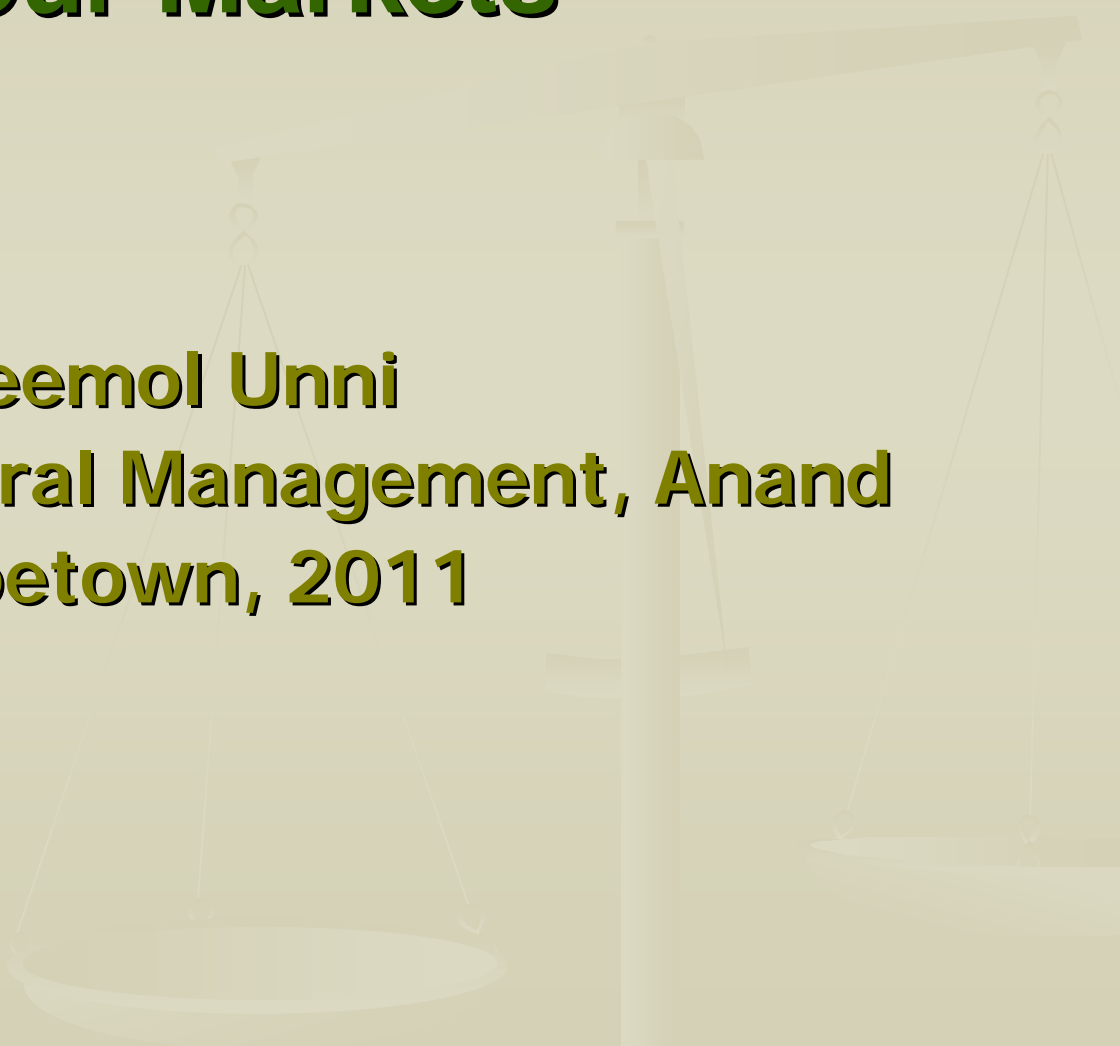
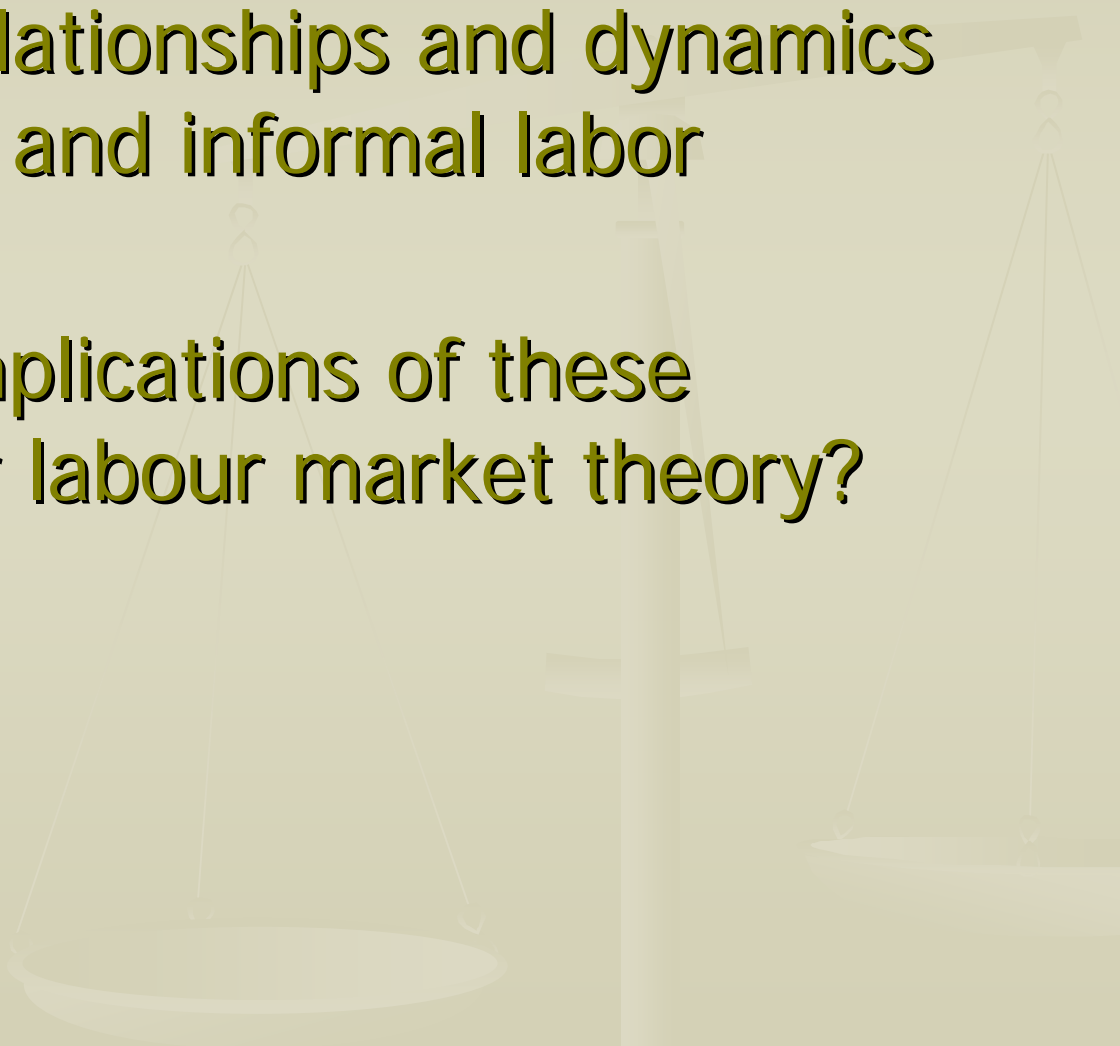


