better materials are provided and certain other measures taken, there is no reason why minding more machines should mean really more work. Again by means of systematic time and motion studies the methods of work usually adopted by labourers can be so changed that output is increased without involving extra strain. In theory all these claims might be conceded; whether, in practice, they are always fulfilled is another matter. In the first instance it should be remembered that

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<sup>1</sup> "Report of the Coal Mining Committee," 1037, Vol. I, pp. 242-3.

the technique of time and motion studies is highly specialised and that these studies require the co-operation of a number of different types of experts. The industrial engineer, the industrial psychologist, and the industrial physiologist must all co-operate if really dependable results are to be obtained; and the view that the experts must take of the problem must be a long range view and must not be confined to the need of obtaining immediate economies. So far as is known, no specialised technicians have been employed for the purpose where this work is carried out in India, and such technicians as are available are all industrial engineers. It is not implied that the results obtained have been necessarily wrong; but only that, in the circumstances, these results are not of a character that might be called scientific, and that they cannot be treated with implicit confidence. Of course, in countries where all types of fully equipped experts are available, there arises the further difficulty that labourers do not feel that they can trust the results of experiments or observations made by persons in the employ of the owner. Mr. Cole<sup>2</sup> has suggested that this difficulty might be got over if trade unions engaged experts on their part, and the data required for the "scientific management" were collected jointly. This suggestion can be carried out only if there exist highly organised unions of workers rich enough to pay for the services of competent experts. Lack of organisation and funds, however, is not the only difficulty. If there is a strong feeling among the mass of workers against rationalisation methods, trade union leaders may find it inexpedient to co-operate actively in working out measures that are unpopular, because the appointment of experts on the side of labour places on labourers the responsibility of accepting ungrudgingly all the innovations to which their experts agree.<sup>3</sup>

It should be noted that in Ahmedabad, where in the Cotton Textile industry rationalisation in the ring spinning department was brought about by joint agreement between the Ahmedabad Millowners' Association and the Textile Labour Association, the Labour Association is now taking up, the Millowners complain, a merely *non-possumus* attitude in respect of the proposals for all the other departments.

These difficulties arise even when it is presumed that the employers are anxious to conduct careful experiments before embarking on any venture in the direction of intensification, and that they would not attempt anything which is not warranted by the results of such experiments. This presumption cannot, however, be made in conditions under which concerns are managed in India. Bombay is the only centre where intensification has been undertaken on any considerable scale. If there is any such movement in the Jute industry, nothing

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<sup>2</sup> Cole, G. D. H., "Payment of Wages." 1928, Preliminary Chapter.

<sup>3</sup> In this connection, the experience of the Pequot Mills in U. S. A., recorded in one of the I. L. O. studies on Industrial Relations, is very instructive. In this mill the management was confronted by the necessity of reducing costs of production in 1928, and submitted as a result certain proposals regarding rationalisation which it intended to adopt to workers. The Workers' Union took the unusual step of consulting a management engineer and submitted counter proposals. Ultimately joint research was agreed upon and the scheme of joint research worked for some years. In 1933 it had, however, to be given up chiefly because under it Union officials were left with the chief work of persuading workers to accept the proposals of the Joint Research Committee, and this led to their assuming too much responsibility and to a loss of confidence in them among workers. I. L. O. "Studies in Industrial Relations." III, 1935.

is known outside about its character and its effects. An effort in this direction in a concern like the Tata Iron and Steel Co. may be taken to proceed deliberately by stages. The Coal Mining Committee (1937) does not in its remarks on rationalisation refer to intensification of labour, but it is understood that progress in this direction in the coal-mining industry is not marked. The Cawnpore Labour Inquiry Committee notes that "rationalisation in the sense of intensification is to be found only in two or three mills on any extensive scale, and only rarely has intensification been introduced in complete sections." The Committee, however, does not record the preliminary steps, if any, adopted by employers before undertaking intensification, though it records the impression that in a modern spinning side it seemed as if less strain was involved on the workers though they minded more spindles than in the older mills. In Bombay, however, rationalisation in the sense of intensification has been taking place for more than a decade, and has now been introduced by all types of concerns. The pioneers of this movement did conduct, it is reported, according to their light and with such means as were at their disposal, certain experiments by way of observation and testing. It is, however, equally true that subsequently the measures of intensification were widely copied, and that they were not all necessarily adopted under the same conditions and after making the same improvements and taking the same precautions as in the original ventures. The Millowners' Association, Bombay, therefore, felt it necessary in 1934 to lay down certain conditions under which alone any measure of rationalisation should be undertaken by the member mills in the various departments. The recommendations made by an expert committee in this behalf were to be observed by all member mills. A resolution to this effect was adopted at about the same time as the adoption of the minimum wage schedule, but it proved very much more difficult of enforcement than that schedule. In the nature of things the detailed recommendations of an Expert Committee in such a matter could not be carried out by a body which could not enforce its resolutions by any effective sanctions and which had no inspecting or supervisory staff. In such circumstances, there could be no guarantee of a careful observation of the instructions, and it is well-known that certain limits laid down by the Committee have become completely ineffective in practice. On the other hand, it is equally true that conditions in rationalised departments have distinctly improved in recent years, and that complaints and disputes on this score of rationalisation are fewer in number now than they were a few years ago.

So much with regard to complaints regarding additional strain. The problem of the extra wage is even more complicated. The workers, if they do not refuse to mind more machines on the ground of the task being beyond their capacity, will at least demand extra payment. The extra payment demanded may be to the extent of all the gain which may result from intensification. The extreme attitude on the other side is exemplified by the view expressed by certain employers that in so far as minding more machines involved no additional strain, there seemed no reason why any additional payment should be made to workers. In actual practice a substantial increment in wage rates had to be conceded in the initial stages in order to induce workers to undertake the extra work under the changed conditions. The extra payment is usually expressed as a percentage of the original wage rate. It should be noted,



however, that this manner of expressing is not the result of any careful calculations or any attempt to allocate gains which might result from intensification as between capital and labour; it does not also indicate any calculation in terms of added work. An attempt at allocation of gains must proceed by way of assessing the net gains. This involves calculations of capital costs required for additional equipment, etc., and of increased running costs such as may have to be incurred for supplying, for example, better materials, etc. No figures of any such calculations have been published. Moreover, the net gains must differ from unit to unit, while the percentage added to the wage is now ordinarily uniform for all units in a centre. The added percentage is also not correlated to the extra strain because that also is measurable only with difficulty and is in actual fact not measured. The increase in the wage rate merely represents the result of the ordinary type of bargaining between employers and workers. Intensification was expected to yield by employers, and did in fact yield, certain economies in working expenses which should add to profits made. That these economies were being made was realised by the workers. Hence they demanded before working on the new system extra remuneration, and obtained it mostly in proportion to the strength or weakness of their bargaining position. In the early days of the movement workers prepared to undertake the new type of work were few; hence the larger payment. When later the system became more familiar to workers and their supply became larger, the extra remuneration could be reduced. In Bombay an attempt was made by the millowners at the time of the introduction of the minimum wage schedule to bring about uniformity in the extra percentage paid in all concerns for given types of rationalised systems of work. At about the same time double-side working in ring-spinning was adopted in mills in Ahmedabad as a result of an agreement between the two sides. It is perhaps an index of the relative bargaining position of labour in Bombay and Ahmedabad, that while in Bombay the percentage over the pay of the single-side sider that a double-side sider should get was fixed uniformly at 33 per cent, in 1934 the corresponding percentage fixed in the agreement between the employers' and labourers' organisations in Ahmedabad was 45.

Rationalisation, it is usually claimed, is the only means of raising the level of wages. In so far as rationalisation embraces all measures by which the net product of industry available for distribution can be increased, this claim is justified if we presume that the labourers are already obtaining as large a proportion as possible of the product. Most measures of rationalisation have, however, some effect on employment, and the total effect of the process can be judged only by taking into account the resultant employment situation. It may, for example, happen that rationalisation, widely adopted, brings about such changes in the market relations between capital and labour that labour as a whole suffers either by an added volume of unemployment or by a reduced share of the product of the industry that it is able to secure for itself. Thus in spite of the size of the product having increased, the absolute income of the labouring classes as a whole may not be increased by the process. This leads to the further consideration that the gains from rationalisation accruing to workers in a particular industry cannot be confined to and wholly conserved within the industry unless the market for labour in the industry is a closed one.

The gains from the rationalised system of work are expressed as an added percentage to a basic wage only so long as the rationalised system of work is new and has not been adopted generally. When the rationalised system becomes itself the general method of working, no meaning could be attached to this added percentage. And when this happens the disparity that may have temporarily crept in between the remuneration to workers in rationalised system of work and other workers of similar capacity elsewhere is not likely to be maintained for long. The point may be brought out clearly by a concrete illustration. The work of minding one side of a frame in ring spinning may be taken to be work of semi-skilled character involving a certain intensity of effort. The payment made for it would then, on an average, bear a certain relation to payment for semi-skilled work among other types of industrial labour. The minding of two sides by a ring-sider being an innovation, the double-sider is initially able to obtain a higher wage-rate. Is the higher wage-rate likely to be sustained for a long time? It could be sustained only if minding two sides was really work requiring proportionately greater skill and greater intensity of effort. If, however, this was not so, the supply of double-siders would in course of time be made as easily available as that of single-siders and that of semi-skilled formerly; and the relation between the wages of the double-siders and workers in other industries would be improved only to the extent that double-side working was truly more intense or more skilled. This naturally follows from the assumption that gains accruing by the progress in technique in a single industry cannot be confined to employers or labourers in that industry alone, but must be spread in course of time over the entire economic system. I have, in arguing as I have done, of course, neglected the important factor of stickiness in the Indian situation. Whatever its effects in delaying the process of adjustment, it seems unlikely that the pressure of labour supply would allow the gains to be conserved in a particular industry unless they were protected by the strong power of organised labour. Similarly under any scheme of regulation also the regulating authority could not for long maintain wages in a particular industry or trade at a level which was out of relation with levels obtaining in other industries. Rationalisation then can be considered a means of raising the wage level materially only if it was a widespread movement. Confined to a single industry and to a few centres it could not appreciably raise the level of the average wage rates of industrial labour.

When, however, rationalisation is considered as a wide-spread movement it becomes all the more necessary to consider the effects that it is likely to have on the employment situation in the country. The progress of rationalisation in India has been limited in extent so far. It is not possible, therefore, to argue as the basis of past experience. The enquiry into wages and unemployment in the Bombay Cotton Textile industry conducted by a Labour Office in 1934 was directed in part to the effects of rationalisation. The report of the enquiry contains the following observations: "It has been estimated that during the last few years, as a result of the introduction of rational methods of work, the number employed has been reduced by about ten thousand persons. If we, however, take into consideration the number employed on night-shift it will be found that the diminution in employment is incon-

siderable."<sup>4</sup> It seems to be taken for granted in this extract that increased night-shift working is a necessary result of the adoption of rational methods of work. This cannot, however, be conceded as a general proposition. During the period 1926-27 to 1936-37 the Cotton Textile industry in Bombay underwent a contraction in size. The number of units as well as the number of spindles and looms working was diminished, but the average daily number of persons employed decreased in even a greater proportion; the average number of persons daily employed having been 154 thousand and 109 thousand in 1926-27 and 1936-37 respectively. In the process of contraction the firms that rationalised their methods of work were perhaps, on that account, enabled to avoid the effects of generally depressed conditions, and they might even have been able to secure a part of the work that was lost by their unlucky competitors in the centre. These circumstances cannot, however, be taken as typical of conditions in all centres where rationalisation is undertaken.

