Of Labour and Laws

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About 1.5 lac workers in India's shrinking textile industry have lost their jobs in the last few months. Many export-oriented units are on the verge of closure. The immediate reason for this sorry state of affairs is the rise in the value of the rupee. But this is only part of the story. The currencies of China. Pakistan and Bangladesh have also risen lately though by lesser amount than the Indian rupee. The textile workers in these countries should also have faced the heat if rise in the currency was the main problem. But that is not the case. Reportedly Indian businessmen are establishing factories in Bangladesh and exporting garments successfully. This indicates there is more to it than rise of the rupee.

It seems labour productivity is a bigger problem. Textile businessman Saurabh Vaish says that a worker in India produces 20 pieces of two-button half-sleeve polo t-shirts in an eight hour shift. A worker in Bangladesh, Sri Lanka or Vietnam produces 34 pieces working on the same Juki machine and one in China produces 40 pieces. It is difficult to dismiss inefficient workers in India due to stringent labour laws. The culture of inefficiency then permeates the entire work force. The problem is compounded by higher wages. The wages of a garment worker in Bangladesh are US $30 a month against $ 100 in India. Thus it is profitable for an Indian businessman to establish a factory in Bangladesh instead of India.

This is the logical result of globalization. One implication of creation of a seamless global market is that prices of all commodities will be equalized. Just as a barrel of oil costs the same in India, Bangladesh or America, so also a day's labour. Just as buyers flock to the vendor selling potatoes at the lowest price in the weekly street market, similarly businesses will move to countries that provide cheapest labour. The outcry against outsourcing in United States is due to this. American companies are laying off expensive American workers and employing cheaper workers in India and China. Faced with similar pressures, Indian garment businesses want to reduce wages of their workers to remain competitive. Unable to do so due to stringent labour laws many are downing their shutters. Labour laws that were enacted to provide protection to workers have become cause of loss of their livelihood. They should be reformed forthwith. 'Lower wages are better than no wages'.

The basic objective of securing welfare of the people is not secured by this, however. Flexibility in labour laws will only make it possible for businesses to hire workers at Rs 3,000 per month against Rs 4,000 per month presently. This will scarcely attain the objective of raising the standard of living of workers. Workers were told that globalization will open up opportunities across the globe for them and lead to higher incomes. It was not told that this would apply equally to countries at lower level of development than India. The question then is this: How does one secure higher incomes for people in a globalized economy? Wages of an unskilled worker in United States are about 15 times higher than in India because that country has monopoly on many technologies. For example, Microsoft holds monopoly on the Windows operating system. It can sell this product at high prices because others are prevented from duplicating it. Such an opportunity is not available to Indian textile businessmen. Buyers will migrate to

Bangladesh if Indian businessmen raise their prices because India does not hold monopoly over garment manufacturing technology. England is able to provide many benefits to its citizens because it has a near-monopoly on world financial markets. Countries of West Asia are providing huge incomes to their citizens from exploiting their monopoly over oil. India will have to create some such especial edge if it wants to provide high wages to its workers.

Professor Stephen S Cohen and colleagues at University of California say in an article 'What Is New and Important About the Economy' : "American firms won initial market positions with innovative ideas and then defended positions with imaginative approaches to production and marketing. In plants that introduce innovative production technologies, employment grows. In plants that do not, employment shrinks and often disappears as production migrates. Winning firms generate jobs; losing firms do not." Implication is that Indian companies will have to find an area of innovation in which they continue to hold special advantage. It will not do to worry about high wages in India. The purpose of economic development is to raise wages. The ability lies in making profits while paying high wages.

One possibility is to specialize in small orders of particular specifi-cations. Garment manufacturers tell that India is doing well in such orders but it is difficult to sustain a large factory from these. The challenge is to create a large factory producing small orders. This author had an opportunity to see an automobile assembly line in the United States. Each car coming out of the automated assembly line was of a particular specification. One car would be of blue colour, with air conditioner and power steering. The next car would be different. This was managed by a computer which ensured that the specified parts would reach the assembly line at the right time to be fit into a particular car. This is an example of large scale production of small orders. Indian businessmen will have to innovate similarly.

There are limits to benefits of flexible labour laws, however. It will be impossible to provide high wages or employment to the large number of workers in the country through this. It is likewise not possible for all farmers to produce high-value Gerbera and Tulip flowers. Some way has to be found to raise the wages of ordinary workers. This is possible by providing protection from imports to factories producing for domestic production. The price of garments in the domestic market will have to be high if businessmen have to pay higher wages. The negative impact of these high wages on exports can be nullified by instituting an export subsidy. Flexibility in labour laws along with such protection will not hurt the workers. It will become profitable for the businessman to employ large number of workers. He will use flexibility to increase the number of efficient workers rather than to reduce the total numbers. Instead of getting afraid of rise of the rupee, India must work out proactive strategies to live with this happy occasion. □□□