Formal Informal Linkages in Labour Markets

Jeemol Unni
Institute of Rural Management, Anand
Capetown, 2011

A faint, light-colored image of a balance scale is visible in the background, centered behind the text. The scale has two pans hanging from a horizontal beam, and a vertical column supporting the beam. The image is semi-transparent and serves as a decorative element.

Questions

- What are the relationships and dynamics between formal and informal labor markets?
 - What are the implications of these relationships for labour market theory?
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- A faint, light-colored image of a balance scale is visible in the background of the slide. The scale is positioned centrally, with its two pans hanging from a horizontal beam. The background is a solid, light olive-green color.

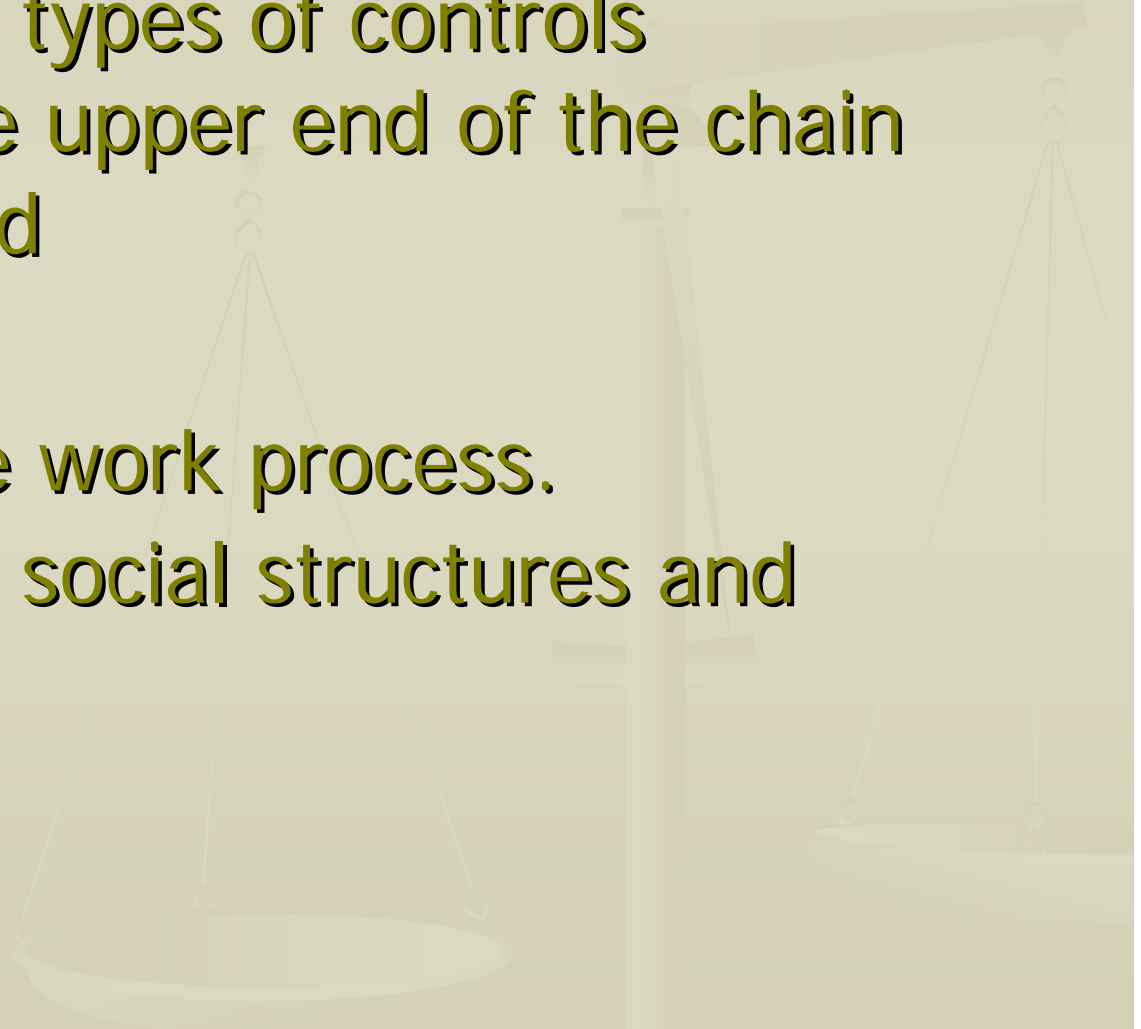
Global Commodity Chain