It is not necessary for me to embark upon an elaborate dissertation on the effects of rationalisation on employment. It is, I believe, common ground that in the short run rationalisation is likely to lead to unemployment in particular industries. Unless the demand for the products of an industry is very elastic, rationalisation on any large scale must lead to a diminution in the employment offered in the industry which is rationalised. There is no doubt that even in the short run rationalisation may lead to some expansion in the demand for the products of the capital-goods industries which supply the additional plant and equipment required by the rationalised industry. There is nothing to indicate that this will be large enough to compensate the unemployment caused, and ordinarily the presumption is that it will not be correspondingly large. In any case, in the short run an immediate problem of unemployment will be created in the rationalised industries as the persons displaced in this industry are not likely to be those newly absorbed in the capital goods industries. Means must, of course, be devised to deal with this problem. In the long run rationalisation, it is pointed out, must mean an increase in the national income. Whatever the proportion in which this increase is divided among the different classes, it is bound to increase the total demand for goods and services, and thus lead to increased employment in some direction or another.

It is not my intention to discuss the recondite problems concerned with the effects of rationalisation on the standard of living and such problems as those of transfer of labourers from one industry to another, etc. I, however, desire to draw attention to one important aspect of the problem which is particularly important to us in India. The form in which I would raise this question is as follows. Can we presume that the increased demand for capital goods or for consumption goods or services which results from rationalisation will mean increased employment within the country itself? We cannot in this context talk of a closed market. It is largely international forces that are forcing rationalisation on us today and have forced it on us for the last 100 years or more; and the repercussions of the rationalisation of our economic system are spread over the entire economic world. The question I want to raise may be il-

tustrated by such questions as the effects of the rationalisation of our transport system and the further spread of mechanised industry. Mechanisation of road transport has, for example, almost revolutionized conditions of internal trade. It has in some cases very considerably lowered costs of transport of commodities and also for the movement of people. It has given rise to new repair industries in the country, and created a demand for new types of goods and services which did not exist before. The major kind of new demand to which it has given rise—that for automobiles and for petroleum—has, however, created employment entirely outside the country. On the other hand, the unemployment caused by it among previous types of road carriers in the country—men and animals—has been very considerable and has seriously affected the character of the rural economy of many tracts. The economic working of other transport agencies, like railways, in which considerable capital had been sunk previously has also been harmed. I am not trying to strike a balance of advantage and disadvantage resulting from the mechanisation of road transport, but merely desire to emphasize the fact that in considering the total effects of particular measures of rationalisation, attention must also be paid to the question as to whether new employment created by it, is within the country or without it. Or consider, for example, the sudden development of the sugar industry in India following the imposition of a protective tariff on sugar. The large capital-goods demand created by it affected economic activity outside India so far as the demand for machinery was concerned. This indeed has always been the case in all expansion of large scale machine industry in India.

Another aspect of the movement towards further rationalisation in factory industry that we must consider is the effect it will have on other types of industrial activity in the country. All steps towards a further cheapening or a further diversity of the production of factory industry extends still further the margin at which it can compete with the hand and artisan industry. Thus rationalisation will not only result in the creation of a certain amount of unemployment in the factory industry itself, but may create even a greater amount of it in the hand industry. The scope of such considerations is not necessarily limited to activities which directly produce the same type of products. They extend also to the activities concerned with the production of goods which the products of the rationalised industry might also possibly substitute. The extended use of a material like cement may provide examples of substitution for a wide range of materials previously in use. The belief in the almost automatic operation of corrective forces following large scale technological changes has of recent years been given up. Its place has been taken by recognition of the serious nature of the short term difficulties created, and by an emphasis on the problem of transfer, while maintaining at the same time that the long run effects of the changes must necessarily be advantageous. Even this analysis has, however, not usually taken any notice of repercussion of rationalising process on the economy of particular countries. I feel that in shaping national policies such considerations have great importance, and that they tend to emphasize still further the difficulties created, in a period which is not too short, by any rapid progress in the adoption of labour saving machinery and devices calculated to intensify labour effort.

The foregoing argument must not be taken to mean a plea for an embargo on all further advance in technical or machine equipment or on attempts at improving the efficiency of labour. In the ultimate analysis a categorical prohibition of this character cannot be in our national interest; and such a prohibition might prove suicidal from the point of view of our industries. Our industries compete in the home market and abroad with the industries of other countries, to a certain extent. They cannot afford, therefore, to remain far behind the technological practice of industry in the world as a whole. Further, though it is true that our low wage level itself prevents the adoption of certain types of advanced equipment and practices, it has to be realised that this is a factor of not very considerable importance in the general progress of technology; for, usually the effects of new inventions and new devices are so economical as to make their adoption profitable in spite even of a low wage level.<sup>5</sup> While admitting the force of these considerations I would emphasize the need for paying greater attention to what have usually been dismissed by the economists as short term considerations. A short term in this case may well cover the life of a whole generation, and we cannot be neglectful of the catastrophic changes that may be brought about in the life of the present generation in consideration merely of the possible beneficial effects to future generations. I believe that there is enough force in all these contentions for the State to attempt a definition of its policy in this matter. They would also justify in my opinion a policy of regulation in such directions as the State can undertake. The State in India has now deliberately embarked upon a policy of protection. Such a policy commits the State to a careful shaping of the development of forms of economic activity in the country. There can thus arise no objection in principle to the regulation by the State of the directions in which, and the pace at which, these industrial activities should progress. Provided suitable means can be found, the guidance and regulation by the State of steps towards rationalisation in all industries is surely to be welcomed. Today the problem may not, everywhere, appear important, but it tends to grow with the progress of time and of industrialisation. I must leave the matter at this stage; for any detailed consideration of the various methods of regulation, their applicability and practicability, will take me far beyond the subject of this series.

## LECTURE V

# INDUSTRIAL RELATIONS

THE MOST important problem of all in connection with industrial labour is the problem of the maintenance of industrial peace. The problem of the conflict of labour and capital in its present form is entirely the product of large-scale industry. Concentration of economic power in the hands of individual employers leads to employment by them of workers in the mass. Workers employed in one place by one employer of a similar class and working under similar conditions tend in course of time to act together in their dealings with the employer. When workers as a body begin to act together a difference of opinion regarding conditions of work or payment between workers on the one hand and the employer on the other has consequences which affect simultaneously large numbers of labourers. In the absence of conjoint action the employer would deal separately with the individual worker, and the failure to come to an agreement regarding conditions of work could not, in such circumstances, be felt simultaneously over a large body of workers. The concentration of economic power in the hands of the individual employer, which is the essence of large-scale enterprise, leads to employees having to act together in order to protect their interests adequately; and it is this that gives its special character to industrial disputes in the modern world. Once labourers learn to act together, such joint action is not necessarily limited to workers employed in a single concern. Workers similarly situated, whether employed by the same concern or not, find it advantageous to act together in a variety of ways. The employers in their turn find it necessary to lay aside, for the time being, their business rivalries and to act together in order, among other objects, to deal more effectively with demands made by organized bodies of workers in industry. The area which can be affected by a single dispute thus tends to become progressively wider with the growth in size and scope of the organisations of workers and employers. When industrial disputes assume this character their outbreak sometimes involves a complete stoppage in the working of parts of the economic system, and if the stoppage is in an organ that is vital they threaten to bring the whole system, at times, to a standstill. It is then no longer possible to look upon these disputes in the same manner as the inability of two parties to an exchange to reach a bargain would ordinarily be looked upon in the economic system. Frequent breakdowns of parts of the economic system are liable to impoverish a community, and the prevention of industrial strife thus assumes an important role in national policy.

The problem of the maintenance of industrial peace may be dealt with from two different points of view. In the first instance measures may be taken to narrow the grounds on which difference of opinion can arise. What I have said in former lectures regarding the regulation of wages aimed at this result. If wage payments are systematised and regulated, the possibility of disputes regarding them is rendered smaller than if they were chaotic and settled capriciously. It is possible to deal similarly with all the

more important of the usual subjects of disputes. For example, a proper system of recruitment or the adoption of a regular procedure before dismissal of an employee can take place, must lead to an improvement in industrial relations. Any measure that leads to a feeling of contentment among the working classes and to the creation of a confidence that they were, as individuals and as a class, being dealt with justly must automatically help the furtherance of the cause of industrial peace. This, of course, is the main direction from which the problem has to be tackled for obtaining a lasting solution. But, however great the progress in this direction, there will arise occasions on which a difference of opinion regarding the terms of the bargain will be evident between the two parties. It is the handling of occasions of this character with which the machinery and technique of maintaining industrial peace is more particularly concerned.

Prof. Pigou has pointed out that disputes arise because of the existence of a margin of indeterminateness in the settlement of all exchanges or bargains.<sup>1</sup> If under given conditions there was a fixed point at which alone a particular bargain could be settled and if, further, both parties to the bargain knew the existence of such a point and its exact location, no dispute could arise. In fact, however, no such definite points exist; and there always are, according to particular circumstances, wide or narrow limits within which the possibility of the settlement of a bargain lies. There is also considerable ignorance on both sides regarding the real facts of the situation and also regarding the strength and disposition of the other party. I have shown in a former lecture that when independent committees of investigation or arbitral tribunals consider the settlement of disputes, the factors that they take into consideration are of such general character that their quantitative evaluation and weighing presents a difficult problem. In such evaluation the subjective element must necessarily enter to a large degree. The judgement arrived at by committees whose composition differs considerably from each other is, therefore, likely to be wide apart even though the data on which they base their conclusions are identical. If this can be said of committees composed of persons who have no direct interest in a dispute, it is not unnatural that the parties to the dispute, being both interested and being not as accurately or fully informed as a committee of investigation would ordinarily be, should hold expectations greatly at variance with each other. An outsider, or an authority like the State, can in such circumstances help, in a number of ways, to bring about a better appreciation of the situation by the two parties and to induce into them a reasonable frame of mind.

Before attempting to discuss the methods by which this can be done and their propriety and efficacy, a few words on the peculiar character of the situation in India would not be out of place. Though organised industry in India has a comparatively long history, the problem of industrial peace is of recent growth. It is largely a product of the last twenty-five years. Before this period joint action on the part of labour was almost unknown. While there has been during the last two decades a considerable growth of unionism, its character is yet peculiar. Looking at the comparative strength of the two

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<sup>1</sup> "Economics of Welfare," 3rd Edition. Part III, Chapter IV.

parties it is clear that in India the employers are, as a rule, immeasurably stronger than labour. The mill agents in the Jute industry have long been organised in a strong association. Similar is the case with the Cotton Textile manufacturers in centres like Bombay and Ahmedabad. In the smaller centres of this industry like Cawnpore, Coimbatore, or Sholapur, organisations of employers have sprung up in recent years. The Coal-mining interests are organised in a number of separate bodies; and in the newer industries like Cement and Sugar the employers seem to be able to act, on occasions, with even greater cohesion than in the older-established industries. The organisations of workers seem in comparison to be very weak and ineffective. The membership of the employers' association is not always all-comprehensive, but the number of non-members of particular employers' associations from among the constituents in the industry is always comparatively small. The proportion of the members of unions amongst industrial workers is, on the other hand, very small. Such a disparity in the strength of membership between employers' and workers' organisations is, of course, not peculiar to India, but it is certainly more marked in this country than elsewhere.

An important characteristic of Indian labour organisation, which is not usually found in other countries, is the small extent to which the leaders and organisers came from the ranks of actual workers. The explanation of this phenomenon is not far to seek. The workers in India are largely illiterate and unfamiliar with the urban type of social organisations. Unless, therefore, the worker is specially trained for the purpose, he cannot easily take to the work of union organisation. And even if a small number of workers possessing rudiments of a literary education helped in some kinds of organisational work, it is rarely possible for this class to throw up leaders who will be sufficiently well-equipped to build and keep together a big union or a big movement. The leadership of the movement, therefore, rested in the beginning and has remained till today with outsiders. The outsiders have belonged chiefly to two classes. They have either been social workers or they have been propagandist adherents of some active school of thought—either political or economic. In recent years the latter class has largely tended to displace the former. The type of leadership obtained by particular organisations has been important in shaping the course of their history.

Trade unions of labourers in India have again developed little in the way of normal functions for day-to-day work. Lack of recognition, from which they suffer almost universally, has no doubt been partly responsible for this; because the unions have been unable to deal with the pettier grievances of their members by getting into touch with the employer in the ordinary way. It remains true, however, that they have also for one reason or another usually not found it possible or thought it desirable to give sufficient attention to organising any common or corporative activities which might interest or help their members. The result has been that in a large number of cases Indian unions have laid themselves open to the charge that they were little more than strike committees. The ebb and flow of union membership in relation to strikes and struggles with employers is to be observed all over the world, but the amplitude of these movements is perhaps larger with us than elsewhere.



One of the causes which has contributed to the slow growth of labour organisation in India and the fluctuations in the number of their membership has been that labour in India is not permanently attached to industry. The connection with the village of the labourer is a feature that the Royal commission on Indian Labour thought it desirable to conserve. But while it gives certain strength to the individual labourer's position and affords him some relief, it also undoubtedly weakens the strength of the class as a whole. A worker not wholly dependent on his industrial job is not keenly interested in the urban and class organisations; a mass which is composed largely of such individuals cannot be expected to be well-knit, and an organisation which contains a considerable number of members so situated could not well be strong. All this, of course, applies specially to organisations of industrial workers and not of such classes as railway employees who contain within them a large black-coated element.

Employers of labour in India are well aware of the weaknesses of the Indian Trade Unions. The line they have so far taken is, therefore, that of declining to deal with leaders of such unions as exist. It has often been argued that employers of labour themselves benefit from the existence of organisation amongst labourers. Organised labour, it is said, is easier to deal with and that it is, therefore, in the interests of employers to encourage the building up of such organisations. This, however, is true only if the employers as a class take a broad view of the problem counting in all the social implications. From the point of view of an individual employer, organisation necessarily means an improvement in the bargaining strength of the labourer which would result, perhaps, in a permanent increase of the share of proceeds going to him. The industry as a whole may profit from such a redistribution which might react on the efficiency of the workers and also give them greater confidence and self-respect. It is, however, too much to expect individual employers to adopt this point of view. Consequently employers have always been keen on preventing the establishment of the right of collective bargaining even at the risk sometimes of considerable immediate loss. Such considerations fall in the category of what Prof. Pigou calls "negative costs." The employers consider it worthwhile to incur even considerable immediate losses if they can permanently prevent an inconvenient union from coming into existence. The history of the strikes in all the major industries in India shows the great reluctance of employers to deal with leaders of such labour organisations as may exist, and when forced by circumstances or outside pressure to deal with them they are seen to be anxious to withdraw from the position as soon as possible. Though few strikes have been undertaken in India specially to obtain recognition for a Union or to establish the right of collective bargaining, these questions have always assumed great importance in all major strikes, whatever the reason for their commencement.

The problem of the maintenance of industrial peace in India may thus be said to be in its initial stages. In those countries in which strong organisations of labour with whom employers habitually deal exist already, the problem is essentially one of educating and informing public opinion and of putting the two parties in a reasonable frame of mind. With us it is one of initially helping

a proper organisation of workers and obtaining for it the right to bargain collectively; these problems have to be solved before we can go on to evolve a reasonable system of industrial relations.

We may also note at this place some of the important features which may be observed in India in the progress of industrial relations and the conduct of strikes. These arise chiefly from the peculiarities of trade union organisation to which I have referred above. In the first instance the influence of outside leadership must be taken to influence the character of the issues on which conflict arises and the degree to which resistance is offered. Outside leadership does not ordinarily adopt the restricted point of view of a particular union or class of workers. It is bound to import into the movement the objectives of the social and economic philosophy by which it is actuated. This should not be taken to imply that ordinary trade union leaders have no philosophy. It is well-known that in most countries there are sharp differences of opinion among trade union leaders on fundamental questions of policy which turn largely on the social or economic faith they profess. The conduct of union affairs is also largely influenced by these opinions. I would, however, draw a distinction between leaders who are primarily union leaders, for whom the immediate interests of the particular union which they lead and which, perhaps, they have helped in building up and the interest of its individual members are matters of paramount importance and with whom their creed does no more than colour the general policy, and leaders who are primarily interested in a faith or a philosophy and its spread and to whom unionisation of labour is an incident and a means to certain ultimate ends. I would further make clear that I do not mean to imply that either the one or other type of leadership is superior. I wish merely to draw attention to the fact that we have mostly had so far the latter type of leadership prominent in our labour movement, and that this necessarily has important consequences on the nature of its development and the course of industrial conflict. It greatly influences, for example, the determination of the *sticking point* of the workers. Prof. Pigou describes the sticking point in the following terms: "In considering their policy, the work people's association will reflect that, if they elect to fight a battle about wages, the fight will cost them so much and the terms obtained at the end are likely to be such and such. Weighing up these things they will determine on a certain minimum wage which it is worth while if necessary to accept rather than fight."<sup>2</sup> It must be admitted that it has often appeared, at least to the neutral observer, that in Indian industrial disputes the sticking point has been fixed at too high a figure. This must be due to two sets of causes: Firstly, that the outside leader perhaps underestimates the positive cost to the workers of the struggle. Secondly, he might treat as very important the considerations of negative cost, i.e., of advantage that may accrue from the struggle apart from the particular point which is at issue. Such advantages may be internal, i.e., pertaining to the union proper, such as obtaining recognition for the union or attracting to it increased membership; they may also be external, i.e., not relating to the union proper, such as prestige, opportunity for propaganda, the creation of a general atmosphere of discontent in the world of labour, etc.

The latter kind of negative costs seems to be given considerable importance to by Indian Trade Union leaders. These tendencies and the importance attached to external negative costs are accentuated by the fact that unions rarely have much continuous day-to-day work, and that times of unrest and dispute are the chief occasions when its leaders come into close contact with the mass of labourers.

The unsettled character of industrial labour has also important consequences on the course of strikes. This feature of our labour situation may not, of course, make labourers more ready to strike. The rural population is driven to the cities to work, because of economic necessity, and our workers would not more gladly and readily suffer unemployment than workers in other countries. Once, however, a strike has been started, the consequences of the unstable nature of the working population become apparent. For, the almost entire absence of union funds, the paucity of external help that they are able to obtain, and the meagre staying power that they possess, force all workers, who can, to go back to their villages almost immediately after the commencement of a strike. Once a mass of workers has left the city, it will not return to it precipitately. The cost of movement and the uncertainty of obtaining employment will tend to keep it away from the work-place for a much longer time than if it had stayed on in the industrial centre. This seems to be the main reason for the prolonged character of Indian strikes. It will most probably be found that where, as in Bombay, the tract from which the bulk of labour hails is near at hand and the cost of movement to it is, therefore, low, a considerable exodus of the labouring population out of the industrial centre takes place and strikes tend to be more drawn out than at other centres. The main consequence of this feature is that once a strike begins, it leads to prolonged dislocation of the industry and, therefore, to an increase in the cost to the community of the industrial dispute. As noted above, the influence of outside leadership also tends largely in the same direction.

There are no short-cut methods by which these difficulties of the Indian situation can be got over. Fundamentally it is a question of obtaining a more literate, more educated, and a more stable labour force capable of throwing up leaders from among itself who will shape its policies and its philosophies in the light of its own peculiar needs and circumstances. All measures which tend to create such a class will also lead to the extinction of the large initial difficulties with which we are confronted.

The methods by means of which it is possible to intervene in industrial disputes have usually been put into three classes. These are (i) Enquiry, (ii) Conciliation, (iii) Arbitration. The order suggests the increasing extent of the scope of intervention. A committee of inquiry usually confines itself to an investigation into the causes of the dispute, and perhaps also records its findings on the issues involved. The use to which reports of committees can be put in the settlement of disputes is mainly of an indirect character. The report presents an expert independent review of the situation to the parties, to government, and, if published, to the public at large. It has thus an educative effect, and its findings may be utilised by government to put indirect pressure on either one or both sides to the dispute. Conciliation involves a more direct

intervention in the progress of the dispute. Its essential nature is not that of investigation or enquiry at all. The conciliator or the Board of Conciliation need not be experts in the subject, neither need they go thoroughly into the issues involved. Their main function is to get the two parties to the dispute together and to try and reach a settlement. Their services are available as intermediaries, and they are expected to smooth out the situation, to lessen misunderstandings, and to create an atmosphere within which it will be possible to reach an agreement. Conciliation may often succeed, but it is not always and necessarily effective. Arbitration, whether compulsory or voluntary, leads, in the ordinary course, to a final settlement of the dispute; the arbitral award is binding on both the parties. The work of the arbitral authority is, therefore, somewhat akin to that of an enquiry committee. Two differences may, however, be observed in the working of the two types of bodies. The report of a committee of enquiry or investigation being supposed in the main to be an educative or instructive document, the committee's chief concern would be an accurate presentation of facts and a just evaluation of arguments. The report of such a committee must aim at carefully arguing out the case in favour of the findings at which it arrives. An arbitral authority is usually spared the need of doing this in as elaborate and punctilious a manner in which it would be necessarily done in the report of a committee. On the other hand, while a committee of enquiry would tend to arrive at what would appear to it to be the logical conclusions arising out of its review of the situation, a board of arbitration must look not only to the logic, but also to the workability of the award that it presents. The latter would ordinarily tend to prefer a solution that appeared workable and was satisfactory to both parties than to a solution that was merely correct. Industrial arbitration is essentially "an expedient for finding economically a working compromise between two conflicting claims, neither of which is necessarily unjust or inequitable in itself."<sup>3</sup>

We may in this manner present a theoretical classificatory description of the agencies that work for industrial peace and the roles that they are expected to play. In the world of reality the classification is not always clear, and one often finds bodies acting in a manner considerably different from the manner in which they would in theory be expected to act. The brief analysis presented above may, however, prove helpful in recognising the nature of the various types of efforts and in perhaps more clearly visualising the reasons for their success or their failure.

Before the war of 1914-18 no attention was paid by the state in India to the problem of labour organisation or of labour disputes. When towards the end of that war the rapid rise in the price level led to labour discontent and the first attempts at labour organisation, it was found that leaders of labour organisations were not even adequately protected in law. This preliminary difficulty was only removed by the passing of the Trade Union Act of 1926. The considerable labour unrest in the post-war period led the provincial governments of Bombay and Bengal to consider the problem of the settlement of industrial disputes. No legislation was, however, undertaken as a result of the report of committees then appointed. The Trade Disputes Act of 1929

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<sup>3</sup> "Towards Industrial Peace," 1927, p. 198.

was the first legislative enactment in India to make provision for official intervention into labour disputes. It provided mainly for the appointment of Courts of Enquiry or Boards of Conciliation. Even before the passing of this Act, Committees of Enquiry had been appointed by certain provincial governments to enquire into certain big disputes. Since the Act, use of its provisions has been made by the various provincial governments in an uneven manner. In recent years the only notable instance of a frequent resort to it was the appointment of a number of committees of enquiry by the Government of Madras during 1937-38. These independent committees of enquiry have attained varying degrees of success, depending largely on the competence of the particular committee to deal with the question referred to it, and on the extent to which governments have exercised pressure on the two parties for obtaining an acceptance of the findings of the committee of enquiry. The method of an exhaustive investigation by a Committee of Enquiry, is, however, suited only to particular types of major disputes. Almost no use was made by any government of the provisions of the 1929 Act regarding the appointment of Boards of Conciliation, and the act did not provide for the creation of any permanent body of the usual type to which a dispute could be referred for arbitration as a result of agreement between both parties. The Royal Commission on Labour in India had drawn special attention to the neglect of conciliation in India. This defect was sought to be remedied by the Bombay Trade Disputes Conciliation Act of 1934, and four years later the Government of Bombay also enacted a much more ambitious piece of legislation called the Industrial Disputes Act. Apart from the amendment of the Trade Disputes Act of 1929, in 1938 neither the central Government nor any other provincial Governments have undertaken any legislation in this behalf. The two Bombay Acts, therefore, constitute the sole experiments in the sphere of machinery for the settlement of industrial disputes in India. It is consequently necessary to pay special attention to the provisions of these acts and the result of their working.<sup>4</sup>

The Bombay Trade Disputes Conciliation Act of 1934 makes provision for the appointment of conciliators and for the reference of a dispute to conciliation either on the application of either party or both parties to the dispute or on an application by a Labour Officer or upon the knowledge or information of the conciliator himself. The Act contemplated that the Commissioner of Labour of the Government would be *ex-officio* the Chief Conciliator. It provided for the appointment of assistant conciliators and special conciliators. These provisions had been developed so as to provide for conciliation through the services of the permanent officials of the Government Labour Office. This is a development which runs parallel to the practice in many other countries. There is unfortunately no published account available of the working of the Bombay Trade Disputes Conciliation Act. Though the area of operation of the Act was restricted to the City of Bombay, a large number of disputes were referred to conciliators under the Act. It is understood that the large majority of the disputes so referred were successfully settled in the conciliation stage.