- The GCC framework analysed the relations between core regions of the world and the periphery, how export opportunities are generated for, rather than by, Third world actors, how niches are opened or vacated within the network of global production
- Agents in periphery are passive actors

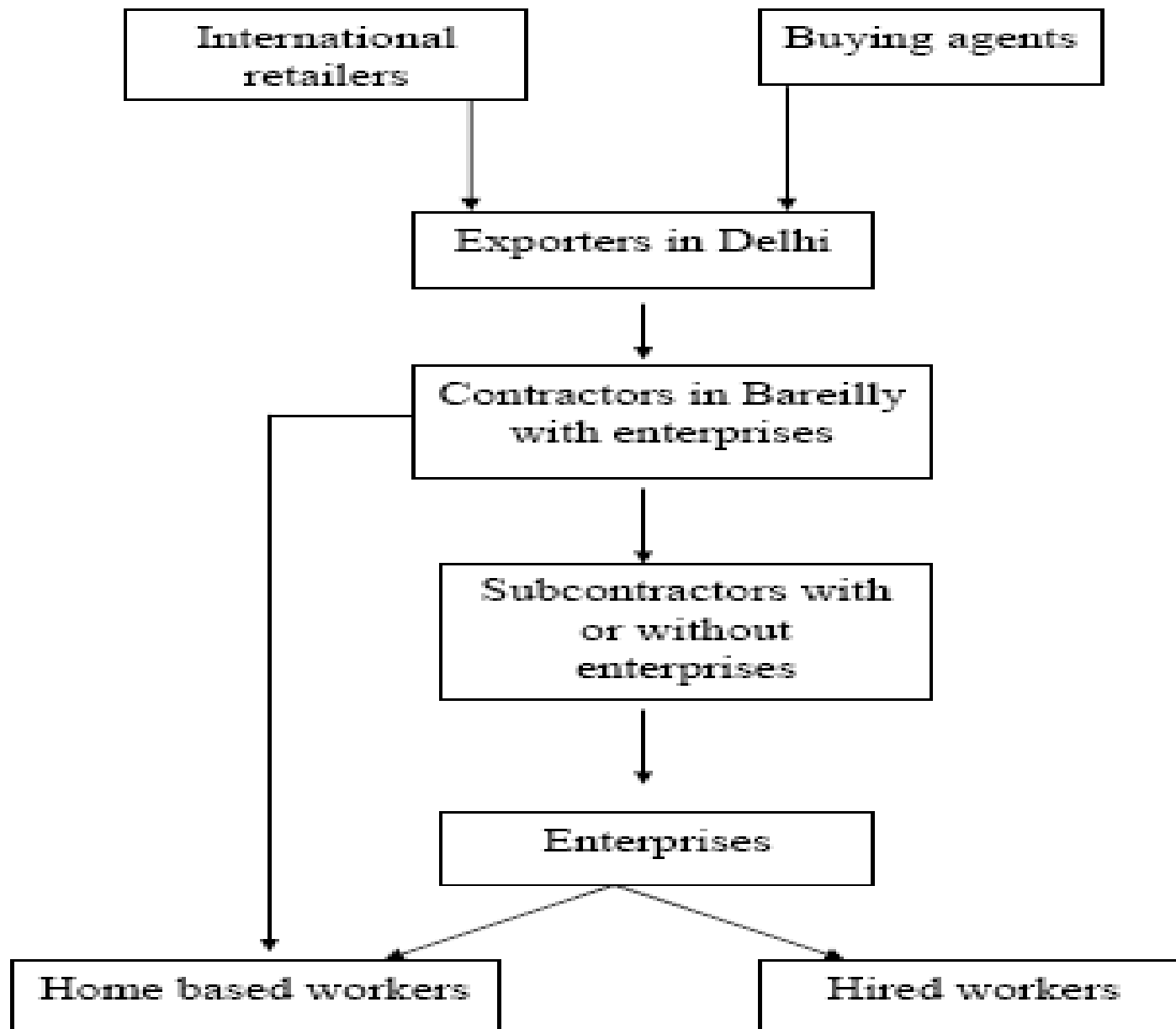
Other Approaches

- **Structuralist/ Institutional Approach:** Looks at the economic and social structures within export chain, e.g. mode of payment, recruitment, migration, gender. Few studies reach hbw.
- **Value Addition and Cluster Approach:** Calculates value addition at each stage of production in a value chain. Supply chain studies. Used as tool to improve value addition along the chain
- **Action of Agents:** To understand the 'actions' of actors in the chain, including women, in making choices. Situate their choices in the wider context of structural constraints they face