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<sup>4</sup>Brief details of eleven industrial disputes settled during the years 1929-76 by conciliation or arbitration independently of the Indian Trade Disputes Act, 1929, and the Bombay Trade Disputes Conciliation Act, 1934, are to be found in Bulletin No. 62 of Indian Industries and Labour. "Industrial Disputes in India (1929-30)," 1937.

In case a dispute was not settled, the conciliator sent a report of the proceedings to Government; this was, however, not published. The Act provided for the appointment of delegates by each party to the dispute to appear before the conciliator, and if any of the parties was divided into more groups than one, each of these groups could be represented by a separate delegate or delegates. So far as is known no difficulties were experienced in the working of these provisions. The Act also provided for the appointment of Labour Officers in order "to watch the interests of workmen with a view to promote harmonious relations between employers and workmen and to take steps to represent the grievances of workmen to employers for the purposes of obtaining their redress." Under the Act a Labour Officer could be appointed as a delegate to represent the workmen.

An examination of the provisions of the 1934 Act is best made by comparing them with those of the Bombay Industrial Disputes Act of 1938. This latter is an ambitious piece of legislation dealing with a large variety of matters. Its consideration raises a number of highly controversial issues of which I shall touch upon only a few. Perhaps the least disputed of the features of this Act is the central one, of compulsory conciliation. Whenever a dispute arises, it must, under the Act, first be referred to conciliation, and a strike or a lockout can take place only after the completion of conciliation proceedings. As a corollary of this central idea, all strikes or lockouts which are commenced before conciliation proceedings are completed have been declared illegal. The purpose and character of compulsory conciliation is brought out clearly in the following quotation:

"Such temporary prohibition of open disputes is to be sharply distinguished in principle from a general prohibition of all open disputes combined with compulsory enforcement of the awards of the conciliation and arbitration institutions. The former merely serves to ensure that the institutions will be utilised by the parties to disputes before they begin hostilities, while the latter deprives them completely of their freedom to engage in militant action, and leads as a rule to state regulation of all labour conditions. While in most countries the legislature has hesitated to engage itself in these far-reaching consequences, it has often thought it useful and important to ensure that parties shall exhaust the possibilities of settlement through the institutions created for the purpose of maintaining industrial peace before they are permitted to take the law into their own hands. It is therefore comprehensible that in the many countries in which a reform of the conciliation and arbitration system is now under consideration, the question of the suspensive prohibition of open disputes as described above is being given considerable attention."<sup>3</sup>

There is nothing substantial that can be urged against the introduction of this stage of compulsory conciliation before the parties embark upon war. The general argument regarding interfering as little as possible with the natural growth of industrial relations, which is much heard of in Great Britain in this connection, does not apply to India. Similarly not much weight can be attached to the consideration, sometimes urged, that compulsory conciliation will occasionally deprive one party or the other of a favourable opportunity of forcing the issue on the other. Lasting agreements can never be arrived at on the basis of temporary advantages, and it is no disservice to the cause of labour

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<sup>3</sup> I. L. O. "Conciliation and Arbitration in Industrial Disputes, 1930-37," pp. 72-3.

or of the community if strikes as well as lockouts based on considerations of a fleeting advantage are discouraged. The discouragement of the psychology of war is highly desirable equally with all spheres of human relations, in the settlement of bargains under any established system between labour and capital.

The Commissioner of Labour remains the Chief Conciliator under the 1938 Act, and as under the previous legislation, the main work of conciliation is expected to be carried out by officers of the Labour Office of the Government. The Act provides, in addition, for the constitution of Boards of Conciliation by the Provincial Government to deal with particular disputes. These Boards shall consist of a Chairman and an equal number of members selected by Government from persons representing the interests of employers and employees respectively. There appears to be here some possibility for a confusion of ideas and of the development of the system in undesirable channels. I shall, therefore, treat the problem involved at some length. For purposes of clarification we may consider as types of the two different kinds of approach, firstly, the activities of the Ministry of Labour in England, and secondly, the working of the Boards of Conciliation and Investigation of Canada. The work of the Ministry of Labour is largely influenced by the principles of informality and privacy. The Ministry maintains a special department for this purpose of conciliation. "The work of this Department is purposely unobtrusive, its object being to facilitate meeting and eventual agreement between the parties at variance, and not in any way to appear in the guise of quasi-arbitrators."<sup>6</sup> Regarding the procedure followed by the Department, there is, again, no hard and fast rule. "The method of intervention may range from an informal conversation or interview with the interested parties, leading up possibly to a resumption of negotiations between them, to difficult negotiations extending over a considerable period."<sup>7</sup> There are no reports published regarding the successful or unsuccessful negotiations in conciliation conducted by the Ministry of Labour. The Canadian Boards on the other hand are *ad hoc* bodies created to deal with particular disputes. It is their duty to endeavour to bring about a settlement of the dispute; but they are not merely conciliation boards, they are boards of investigation as well. As such they have to enquire expeditiously but carefully into the dispute and "all matters affecting the merits thereof and the right settlement thereof." The reports of the Boards of Conciliation and Investigation are published regularly in the Labour Gazette. The one method, it will be seen, is of pure conciliation and is, therefore, private and informal; into the other are imported elements of a committee of enquiry.

The Bombay Trade Disputes Conciliation Act of 1934 seems to have been largely built on the English model. The practice of the Labour Office under the Act was also, it is understood, largely of that type. It is obvious that this type is eminently suited to conciliation work to be undertaken by permanent officials of a Government department. The informal intervention of an experienced and trusted public official may be of considerable use. But if officials acted publicly and in a quasi-arbitrator's capacity they are sure, in course of time, to be accused of bias, and the value of their good offices is bound to

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<sup>6</sup>I. L. O. op. cit., p. 150.

<sup>7</sup>"Towards Industrial Peace," p. 231.

be greatly reduced. It is further undesirable that such officials, especially when they are connected with a Labour Department, should be forced to express definite opinions in public on matters that are subjects of violent current controversy between capital and labour. Sec. 38 (4) of the Industrial Disputes Act, however, provides that the report of such conciliation proceedings shall be published by Government. Provision for compulsory publication robs the conciliation proceedings of the element of informality, and consequently of considerable value; it might also compromise the neutral position of government officers who act as conciliators or assistant conciliators. The position would not perhaps have been bad if the report could have been confined to a bare recital of the facts and the actual proceedings. Unfortunately, however, the form in which the conciliator or Boards of Conciliation submit their report seems to be developing in a direction which is not warranted by the provisions of the Act and which also seems to me is undesirable. In respect of the report of the conciliator the Act lays down the following: "Such report shall set forth the steps taken by the Conciliator, or the Chief Conciliator as the case may be, for the purpose of ascertaining the facts and circumstances relating to the dispute and the reasons on account of which, in his opinion, a settlement could not be arrived at." Regarding the report of the Board of Conciliation it lays down briefly: "On the conclusion of the proceedings before the Board, the Board shall, whether a settlement is arrived at or not, send a report of the Proceedings to the Provincial Government." What I want to emphasize is that the Act nowhere asks for the findings of a Conciliator or a Board of Conciliation. One may contrast these provisions with those contained in the Canadian Act. This Act lays down that the report of the Board "shall set forth the various proceedings and steps taken by the Board for the purpose of fully and carefully ascertaining all the facts and circumstances, and shall also set forth such facts and circumstances and its findings therefrom, including the cause of the dispute and the Board's recommendation for the settlement of the dispute according to the merits and substantial justice of the case." In spite, however, of the clear wording of the Bombay Act, Conciliators and Boards of Conciliation have in reports relating to recent disputes included elaborately argued findings and recommendations for the settlement of the dispute, and these have been, in the public, talked of as awards. It is, in my opinion, very necessary to guard against the implied confusion of thought and the misdirection of the machinery of conciliation. I am speaking at length on this matter because I feel that it may yet be not too late to prevent this misdirection. I have already made clear why I think it undesirable that the official agency of conciliation should act as investigating officers or quasi-arbitrators giving public findings on matters under dispute. There is not the same objection against *ad hoc* public boards giving findings and making recommendations. But in that case they must be so constituted as to be able to act as committees of enquiry, and they must also be directed to shape their procedure accordingly. Persons whose services may prove useful as conciliators are not necessarily competent to weigh carefully economic facts and give a just finding in an industrial dispute. The procedure of an enquiry must also be difficult and its work more elaborate than that of conciliation proceedings. Hasty findings by not fully competent persons may serve to create a prejudice against the machinery for conciliation



itself. I, therefore, feel it necessary that Boards of Conciliation should not go beyond their proper spheres of work and to try and function as boards of investigations.

Even in Canada it should be noted that the success of the working of the Act is, it is said, attributable in large part to subordination of the compulsory provisions of the Act and an emphasis on the technique of conciliation. We read: "Analysis of these successes reveals an administrative policy of reliance upon the conciliatory rather than the compulsory procedures authorized by the Act. Formally the Act provides penalties upon employers and employees for declaring lockouts or strikes or establishing protested changes in wages or conditions before a board has investigated and reported upon the dispute. Formally, too, the reports submitted by boards may become instruments for bringing the restraints of public opinion to bear upon the parties to disputes. Actually the administrators of the Act have never invoked the penalty clauses against either employers or employees guilty of violations, nor have they actively sought to organize public opinion in any specific situation."<sup>8</sup>

The Bombay Industrial Disputes Act 1938 provided also for the creation of an Industrial Court and thus provides for the first time some permanent official machinery in India for arbitration between the two parties. Any reference to arbitration in India must necessarily lead to a discussion of the experience of the Cotton Textile industry in Ahmedabad; and I may at this stage offer a few remarks on the organisation and working of the Ahmedabad Textile Labour Association. This labour organisation is in many ways unique in India. It has a continuous history of nearly twenty-five years, during which its membership has mostly grown and its strength consolidated till it now easily takes the first place among unions of industrial workers in India. Its experience should, therefore, throw considerable light on the problem of labour organisation and the settlement of labour disputes. The working of the Ahmedabad Textile Union reveals characteristics which are essentially those of a British trade union. Its form is federal, as it is composed of a number of departmental unions, but this feature seems to have little influence on the actual working of the union. The union is recognised by the employers and is in constant touch with them. One of its important functions is dealing with the grievances of individual workmen, and it maintains a large staff for registering complaints and investigating them. It conducts activities of a diverse character—medical, educational, and recreational—for its members, and has also sponsored certain co-operative schemes such as those of co-operative housing among them. The great peculiarity, however, for which it has been often singled out is its scheme of compulsory arbitration. Before discussing this it is necessary to point out that the position of all Ahmedabad Textile Labour Association is in many ways very exceptional in the world of Indian labour. "In the first place," as the Royal Commission on Labour in India observes, "Ahmedabad is almost unique among the industrial centres of India in that the employers and the larger proportion of the work people belong to the same part of India, and share not only the same religion but the same mother tongue." Not enough emphasis is laid in considering the problem of industrial relations in India on

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<sup>8</sup> Selekmán, "Law and Labour Relations in Canada," p. 44.

the differences of race, culture, or language which separates in most centres of industry the employer and the employee class. But these considerations are very important as they lead to an estrangement and to a lack of sympathy between the two parties which creates continuous difficulties in the speedy settlement of disputes. The lady who has been all along the President of the Ahmedabad Textile Labour Association is a sister of one of the leading and one of the most progressive millowners in Ahmedabad, and many of the Association's early sponsors and leaders came from the same social class as the leaders of the industry. These facts have great influence on the day-to-day relations of the union with employers, and they lead to the exercise of social influences and social controls which are, unfortunately, lacking in other centres. The weight to be attached to these considerations is significantly brought about when one compares the attitude of an Ahmedabad mill agent or manager to labour leaders with the corresponding attitude of persons of the same class and similar position at, say, Sholapur. Secondly, it should be observed that funds were available from external sources to the Union at Ahmedabad from almost the start, which enabled it to undertake many useful activities for its members. These included interest amounting to nearly Rs. 15 thousand on the collection from among millowners of the Tilak Swaraj Fund which is each year given by the committee controlling the fund to the Association for educational activities among workers. Thirdly, the Association was able to obtain recognition early, and all the initial difficulties of collecting membership fees, etc., were saved for it by the practice, continued for many years, of the employers deducting from their wages the fee dues of members of the Association and handing over the collection to the Association. In spite of these advantages the Association was not able till recent years to exert its influence greatly in the prompt detection and redress of the individual grievances of workers. It is said on good grounds that the malpractices sought to be stopped by the Payment of Wages Act were always prevalent to a greater extent in Ahmedabad than any other centre of industry, and that workers in this centre profited more by the passing of this legislation than those in any other centre. In addition it should be remembered that the growth of the Association has coincided with a period of almost continuous prosperity for the industry in Ahmedabad. The amounts that have been secured during the last twenty years by mill agents in Ahmedabad merely by way of agency commission are very illuminating in this connection. I have brought these facts out because they seem to me to explain more adequately the success of the Association than any peculiarity of method that I have been able to observe in the working of the Association.

This, however, is not to belittle that success. Given the favourable circumstances, full use was made of them by leaders of the Association to organise workers on proper union lines and to consolidate their strength progressively. They have also been very discreet and conservative in the use of this strength. It is wrong to believe that, because of the existence of arbitration machinery in Ahmedabad, no strikes have taken or do take place in that centre. Small sporadic strikes have occurred in Ahmedabad throughout the last twenty years. The Associations on both sides have yet avoided open conflict on a large scale; and this has been mainly due to the patience and perseverance with which the Labour Association has sought an amicable settlement and sought to avoid strikes. It

must be admitted, on the other hand, that the employers, while, it is alleged, delaying the settlement of grievances as long as possible and allowing the arbitration machinery to work only at a very slow pace, have also always shrunk at the last moment from precipitating an open dispute. It is this attitude on the part of the two Associations rather than any peculiarity of the constitution or working of the arbitral machinery that has saved Ahmedabad from conflicts costly to both sides. It is difficult to say to what extent the arbitral machinery continues to function today. There appears to have been at least two serious breaches in it in recent years. One was when the Textile Labour Association insisted that the claim for an increase in wages made by it in 1937 should be examined not by the arbitral machinery but by the Textile Labour Committee appointed by Government. The other, and what seemed to be an irreparable breach, was when the Textile Labour Association recently gave notice of change to the employers under the Industrial Disputes Act, demanding a war allowance. The essential merits of an internal system of arbitration are supposed to be that it works more smoothly and expeditiously than the official machinery and thus dispenses with the use of official help. A machinery which breaks down the moment that there becomes available an alternative official machinery cannot have been very strongly built. The Ahmedabad experience seems to me to emphasise the need for cultivating patience and discretion and a strong desire to avoid open conflict on the part of leaders of Indian labour. In the best of circumstances, these qualities are essential to the building and consolidating of a proper organisation of labourers. They are required all the more where circumstances, as in India generally, are not so favourable. Ahmedabad experience does not, however, provide any successful models of devices or of machinery of dealing with industrial disputes which could be recommended for being copied by other centres.

The Bombay Industrial Disputes Act creates a Court of Industrial Arbitration in order to decide industrial disputes referred to it. As the Royal Commission pointed out, a permanent tribunal has the advantages that it eliminates delay which is necessarily involved in constituting *ad hoc* bodies, and that it will by experience acquire intimacy with industrial questions and facility in dealing with them. The questions with which the industrial court will deal will be mostly those which are submitted to it by a written agreement between an employer and a registered union. Arbitration is thus entirely voluntary; official machinery is merely available to those who would avail themselves of it. The main difficulty in voluntary arbitration is that of persuading the parties to agree to submit the dispute to arbitration. The habit of referring disputes to arbitration can only grow slowly, its growth depending on the pressure of public opinion, on the character of the leadership of both parties and the experience gained of the functioning of arbitral machinery. In this respect one obvious drawback of the constitution of the Industrial Court established by the Bombay Act is that it will be composed entirely of persons with only judicial training and experience. The foregoing discussion will have made clear how such a training is by itself insufficient to enable a person to decide upon an industrial dispute. Further, in so far as members of the judiciary have normally a conservative turn of mind, the Industrial Court created by the Bombay Act may fail to command the confidence of workers.

I need not refer here at length to the possibility of introducing compulsory arbitration. It leads to an extension of State regulation to an extent that cannot be contemplated today<sup>9</sup> in India. Neither employers nor labourers seem prepared to agree to it, and as I have pointed out, the experience even at Ahmedabad is not wholly favourable to its smooth working. It is at the same time highly desirable that in every trade and industry agreements should come about between the two parties to submit all disputes to arbitration in the ordinary course.

The provisions of the Industrial Disputes Act which have perhaps excited the greatest opposition are those relating to the representation of workers in particular disputes. This question is of peculiar importance in India because of the lack of organisation among a large section of our industrial population and the small membership of existing unions. In countries where labour is well organised, the problem does not either arise at all or arises only when labour unions, divided by grave political or other differences, fight with each other for a monopoly in the representation of workers. Under the Industrial Disputes Act the representative of employees empowered to act on behalf of them means under particular circumstances a Union, in other cases five representatives of employees elected from among themselves, and failing such representatives, the Labour Officer.

The provisions of the Act in the matter of Unions are as follows:

"Under the Bombay Industrial Disputes Act, the Registrar can register 'any recognized union which has for the whole of the period of six months next preceding the date of the application, a membership of not less than five per cent, or any other union which has for the said period a membership of twenty-five per cent of the total number of employees employed in any industry or occupation, as the case may be, in the local area.' For the purposes of the Act there can be only one union in any industry or occupation in a local area. In areas and industries, where an industrial union has already been registered, there may be separate unions for different occupations in one industry only if the occupational union has more than twenty-five per cent of the total number of employees in that occupation as its members. Again, if two unions apply for registration under the Act, that which has the larger membership can alone be registered and a larger union is entitled to displace the smaller union already in existence. The functions of representing workers and negotiating on their behalf can be performed by two classes of unions. The first is a union which has not less than five per cent of the employees concerned as its members and which has been recognized by the employer. Such a union, however, can act only if the majority of the employees affected by any particular change are its members. The second is what is called a representative union. This is a union which has not been recognized by the employer, but which can perform these functions only when it has not less than twenty-five per cent of the employees concerned as its members, with this difference that it can act on behalf of the employees in all cases in which even some of the employees affected by a change are its members. A union which has only five per cent of the employees as its members, and which is not recognized by the employer, can apply to the Registrar to be declared as a qualified union. Such a union cannot take part in negotiations between the parties, but is entitled to assist the representative of the employees in all proceedings under the Act where it has more than fifty per cent of the employees concerned as its members."<sup>10</sup>

<sup>9</sup> This obviously refers to peaceful conditions.

<sup>10</sup> "Report of the Bombay Textile Labour Enquiry Committee" Vol. II (1940), pp. 378-9.

It is difficult to discover the logic behind these somewhat complicated provisions, and it is difficult to see also why they were thought to be necessary. In the first instance one cannot understand why any differentiation should be made by legislation in the treatment accorded to unions recognised by employers and to those not so recognised. If the principle is accepted that a union whose members form a majority of the persons affected by a dispute shall be held to represent workers in that dispute, so long as the union is a bona-fide workers' organisation registered under the Trade Unions Act, non-recognition of the Union by the employer or association of employers should certainly be no bar against the union enjoying its legal rights. A novel and an unwholesome principle is introduced in law when the grant of rights to a union is made dependent on the favour of the employer. Even if this does not encourage the formation of company unions, it is bound to give the employer a pull when the matter rests between two competing unions. It cannot be in the interests of labour organisation that such a situation should arise. It is again difficult to see why a representative union should be given the sole right of representing the workers when the majority of workers concerned in the particular dispute are not members of that union. This is certainly not democratic practice. It may well happen that in a centre of industry a few units lie outside the influence of a particular union. The representative union will yet be the sole party in disputes in these units if only it manages to get a single member from these units in its fold. In this connection the occupational structure adopted for unions in the Act is also significant. The Registrar's powers to declare occupations and areas might well be used in certain cases to give a union the status of a representative union artificially and *vice versa*. The provisions are thus not only illogical, but they lend themselves, under given conditions, to manipulations by the party in power. It is further difficult to understand why the act insists that all the representatives of workers must be selected from among themselves. If the workers so choose, they should certainly be allowed to elect among their representatives some outsiders. The provision does not only hit the organisers of non-registered and non-representative unions, but also harms the interests of the workers themselves. For, it is obvious that the representatives of workers when chosen entirely from among themselves will not always contain persons able to argue and expound the case of the workers. It may well be that in the majority of cases such persons will be found wanting among the representatives. It should be noted that the 1934 Act had laid no such restrictions on the character of the delegates appointed by workers to represent them, and that, in fact, non-worker leaders of Bombay Unions were habitually sent as delegates before the conciliator.

The provisions of this chapter of the Act are thus illogical in conception and are likely to prove retrograde in their effect on union organisation. They are also unnecessary. We may cite for the purpose the parallel of the practice under the Wagner Act. The National Labour Relations Act (U. S. A.) established the right of employees to self-organisation and to bargain collectively through representatives of their own choosing. It naturally followed that the Act had to provide for the determination of workers' representatives. In U. S. A. the condition of labour organisations is largely unsettled. There are company unions and also rival bodies of ordinary unions. The Act, there-

fore, refers to no unions or organisations, but adopts the safe and simple majority rule. It lays down, "Representatives designated or selected for the purpose by a majority of the employees in a unit appropriate for such purposes, shall be the exclusive representatives of all the employees in such unit for the purposes of collective bargaining in respect of rates of pay, wages, hours of employment or other conditions of employment. Provided that any individual employee or group of employees shall have the right at any time to present grievances to their employer." Such a provision applied uniformly in all cases provides really just treatment to all concerned. This provision is administered by the National Labour Relations Board, and an elaborate set of rules has now sprung up for the conduct of elections and the determination of representatives. The Board has, in the course of administering these provisions, to settle representation controversies between rival unions; but it settles the issue for each particular case and no permanent monopoly of representation is given to any particular organisation. The Wagner Act or the Board also does not countenance the undemocratic principle embodied in the Bombay Act that there can at a time be only one registered union in one area and occupation.

The method adopted by the N. L. R. A. is reported not only to be working well, but also to help the growth of unionisation. The method is simple, logical, and fair, and seems to be the only one suitable to India under present conditions.<sup>11</sup>

Another peculiar feature of the Industrial Disputes Act is that it makes no difference between individual disputes and group or collective disputes. Such a distinction is, however, necessary and is commonly made. The N. L. R. A., for example, takes cognizance only of collective disputes. The machinery for dealing with collective disputes is necessarily elaborate and comparatively slow in operation. Grievances or complaints of individual workers need on the other hand to be settled speedily. In the existing circumstances if a labourer has claim against the employer regarding such a matter as arrears of pay, he has to resort to a Civil Court. If his grievance is that he has been dismissed contrary to standing orders he must, under the Industrial Disputes Act, give, through the Union or the Labour Office, notice of change to the employer calling upon the employer to reinstate him. And he would have to wait for the stage of conciliation proceedings, and when this is over he would yet have no certain remedy. In India where Unions are neither strong nor well-organised it is specially necessary that some provision is made for dealing promptly with grievances of individual workmen. A prompt settlement of individual grievances is further desirable because collective disputes are apt to arise out of unredressed individual grievances. Many other countries have felt it necessary to institute special official machinery, usually in the shape of Labour Courts, to deal with this problem. Considering the great ignorance and poverty of the Indian labourer and the tyranny that it is possible for the supervisory and the managerial staff to exercise over him, it appears that the institution of special machinery to deal promptly with individual complaints is even more necessary in India than that of machinery to deal with collective disputes.