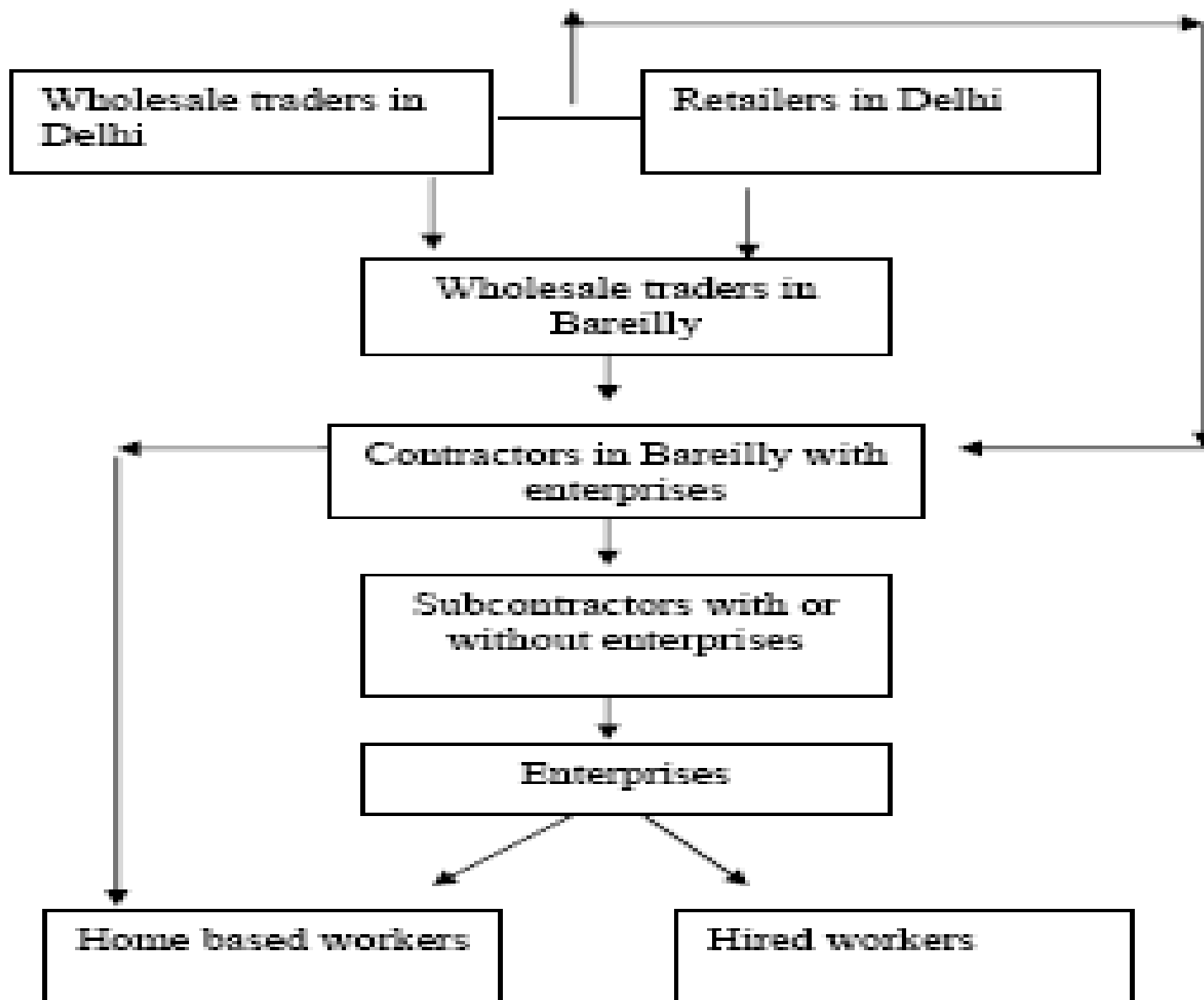
- Relationships or linkages between formal and informal (and within informal) work through various types of controls exercised by the upper end of the chain on the lower end
- ❖ Control over the work process.
- ❖ Control through social structures and institutions



International Value Chain



Domestic Value Chain



Controls over work process_1

Control through lead time

Time starts from issuance of purchase order to delivery

Processes: pre-production approval, production, delivery

Lead time: 45 to 90 days.

Pre-production approval: Requires exporter to get final approval of the sample before beginning production
Involve tedious processes such as approval of fit, dip, fabric, printing. Buyer make frequent changes

Contractors struggle to deliver on time. If the products are not delivered on time, the exporter pay heavy discounts, orders cut

Workers: Rejections, deductions, deferred payments passed on to workers.