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<sup>11</sup> Cf. W. G. Rice, "The Determination of Employee Representatives," in *Collective Bargaining Under the Wagner Act*, Duke University, 1938.

Finally, it is necessary to say a few words regarding the appointment of Labour Officers first made under the Act of 1934 and continued under the Act of 1938. The position of the Labour Officer is obviously one of great difficulty. He has not only to win the confidence of workers, but also to be able to wield influence with managers and agents of factories. It is significant that successive governments have so far appointed only high placed European officers as Labour officers in Bombay. The success or failure of the work of the Labour officer depends to an extraordinarily large degree on the person holding the office himself. It is all the more a pity that the Labour officers in Bombay City do not stay in the office for longer periods continuously. The officers when appointed are almost entirely unacquainted with industrial conditions; and in industries like the textiles, they would be of little practical use in wage disputes until they had acquired considerable knowledge of the processes and of the complicated nature of piece-rate calculations. Experience of the work of the Labour officer in Bombay has so far not given grounds for the fear that was originally entertained that the appointment would hinder the work and growth of Labour Unions. In most important industrial centres the area covered by the active work of union leaders is so small that no conflict need arise in the remedying of the day-to-day grievances with which the Labour officer is and should be more particularly concerned. The Labour officer is by comparison not equally useful in major disputes. Being a Government official he cannot adopt a pronounced point of view of his own and must confine himself to an interpretation of the workers' grievances and demands. This is, however, always a difficult matter where workers are uneducated and unorganised because it is, in this case, as much necessary to formulate demands as to represent them. One cannot again be certain that the Labour officer will be able to interpret the demands correctly, and when there are unions in the same field the position may become distinctly awkward. Outside the field of major disputes, however, a labour officer who is unprejudiced and sympathetic can do really useful work. In a big centre like Bombay the actual work that a single officer can get through is not considerable, but the influence of the work of an energetic officer will be felt over a much wider area than the actual bit on which he is able to operate. In India most sections of industrial labour engaged in small scale and large scale industry are unorganised; and all of them stand in need of protection. Government officials still have prestige in the eyes of employers and their agents. A Government Labour Officer can, therefore, always prove useful in all the more important centres. As unionisation proceeds in particular sections of workers or industries he can withdraw his activities to other occupations or industries where labour is still unorganised. The day, however, seems distant when his activity will be deemed entirely superfluous in the cause of watching over the interests of labour.

## LECTURE VI

# THE STANDARD OF LIVING

I SHALL NOW turn to a consideration of the low standard of living that admittedly prevails amongst our workers, and the problems of social and state policy created by it. Before doing this, however, it is necessary to pay some attention to the view that has gained ground in economic thought, in recent years, that problems relating to welfare such as those arising out of considerations of standards of living do not fall within the scope of the economist. A few observations are called for on this issue in order to indicate the point of view I have adopted in a consideration of these questions.

An examination of questions of productive organisation, it is said, involve the use only of facts well-established by science and technology; questions of welfare, on the other hand, are concerned with the satisfaction of individual wants about which equally valid statement cannot be made. But the distinction sought to be made in this manner between problems of productive organisation and problems of distribution of wealth among various classes in society is not a valid one. Problems of production and distribution in economic society cannot be divorced from each other, and their consideration is mutually interdependent. The problem of the supply of labour may be presumed to fall within the domain of productive organisation. The supply of given quantities of labour of different kinds, however, depends intimately on the distribution of wealth in society and a number of social or political forces operating within it. Consider, for example, the position of the educated middle classes in India during the 19th century. It will be generally admitted that the scales of remuneration obtained by them during the last 100 years were the result entirely of the peculiar character of the phase of political and social history through which the country was passing, but these scales affected very materially the evolution of our economic organisation. Again, it has to be remembered that the orientation of all economic activity depends on the effective demand for goods and services. This demand in its turn depends on the distribution of wealth. It is, thus, the character of wealth distribution that governs the directions in which the productive organisation will work and the aims that it will set before itself. This is admitted by a number of economists, but it is urged that such effects as an unequal distribution of wealth may have on the direction which productive activity takes may be safely neglected. It is not, however, clear why such effects are regarded as being negligible. That these effects may, in fact, be very important is proved by reference to the condition of housing of the urban workers all over the world. The last decade, specially, witnessed a large increase in building activity in most countries in expanding centres of trade and industry. The building activity, in so far as it was not subsidised, was, however, confined almost entirely to residences for the rich and the middle classes and the construction of business premises. In many cities in India, and it is said in many other countries, the standard of



housing of the urban middle classes showed a distinct improvement. The building activity and the improvement may be attributed largely to the improvement in the economic condition of the salariat and the fixed-money income class due to the phenomenal fall in the cost of living. Little improvement, however, took place in the housing accommodation available to the poorer classes and the workers in cities. I do not want to enter into any complicated analysis, but it is obvious that had the trends in distribution of wealth been different, the whole organisation of building activity might have been differently oriented and this might well have affected the technical development in the building arts and the values of urban land-sites. Once it is admitted that the existing distribution of wealth in any community is the result largely of political and social influences, it follows that the same forces also control indirectly the structure and aims of productive organisation. Whether human ingenuity will be spent more on the perfection of armaments or on that of agricultural implements, whether chemical research will be directed chiefly towards the production of higher explosives or better fertilisers, all depend on factors other than purely economic. It is then a meaningless distinction which is sought to be drawn between problems of the organisation of production and those of the distribution of wealth.

Apart from the difficulty of treating of problems of production as being distinct from the rest of social and economic life, there is another reason why we must pay attention to problems such as those of the standard of living. As has been pointed out above, the standard of living of workers itself greatly affects their efficiency at work. The efficiency of labour is an important factor in the determination of efficiency of the whole productive organisation. The problem of the standard of living is thus related not only to questions of distribution, but also to those of production. I shall examine only one aspect of this question, that relating to the consumption of food. The human body has been likened to "a machine in perpetual process of renewal." It is chiefly the food that man consumes that repairs the effects of the various types of wear and tear of the human body. The science of nutrition has of recent years made great advance, and it is today possible to indicate in great detail the effects of the strains and stresses to which man is daily subjected and the various constituents of foods together with their quantities that it is necessary to consume in order to maintain the body in a proper state of repair. The nutrition expert now indicates not only in a general manner what and how much men shall eat, but determines scientifically the proper requirements—qualitative and quantitative—of food according to the age and sex of the person and also according to the climate in which he lives and the occupation in which he is engaged. Nutritional science thus affords us data regarding the appropriate food consumption of all types of workers; and defines in terms of the standards it sets up states of mal-nutrition, mal-nourishment, and under-nourishment from which various classes of society are found to suffer. A state of under-nourishment will as clearly affect the efficiency of workers as want of proper repairs affects the productive capacity of mechanical equipment; and from the point of view of society it is equally uneconomic to let the one work at a point below par as the other. In a society which is based on individualistic enterprise it will, however, be nobody's business to look after the proper usage and

proper repair of the human resources of society. The mechanical equipment is owned entirely by the entrepreneur, and he will tend to repair it, renew it, or scrap it, looking to current costs of repair, renewal, or replacement and the productive capacity of the machines in the different states. In a slave-economy labour would tend to be looked after in the same fashion. If slaves are cheap they would tend to be worked hard and exhausted in a few years' time; if dear, they might be maintained at a much higher standard of well-being than that of free labour today. Under a free labour economy the entrepreneur does not bear any of the costs of raising and keeping in repair the supply of labour. There is no evidence again to suppose that current levels of wages influence in any way the total supply of labour. A whole complex of factors—political, social, and economic—determine at any point of time and in any society the supply of labour available in such broad categories—as the skilled, semi-skilled, unskilled, etc. Variation in wage levels may affect the distribution of supply as between particular occupations within these broad categories, but the total supply in the categories themselves changes only slowly in accordance with long term social and economic trends and is not influenced by current levels of wages. In these circumstances, the entrepreneur can have no interest in considering the long-term effects of wage policies. He takes the economic back-ground for granted, and follows a policy appropriate to immediate needs and conditions.

Society, however, cannot treat of the problem with the same attitude of indifference; for, it stands to lose even in the strict economic sense by a wasteful employment of its human resources. The length of the working-life of an individual is, for example, of as great importance to society as the length of the working-life of various parts of his buildings, plants, and equipment is to the individual employer. From the point of view of the individual employer a shorter working-life for labourers means perhaps little more than an increase in the percentage of turnover. The direct cost of it to him is, therefore, little. From the point of view of the society, however, a short working-life makes a great difference because it affects vitally the cost of rearing and training a worker per work-year of his life. Such considerations are sometimes met with in the writings of economists, but I feel that they have yet been given too little weight. For example, when economists discuss policies like that of unemployment insurance, they will usually be found to emphasize the effect they have on discouraging a prompt adjustment to changed conditions and on the readiness of labour to accept employment; but they are not as often found to weigh on the other side the effect of the insurance payment in preventing physical and mental deterioration on the part of a large body of workers. It will be seen that considerations of the latter type become specially important if we do not believe in a direct connection between wage levels and unemployment. The one social responsibility for which economists seem universally to accept liability is education. From Adam Smith to Dr. Hicks they are all agreed that State expenditure on education is economic and that if the State did not undertake this expenditure nobody else is likely to provide for it. It seems to me that once this argument is accepted it can be legitimately extended to many other kinds of social expenditure. The "pure" economist may eschew the word welfare. If he, however, admits that a difference exists between the short-term

and long-term effects of certain policies regarding labour, that the individual employer cannot ordinarily be expected to adopt the long-term point of view, and that in such circumstances it is a social responsibility to undertake expenditure which can be shown to yield a return in the long-term, then the worker's standard of living is a subject with which the economist is certainly vitally concerned.

We might now turn to a consideration of the actual existing standard of living of workers in India. In this matter there are considerable data available especially in respect of industrial workers in the province of Bombay. It is not my intention to reproduce or summarise any of this information. The impression gathered from a study of the data is, however, clear. It is one of the great poverty of our workers, of the extremely overcrowded and unhygienic conditions of their homes, the lack of privacy and ordinary family life, the great paucity of educational, medical, or recreational facilities; their chronic state of indebtedness and the slender margin of their staying power; their low money incomes and the poor quality and insufficient quantity of the food they consume. Proofs of these impressions can be found in each one of the studies of working class family budgets that have been published so far in India. We have, it is true, no studies measuring the extent of undernourishment, nor are there any studies of the varying efficiencies of workers correlated with their states of nourishment and health. I have already referred to the results of investigations conducted by the chief Inspector of Factories, Bombay, into the effects on efficiency of the installation of air-conditioning plants. Apart from such directly measurable phenomena no investigations have been conducted into what may be called the long-term effects of the conditions of living on efficiency. It is generally admitted, for example, that the effect of the prevalence of a disease like malaria is very injurious to the health and efficiency of workers, and that sickness accounts for the loss of many working days in India. Yet we possess almost no statistical information on such matters. With regard specifically to nutrition, the little research work so far carried out all goes to prove that large masses of our workers have an insufficient diet when measured not only by the international standards adopted by European countries, but by even the much lower tentative norms adopted by nutritional experts in India. The standard of living of our workers is thus so low that it may be presumed that anything that is done towards raising it will be reflected, in the long term, in increased efficiency. An indirect proof of this may be indicated. It is that the efficiency of the workers is reported to be high wherever they are specially well paid. When one compares different centres of an industry, the efficiency of workers is seen to vary usually with the level of wages paid to them. Not only is this so as a static fact, but when in a centre the level of wages is gradually increased the level of efficiency is also reported to increase. The most notable instance of this phenomenon is the textile centre of Ahmedabad. Twenty-five years ago the level of wages in this centre was lower than in Bombay, and the Ahmedabad worker was, at the time, not supposed to be as skilful as his prototype in Bombay. During this period, however, Ahmedabad wages first caught up with those in Bombay and then passed them; so that today they are distinctly on a higher level. Even the Ahmedabad millowners admit that the efficiency of their workers has

also increased during these years, and the Bombay millowners allege that it has so far increased that even with the higher rates the labour costs per 1,000 spindles or 100 looms in Ahmedabad is lower than the corresponding figure in Bombay.