These controls most severe in export chain

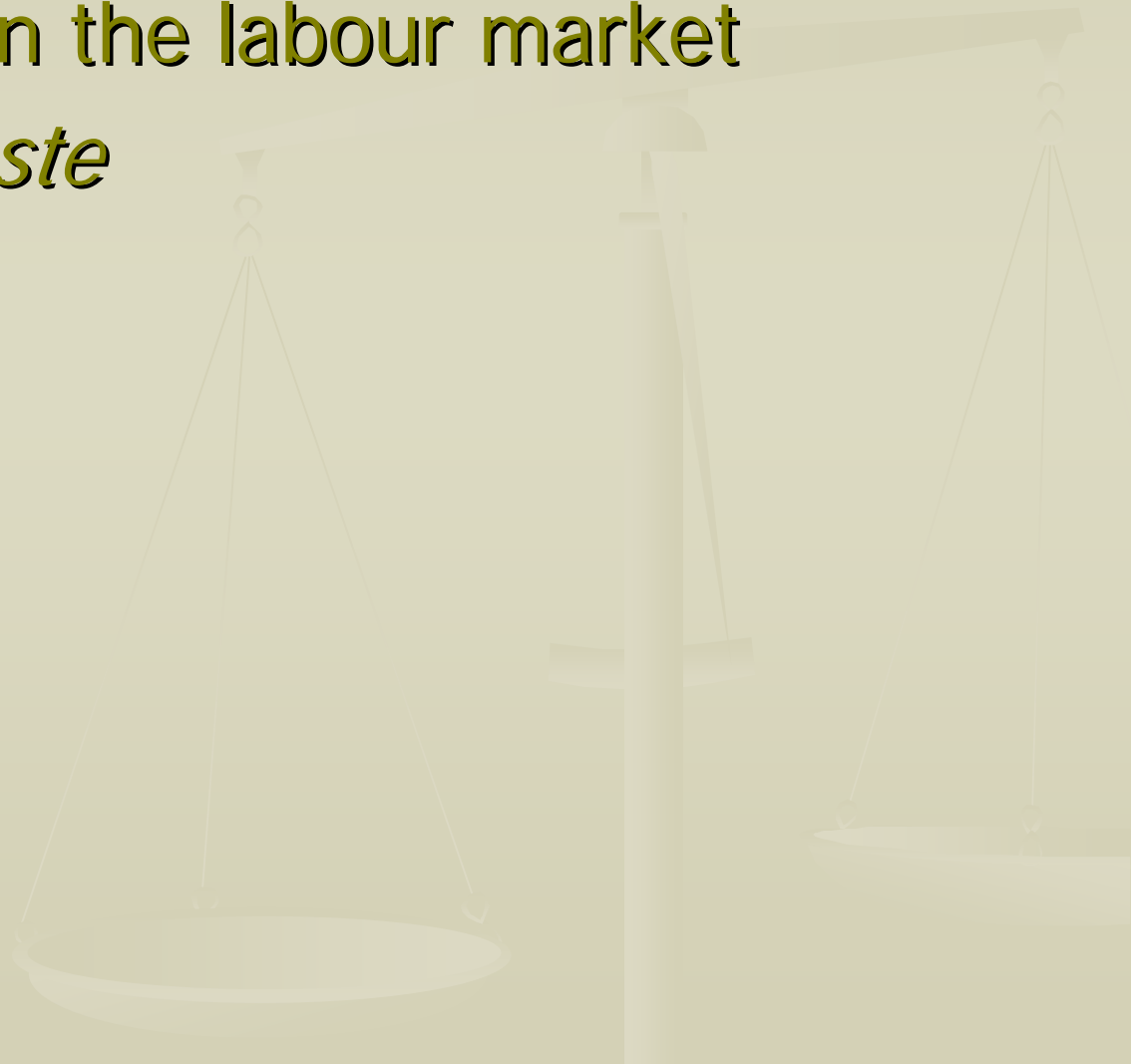
Controls over work process_2

- ❖ **Quality checks: Exporters keep tab on contractors. In case of faults burden on the time, wages and work orders fall on workers**
- ❖ **Dual system of hiring: hired and homebased workers provide a flexible workforce**
- ❖ **Age: Only young and able workers. Child labour prevalent**
- ❖ **Casualisation: Dual sys of hiring and age keep the workers casualized.**

Control through social structures/ institutions.

Social structures in the labour market

- *Religion and Caste*
- *Gender*
- *Space*



Job market Control by Religion

- Unorganized sector of the embellishment industry, consisting of workers, sub-contractors and contractors, is largely dominated by Muslims
- Organized sector, wholesalers and exporters, consists of only non-Muslims. The majority of exporters are upper caste Hindus. The Whole salers in Bareilly mainly consist of an upper caste Hindu, Jain and Sikh.

Job market Control by Caste

- 'ashraf' were the high caste meaning nobles and included Muslims with foreign blood, such as Khans, Pathans, Sheikhs, Hussains etc.;
- 'ajlaf' were the low clean occupational groups or middle group consisting of the Ansaris (julaha or weavers), Darzi (tailor) Kunjra (vegetable seller)
- 'arzal' lowest unclean castes, Hajam
 - Workers belong middle caste Muslims, Ansaris.
 - Sub-contractors belong to middle caste Muslims.
 - Contractors belongs to upper caste, Khans.
 - Wholesalers/exporters: Non-Muslims

Gender: Products, Mode of Payment and Earnings

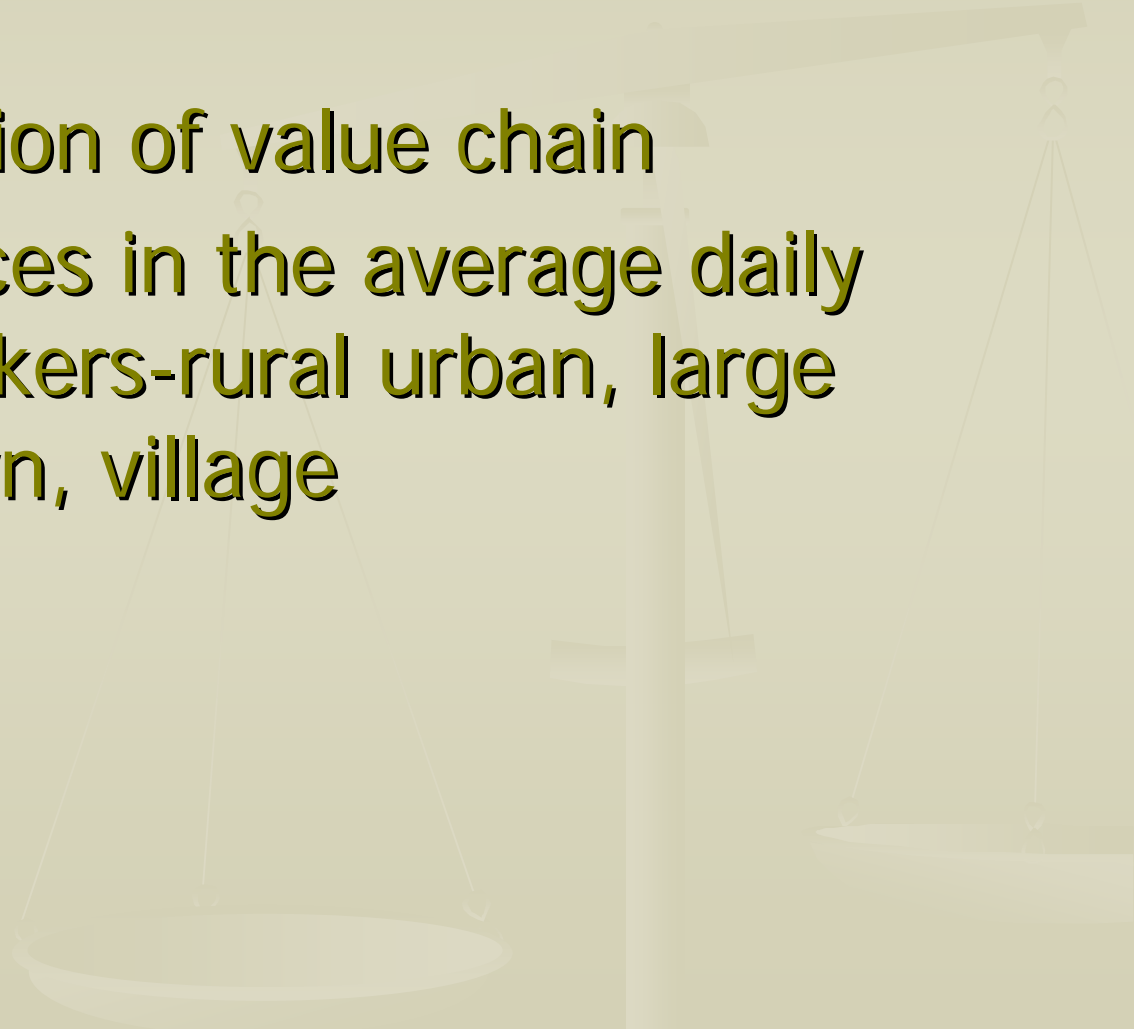
- 'Gendering' in products: Women mostly engaged in embellishment of less expensive and less skilled products, export products
- **Gendering in Mode of Payment**
 - HBW are paid in piece rate
 - Hired workers in time rate
- Product wise earnings: HBW earn less in all products compared to hired workers.

Gender and Sources of Mobility

- Migration constitute an important source of mobility for hired workers.
- HBW lacks such a mobility and are completely dependent on vertical subcontracting due to severe restrictions on physical mobility.