I will then presume that in India all that could be done to raise the very low standard of living of the worker will be worth doing even from the purely economic point of view. We are next confronted with the question of the methods by which it would be possible to raise the standard of living and the limitations on the extent of such action. The principal ways in which it will be possible to act are two, (i) action regarding the wage paid by the employer, (ii) direct or indirect help given by the state or society to raise the standard of living. A great deal has been said in former lectures regarding the determination of wages and their regulation. It has been pointed out that in India there is no evidence to believe in the continuous operation of the marginal principle; and that wage fixation being akin to proceeds sharing, there is usually room for adjustment and room for changing the proportion in which the proceeds are shared, either under external pressure or because of an accession of strength to the bargaining position of the workers. I have already indicated the methods of wage regulation that seem appropriate to Indian conditions. These will, no doubt, help to improve, in course of time, the wage levels in most occupations and most categories of workers. It has been already pointed out that it is wages that determine almost solely the standard of living of workers in India. Even in countries where social services are highly developed, the influence of the wage level is paramount and everywhere "the question of income is at the root of the nutrition problem."<sup>1</sup> We must, however, recognise that there are limits to the possible action regarding wages. The economic wage, i.e., the wage that under existing arrangements and in the present economic structure a worker may obtain, is limited by the total product of the industry in which the worker is employed. The total net product of the industry is subject to certain deductions before one can arrive at the total that may be paid out in wages. The size and character of these deductions may not be absolutely and fixedly determined, but there are limits below which they cannot be forced. The total product of the industry is itself the result of the general character of the productive organisation, in which is also included the state of efficiency of workers. An improvement in the nature and efficiency of the productive organisation can take place slowly. Hence, while I believe that wage regulation will profit large classes of workers, the limitation on action by this method has to be clearly recognised.

While doing this I should like to emphasize the necessity for Trade Boards to do all that they can in respect of the wages of the lowest paid categories of workers. I have indicated that the aim of regulation would be the determination of a level of wages in each occupation below which no concern ought fairly to be allowed to pay. Such a fixation of the minimum wage level would not mean for the average unit industry any increase in the wage bill. It would increase the expenditure on labour of only the specially low wage-paying establishments. This procedure would be applicable to all grades of workers

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<sup>1</sup> I. L. O. "Workers' Nutrition and Social Policy," 1936, p. 8.

except, however, those who are in the lowest-wage categories. The wage rates of these categories of workers even in the better wage-paying establishments are usually so low that the minimum wage fixation machinery will have to treat them in a special manner. It will not be enough in their case to fix the wage only at a fair average of all the establishments, but to attempt to raise the general level itself of their wage rates. In view of the conditions of living in industrial cities of these classes of labourers, such an effort on the part of the regulating authority will be fully justified. I am referring to such classes as sweepers, miscellaneous coolies, and unskilled helpers in the industrial processes. I have already commented on the reasons why the level of wages of these classes is today specially depressed. This level is not likely to be raised except as a result of a special effort on the part of the regulating authority. There is no reason to fear any special effect on the employment of these classes on account of the raising of the level of their wages. The wages paid to them do not constitute a large part of the total wage-bill of an industrial concern. And the employer as a rule is concerned with the total wage bill and not so much with particular parts of it. No displacement of this class of unskilled labour is likely to come about just because of some increase in their wage level. Further, as we have seen, if labour-saving devices become possible or come into vogue such displacement is not likely to be avoided by keeping the wage at a low level. The extent to which an increase in the wage level of the lowest-paid categories is necessary or possible will depend on the particular circumstances of the industry. An immediate effort of the same magnitude will not be possible in each case. This is another reason why I do not feel that it will be either practicable or useful to fix immediately a figure below which no wage in industry shall be paid. The regulatory authorities will no doubt tend to be influenced by each other's actions; and a certain uniformity in levels of wages of the main categories will be attained in course of time. But it is essentially desirable in a country like India that a considerable latitude be left to the action of regulatory authorities. The attempt to impose any artificial uniformity when conditions of working, employment, and profit of the different industries are so diverse, will merely result in full advantage not being taken of opportunities for increase where they really exist.

Apart from those classes of workers who receive the lowest wages today, regulation of wages cannot be expected immediately to do much more for workers in general than bring up the rates in the low-paying units to a fair average. Any later effort towards increasing the money wage received by various classes of workers can also be undertaken only slowly. We must, therefore, look to other means than those of trying to increase the money wage for bringing about a material improvement in the standard of living of our workers.

The other method is that of effort on the part of society. I shall begin consideration of this part of the subject by a couple of extracts from an article written years ago by that acute marginalist, Phillip Wicksteed. The article is entitled, "The distinction between earnings and income and between a minimum wage and a decent maintenance."<sup>2</sup> Wicksteed writes:

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<sup>2</sup> "The Industrial Unrest and the Living Wage," 1914.

"The more clearly we understand what a 'wage' is, the more wisely shall we direct our efforts to secure to every true worker his true wages; but the more clearly and generously shall we recognise that that is not the end of our responsibility; for we can neither trust nor force the economic wage to coincide with the human claim. When the employer has paid the economic wage he has done his part. It remains for the citizen to do his."<sup>3</sup>

"Let us begin, therefore, by recognising this important fact that a vast portion of the income of our country is not currently earned at all. It follows that if we are determined that every citizen is to have the means of a full life, we had better not begin by closing our minds against every means of securing that result except a living wage. There are other possible sources of income besides earnings, and many of us enjoy them. If insurmountable difficulties, or dangers that we dare not neglect should stand in the way of a complete solution of the problem of a decent subsistence on the lines of a living wage, it does not follow that our aim is unrealisable. Why should not those whose earnings are insufficient for the basis of a human life have, as so many of us have at present, something more than they earn?"<sup>4</sup>

I have suggested wage regulation in order to provide that the employer pays the wage that under existing arrangements is economically possible and proper. The remaining action must be taken by the State, and its cost must be borne by the body of citizens in general. There are, of course, a large variety of ways in which the State can increase the standard of living of the workers. The most direct way would obviously be to add by means of a money payment to the money wage of the worker. This is, however, a means that is nowhere advocated or adopted. Its cost in relation to its utility would be too high; there would again be no guarantee that this help would necessarily be obtained by those whose needs were the greatest, or that it would be utilised in the most suitable manner. In considering the aims and methods of special action for raising the standard of living it must be remembered that the determination of the extent of the help and of the methods by which it is to be rendered to the worker would take place on lines very different from those of the determination of wages. The wage is dependent mainly on the effort put forward by the worker and his service to industry; it will have little to do with his individual needs or standard of living. Social action which aims at increasing the standard of living must, on the contrary, adopt very different criteria. Social expenditure, in this behalf, must, if it is to be economically administered, attempt to give help to those who most need it and to render the help in a manner that is most effective in raising the standard of living of the worker and his efficiency. It is not, of course, possible in social action which covers large masses of workers to look minutely to individual requirements. Therefore, State action instead of acting directly on the whole income of each individual, acts usually on separate aspects of the standard of living of workers and caters for specific needs in each of these aspects. It is in this manner possible to provide directly for the needs most urgently felt and socially most desirable to be supplied. This does not, of course, debar even direct payments in money. Only these would not be general payments, but would be paid only to persons in circumstances where money payment was the most appropriate form of help. Examples of such money payments are

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<sup>3</sup> Op. cit., p. 86.

<sup>4</sup> Op. cit., p. 76.

afforded by outdoor poor relief, old age pensions, family allowances and cash benefits or payments under certain types of insurances.

Apart from these money payments, it is usually found desirable to render help in the form of the supply of commodities or services to persons in given circumstances under certain conditions. We shall indicate, in brief, the chief directions in which such services are rendered by modern States in modern countries and the suitability and the practicability of the applications of the particular methods to conditions in India. One of the services for which the State everywhere accepts the widest responsibility is education. The supply of educational facilities is usually not a directly paying proposition; on the other hand, the extent of the spread of educational facilities has undoubtedly an important effect on the efficiency of workers. The part played by the educational system of Germany in the industrial development of that country during the 19th century is well-known and has often been commented upon by economists. Mere literacy may not, however, bring about much difference in the technical competence of a worker in industry. Literacy, however, is not the end but a means, and it certainly makes a great difference in the educability of the worker. It is possible to deal with a body of literate workers by means of written instruction. It would also be much easier to explain to a literate worker the details of technical processes or the manner of piece-rate calculations than to one who was not literate. Literacy would thus materially help not only in the acquisition of simple technical knowledge, but also in a proper understanding of calculations regarding wages, and thus enable the worker to see that he gets a fair deal. It is not necessary to labour the point. An extensive spread of the system of general and technical education which was free and could be widely availed of is an essential responsibility of the state. The existence of such a system must result in the improvement of the quality of our workers and must thus affect their efficiency.

The second question to be considered is that regarding the nutrition of workers. As has been pointed out above, the food that a worker consumes depends very largely on his income, and there is little that the State can do to help directly in this matter. The State has in some countries taken on itself the responsibility of supplying certain types of food to certain classes of the population, especially to children. Action in respect of school-going children would largely devolve on the local authorities. Consideration of this question may be possible in some of the bigger industrial centres. The State can, however, help in this matter by indirect action in some of the ways enumerated below. It could help "to increase the technical efficiency of food production, to improve market organisation, to remove trade barriers or to eliminate indirect taxation, particularly on commodities constituting the prime necessities of life."<sup>5</sup> A cheaper supply of sugar and of protective foods such as vegetables, fruits, and especially milk could be obtained as a result of increased technical efficiency and better marketing organisation. Elimination of indirect taxation may also be helpful. Our customs duties are too high; also in many Indian cities where the octroi is an important source of municipal income its effect is highly regressive and its incidence is specially heavy on commodities of

common consumption of the poor, such as food grains, fire wood, kerosene, sugar, and other food products such as ghee, etc. Through a readjustment of the system of imperial and local taxation, the present regressive element may be partially taken out and the poor may be saved an amount which in their meagre budgets is not altogether negligible.

In housing the workers the State can act in a more direct manner. It is now the universal experience that with the ordinary functioning of our economic system even the barest needs in housing of industrial workers cannot be satisfied. The State has, therefore, had to subsidise housing even in countries where the income of workers is comparatively high. In India in cities like Bombay and Calcutta, where a low wage is combined with an extraordinarily high cost of housing accommodation, conditions in this regard are most deplorable. Rent, even for accommodation that is of the most unsatisfactory type, makes in these cities considerable inroads on the total income of the worker. It should be remembered that rent constitutes one of the most important items in the cost of living of the worker, and an excessive payment on account of rent seriously affects the size of the residual income and thus the general standard of living. The effect of high rent in reducing expenditure on food has been marked by many students of the standard of living of the working classes. Though conditions in this respect are specially bad in the bigger centres of Indian industry, almost nothing has so far been done to improve them. A few sporadic and ill-conceived attempts were made in Bombay many years ago. They failed to relieve the situation. The civic authorities, on whom, after all, the main responsibility lies, have yet not bestirred themselves to action anywhere. The problem, it should be realised, is not one that can be dealt with by means of rent control. Its solution involves a well-thought-out and co-ordinated plan of slum clearance and house building. If workers are to be provided with decent housing, no reliance can be placed on the haphazard activities of private estate agents or speculative builders. The central or local government must either directly build or subsidise the building of houses; and these houses must be made available at reduced rents, or a system of rent rebates must be introduced. This is not the place to discuss the subject at length; but I want to emphasize that the housing of workers is a major civic responsibility which seems yet to be entirely neglected. No civic authorities seem to pay this subject the attention they should in planning, if they plan at all, the development of new areas or municipal estates.