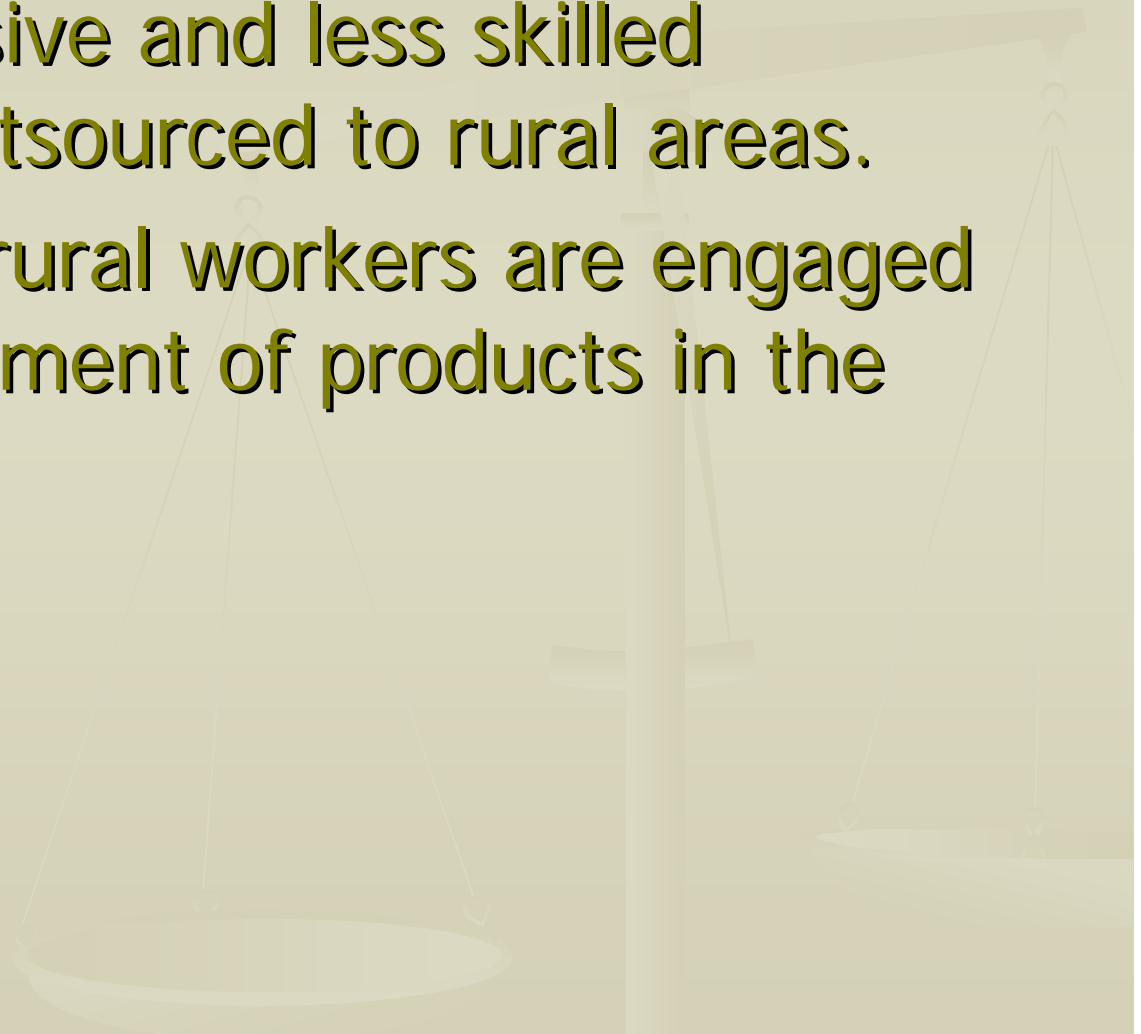
Space and Daily Earnings

- Spatial distribution of value chain
- Spatial differences in the average daily earnings of workers-rural urban, large town, small town, village