Nothing so much directly affects the efficiency of the worker as his health. "The close connection between health, housing and sanitary conditions is already shown by the high rates for respiratory disease and dysentery and diarrhoea in the urban areas."<sup>6</sup> Better housing will thus directly lead to better health. There are also many other directions in which State expenditure can be incurred in order to better the health of the workers. Apart from such measures as the prevention of the spread of infection and the provision of sanitary surroundings in the cities, the provision of free medicines and free medical attendance is what is chiefly required by the worker. For, though family budget statistics reveal a little money sometimes spent by workers on

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6 L. L. O. "The Workers' Standard of Living," 1933, p. 83.



medicines or medical treatment, the amount they can spare for the purpose is so small as to be of little avail at the existing prices of medicines and medical attendance. It has been found that in all countries "among the working classes especially, the level of the standard of living in respect of health, education and social services is dependent upon Community or State services supplied free of cost."<sup>7</sup> This, of course, applies to India with even greater force than to other countries. The organisation of a State health or medical service is thus a matter of vital importance. Its great value in Indian conditions cannot be over-emphasized. We have, unfortunately, little statistical data on this question. It is, however, well-known that a considerable part of the absenteeism recorded in factories is due to ill-health among workers. There are again a large number of diseases prevalent in Indian industrial cities like malaria or guinea-worm which sap the vitality of our labouring classes. In these cases a course of regular medical treatment is usually found to be of great value, and if taken at an early stage will save the worker, and incidentally the industry also, many days of work lost through sickness and a permanent impairment of energy. In the large majority of instances, the worker is both too poor and too ignorant to undergo a course of such treatment. No estimate can be made of loss in income to workers and the loss to industry due to the incidence of sickness, of largely preventible character, in Indian cities. Some efforts have been made by governments and employers to deal with the problem, but these have been able to touch only the fringe of the problem. In all the major centres of industry the only effective means of dealing with it is the systematic organisation of a free medical service of which the workers are induced to take advantage. The one way in which this can be done effectively would be by organising a scheme of sickness insurance. I consider that sickness insurance is one of the most urgent needs of industrial workers, and that it is a measure which is ultimately likely to provide a very substantial return on the amount spent on it. Under a sickness insurance scheme it is usual to provide for free medical attendance, a free supply of medicines and appliances, and in a case of prolonged illness some cash benefit to provide partly for the maintenance of the worker and his family. These are, what may be called, minimum benefits. Additional benefits of a diverse character are also given according to the funds at the disposal of the scheme. The schemes are usually contributory and compulsory. Voluntary schemes have in the majority of cases failed to work in other countries and they are certain to fail in India. It is too much to expect Indian workers in the present circumstances to join, in large numbers, a voluntary scheme. The contributors to the scheme are usually the workers, the employer, and the State. It is sometimes suggested that in India no contributions to such schemes should be expected from the worker. It is likely, however, that workers will fail to realise the importance of schemes to which they make no contribution, and it is perhaps not fair that industrial workers who are not among the poorest in the land should be provided with amenities without any cost whatsoever to themselves. Moreover, as the proportions in which the parties are expected to contribute to such an insurance scheme are not rigidly fixed, the charge on the workers can be made so light that it could be borne without much inconvenience.

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<sup>7</sup> *Ibid.*, p. 84.

The main objection that has so far been raised against the inception of a scheme of sickness insurance has been the lack of basic statistical data. No experimental schemes either compulsory or voluntary have hitherto been operated in any part of India. Moreover, no enquiries have yet been conducted into the incidence of sickness among Indian industrial workers. It is urged that in the absence of these data it is impossible to build up a scheme of sickness insurance. It may in reply be pointed out that a large number of difficulties are involved in the conduct of an investigation into incidence of sickness among industrial labour. A few attempts made by the Labour Office of the Government of Bombay brought to light these difficulties in a striking manner and failed to yield any significant results. We cannot, however, on this account postpone indefinitely the introduction of sickness insurance. We have a considerable body of data collected as the result of the experience of the working of sickness insurance under a variety of conditions in countries all the world over. These data can certainly be used for framing a tentative scheme. It should further be noted that even when statistical data regarding the incidence of sickness are available, previous to the introduction of sickness insurance, it is the experience of many countries that the actual incidence of sickness under a scheme of insurance differs widely from that yielded by the data collected previously. The reasons why such a discrepancy should arise are obvious. The reporting of sickness and the absenteeism on account of it are bound to be different when workers can obtain relief and free treatment than when they cannot. It would, therefore, seem that the absence of preliminary data is not a serious objection against an attempt to introduce sickness insurance. This is so specially because the nature of an insurance scheme need not be rigid. The character, number, and size of the different benefits can be made to vary from time to time. The scheme, as has happened in most countries, can buy experience as it proceeds, and adjustments in benefits and to some extent in the scale of contributions also could be made if actual experience is different in any way from the tentative estimates made. The problem of the health of the industrial worker cannot be tackled satisfactorily without a scheme of sickness insurance. The benefits derived at present from such facilities as the State or the employers provide are neither substantial nor certain. Sickness insurance has been found to be the only means of adequately providing for this urgent need at a comparatively cheap cost; and I consider the immediate introduction of such a scheme as the first step that should be taken by the State towards an increase in the standard of living of workers.

The difficulties in the way of introducing, in India, the other important type of insurance—Insurance against Unemployment—are perhaps greater. The problems raised by Unemployment Insurance are more complex, and the successful working of a scheme of Unemployment Insurance depends on factors which are of a much more uncertain character than those which determine the working of a scheme of sickness insurance. Yet the introduction of the one is almost as important as that of the other. Sickness insurance enables the worker to tide over the period of forced unemployment on account of ill-health and makes arrangements for the medical facilities necessary for the recovery of health. Help is as vital to the worker during the periods when he is thrown out of work. The staying power of the Indian worker, which depends on his

accumulated resources, is very meagre. It is the experience of all countries that during periods of unemployment the standard of living of the workers tends to deteriorate rapidly, and that undernourishment is most marked among the unemployed and their families. If the period of unemployment is prolonged, the worker may lose his skill at work and suffer, as well, a permanent impairment of health. In the modern world where rapid changes take place in technical methods of production as well as in the size of the demand for particular products, considerable variations are apt to occur in the volume of employment offered by particular industries. The workers then suffer from a turn in fortune brought about by circumstances entirely beyond their control. Society must under these conditions step in to conserve the health and skill of the workers in the community. In India a prolonged period of unemployment generally sends the worker to his home in the village. Conditions in respect of the connection of the industrial worker with the village differ from one centre of industry to another. There are today a number of large and important centres in which the connection of the industrial worker with the village may be said to be merely nominal, and the worker's standard of living suffers almost as great a fall by going back to the village as it would if he had stayed on in the city. It would on the whole be better if in these circumstances the worker did not return to the village; for, he would then be always seeking work and would be likely to find it earlier than if he left his place of work. It is also necessary for a proper administration of a scheme of unemployment insurance that the worker should not leave the place where he habitually finds employment. From this point of view also a stable labour force would seem to be a desideratum. Another difficulty in connection with the working of unemployment insurance is the uncertainty of the risks undertaken. Prolonged period of persistent unemployment in particular industries may bring even old-established insurance funds into difficulties. Hence unemployment insurance will have to be launched with greater caution than sickness insurance.

Another important need of workers about which a great deal has been said in recent years is holidays with pay. Holidays with pay are held essential because they afford the labourer the necessary break in the strain and monotony of continuous industrial work. If holidays with pay are not provided, the worker can take some days off only at the loss of earnings for those days and he would, in the circumstances, not be inclined to take the necessary holiday regularly every year. It should, however, be remembered that the cost of holidays with pay usually falls entirely on the employer. They cannot, therefore, be considered as part of a programme of State action towards increasing the workers' standard of living. Their cost would come out of the economic wage and not be an addition to it. In the scale of urgency also schemes of sickness and unemployment insurance would definitely precede the provision for holidays with pay. Reference may be made to a variety of other activities, such as old age pensions and family allowances, undertaken by the State in other countries. A number of these raise questions which are not particularly connected with problems of industrial labour. It is again not necessary to discuss them; as, with the extremely limited resources at our disposal, we have to concentrate our attention on the fundamentally essential services. A pro-

gramme of workers' education and housing and of sickness and unemployment insurance is large enough and costly enough to occupy all the available funds and energies in the near future.

A word in passing may be said about the labour welfare activities undertaken by some provincial governments. Welfare activities are no doubt welcome, but it is difficult to assess their real value to workers. Their utility again depends a great deal on local circumstances and the efficiency of administration in the locality. Advantages of the facilities at welfare centres are not spread over the mass of workers. It seems to me, therefore, that this work is properly undertaken not by a provincial government but by civic authorities. The provision of parks, libraries, playgrounds for children and recreational facilities for adults are duties which are everywhere recognized as responsibilities devolving on local bodies. The provincial governments are not the proper authorities for administering such services, nor should the burden of such highly localised services fall on provincial funds.

It may be asked why the State should do anything specially for the industrial worker as long as he gets his proper economic wage. I have already indicated the ground of social responsibility and also the possibility of increasing by these means the efficiency of the worker. I would, however, in addition like to say something about the character of an economic wage. The economic wage reflects nothing more than the way in which any particular economic arrangements work. It has no social or ethical implications. It is, therefore, distinctly unfortunate that Prof. Pigou should have applied the term "fair" to the economic wage. Not only is there nothing "fair" about a particular wage, but one may even go so far as to say that there are no special economic implications about particular wage levels. The whole system of wage gradation is the result of the pre-existing distribution of economic, political, and social power and of the manner in which particular political, social, and economic institutions work. Unless one is inclined just to acquiesce in all that "is" and to grant that all these arrangements carry a special stamp of equity or reasonableness, no particular importance can be held to attach to the existing level of wage payments. It used once to be maintained that most of the differences in levels of wage payments acted as incentives and were required to call forth the appropriate efforts. Even this proposition is hardly tenable today or tenable only within very narrow limits. It is a truism that today the work of a disagreeable and taxing nature is performed for a mere pittance, while light and pleasant work commands high scales of remuneration. One may also observe that from country to country the levels of payments for similar types of effort are graded in very different ways. The institutional structure of society everywhere affects fundamentally the distribution of income. Those holding economic power are able to levy a large tribute from society, and those deprived of it or of opportunities for acquiring it find it impossible to make a bare living. Unless, therefore, one is inclined with the *laissez faire* philosopher to treat the existing institutions and the manner of their working as immutable, it would not be possible to shirk social responsibility in the matter of the people's standard of living. There is no presumption in favour of regarding existing conditions as fair or non-interference as the generally desirable policy.

It is a matter of discussing each proposal or project, without any prepossession either way, on its own merits.

Finally, a few words may be said about a criticism generally levelled at programmes for alleviating the condition of industrial labour. It is said that the industrial worker is much better off than the bulk of the rural population and that there is, therefore, much less need for the State to do anything for him than for the rural population. I have noticed that this plea most often proceeds from people who want the State to do nothing either for the one or the other. Whether the industrial worker is really better off than the agriculturist is a question whose consideration need not detain us; for the principles on which the line of action proposed above is based are applicable equally to the rural as to the urban population; and advocacy of one set of reforms does not necessarily mean the neglect of other equally urgent ones. The social problem can be suitably dealt with in sections, and though the principles and objectives of action may be the same everywhere, their application may differ widely from case to case. In the matter of industrial labour its concentration in cities more readily focuses the attention of the public on its problems; appropriate methods of dealing with them have also been evolved in other countries and are ready at hand. This does not mean that the industrial worker should receive any more than his due share of the attention and the funds of the State. It would, however, be perhaps easier to begin immediately with the problem of the standard of living of the industrial worker. The acceptance of a body of principles and rules in dealing with him will naturally lead to an extension of State action based on them in respect of other classes of society as well.