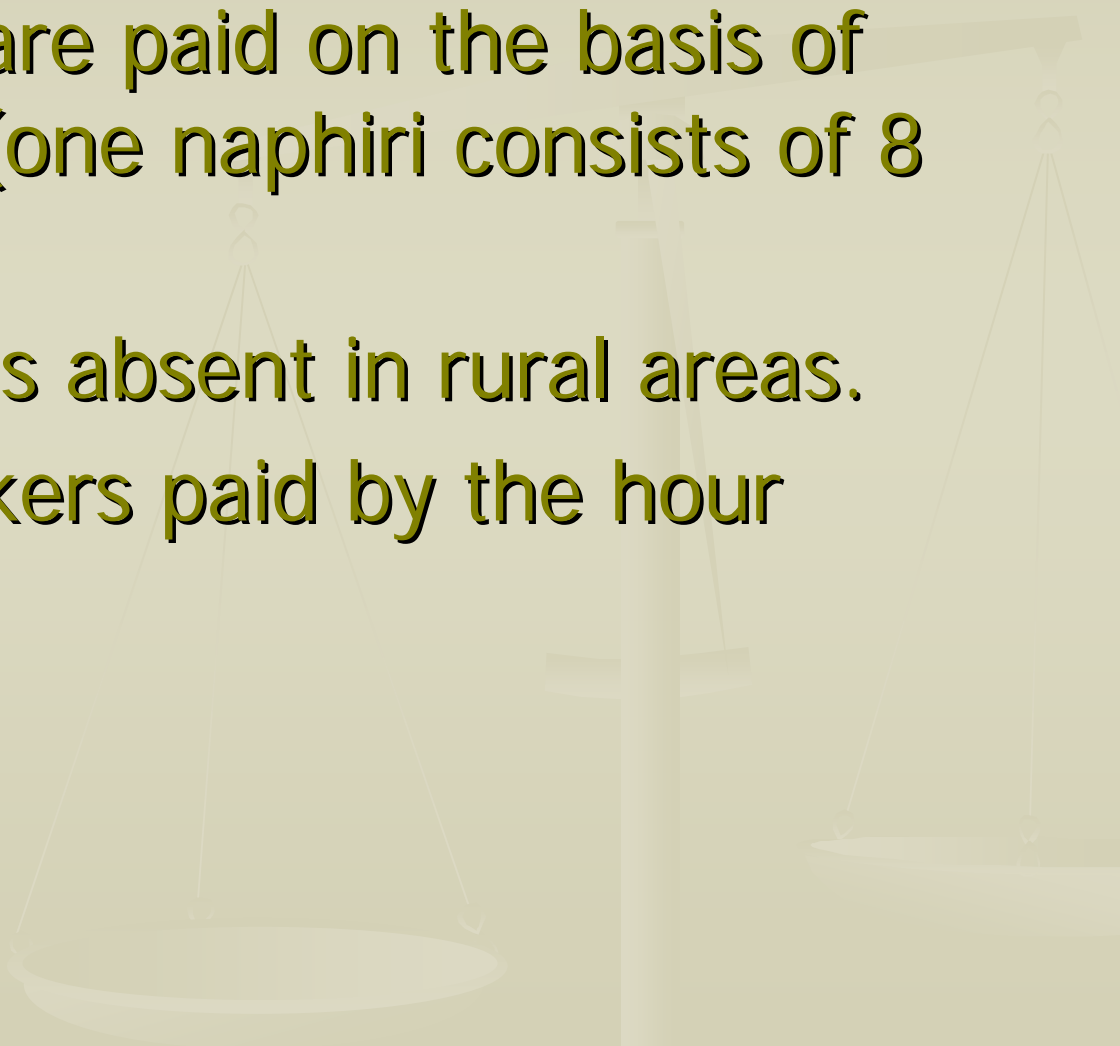


Space and products

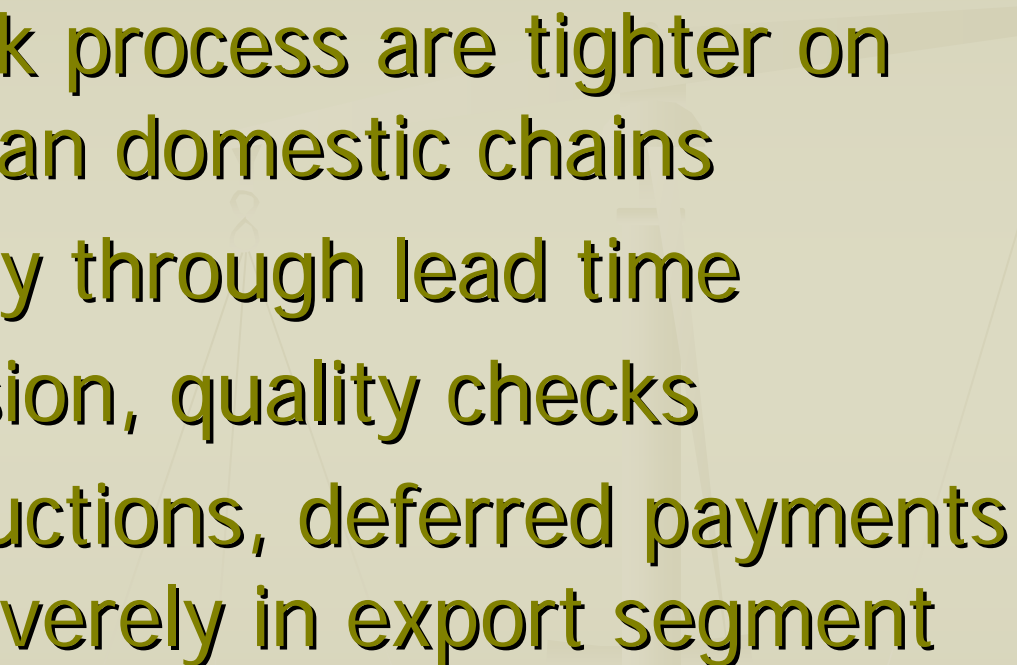
- The less expensive and less skilled products are outsourced to rural areas.
- Majority of the rural workers are engaged in the embellishment of products in the export market.



Space and mode of payment

- Urban workers are paid on the basis of naphiri system (one naphiri consists of 8 hours)
 - Naphiri system is absent in rural areas.
 - Rural hired workers paid by the hour
- 

Controls on work process

- Controls on work process are tighter on export rather than domestic chains
 - Operating mainly through lead time
 - Tighter supervision, quality checks
 - Rejections, deductions, deferred payments applied more severely in export segment
- 
- A faint, light-colored image of a balance scale is visible in the background of the slide. The scale is positioned centrally, with its two pans hanging from a horizontal beam. The right pan is slightly lower than the left pan, suggesting it is heavier. The background is a solid, light olive-green color.

Control through institutions

- Differences more subtle between the export and domestic chains
- Exporters chain are largely upper caste Hindus while in the domestic chain the wholesale traders are more or less a heterogeneous group that includes upper caste Hindus, Jains, Sikhs and Muslims. Contractors working for export market are largely upper caste Muslims.
- Gender and space

Developing country: Imperfect labour markets

- All factors are not perfectly/smoothly mobile: barriers to mobility of labour (structural)
- Asymmetric information:
 - Large capitalists are more likely to have market knowledge and foresight than micro and small enterprises
 - Investors of capital have more information than the wage labourers
- Fair and equitable markets: Essential conditions of free and equitable markets not met, equal bargaining power between all players

Implication for theory for labour market

- ❖ What drives unemployment (a developed country problem) and what drives under-employment and poor working conditions, under-paid workers (a developing country problem)?
- ❖ Is unemployment a result of inflexible wages or other labour market interventions/economic policies /corporate behaviour?
- ❖ Is underemployment a result of structural conditions?

Measures of Productivity

- Labour Productivity: Output per worker
- Capital Productivity: Output per unit of capital
- TFP: Total factor productivity: Captures effect of technical progress, better utilisation of capacities, learning by doing and improved skill of labour
- Productivity of a worker: related to technology used and skill of worker, but since it is hard to measure, wages is used as a proxy.