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## An Affirmative Specification to Informal Industrial Relations in West Bengal– Following Marshall to Krugman

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### **Abstract:**

*The study attempts to explore the nature of industrial relations in unorganized (informal) sector occupations. For this, the study focuses upon concentrated informal localized industries which are spatially clustered in particular geographical horizons thereby influencing development of the regional economy. To reveal this, the study is confined to a few specific spatially clustered informal industries in West Bengal, namely the Gems and Jewellery industry, the Zari and Embroidery industry, the Clay Pot Making industry, the Bag Producing industry, and the Hosiery industry. Specific sites of South Bengal have been selected for the incorporation of the study, namely Bowbazar (Central Kolkata), Sinthi, Bidhannagar and Belgharia (North Kolkata), Bhawanipur (Central Kolkata), Domjur and Panchla (Howrah), and Daspur-Ghatal (West Midnapore). The clusters of the significant industries have been selected not always on the basis of their significant position in the map of the industry but due to their clustered production, inter-spatial and formal-informal linkages. The existence of clustered production often is so strong that the regional industrial economy of different spatial clusters is almost appearing to be a true Marshallian “industrial district” in the map of Bengal informal industry. In this sense, the study objects to detect the factors that determine long-term existence of these particular localized industries in these specific geographical spaces inheriting several forms of informal industrial relations which are to be explored along with formal sector industrial relations in order to have a proper industrial scenario of the developing state. To incorporate this, the logical argumentation of the study is based upon literature support specifically of the classical and new economic geography school supported by case studies conducted and the primary survey results. The micro-level field surveys, sampling design and data analysis of the study conducted is based upon the standard model approach in order to avoid spatial homogeneity.*

**Keywords:** Informal sector, Cluster economy, Economies of scale, Location, Mobility.

**JEL Classification:** E26, F02, J61, R10, R12.

### **1. Introduction**

The study attempts to explore the nature of industrial relations in unorganized (informal) sector occupations. For this, the study focuses upon concentrated informal localized industries which are spatially clustered in particular geographical spaces thereby influencing development process of the regional economy. To reveal this, the study is confined to a few specific spatially clustered informal industries in West Bengal, namely the Gems and Jewellery industry, the Zari and Embroidery industry, the Clay Pot Making industry, the Bag Producing industry, and the Hosiery industry. Specific sites of South Bengal have been selected for the incorporation of the study, namely Bowbazar (Central Kolkata), Sinthi, Bidhannagar and Belgharia (North Kolkata), Bhawanipur (Central Kolkata), Domjur and Panchla (Howrah), and Daspur-Ghatal (West Midnapore). The clusters of the significant industries have been selected not always on the basis of their significant position in the map of the industry but due to their clustered production and inter-spatial linkages. The existence of clustered production is so strong that the regional industrial economy of different spatial clusters is appearing to be almost as an independent “industrial district” in the map of Bengal informal industry. In this sense, the study objects to detect the factors that determine long-term existence of these particular localized industries in these specific geographical spaces inheriting several forms of informal industrial relations which are to be explored along with formal sector industrial relations in order to have a proper industrial scenario of the developing state. To incorporate this, the logical argumentation of the study is based upon literature support specifically of the classical and new economic geography school supported by case studies conducted and the primary survey results. The micro-level field surveys, sampling design and data analysis of the study conducted is based upon the standard model approach in order to avoid spatial homogeneity.

The detection of definition, contribution and empirical identification of the structure and process of development of any unorganized (informal) economy has made a much intense area to be explored by researchers, academicians and policy makers. The informal sector, with its diversified nature of coverage and performance, has become much significant since the first use of the concept by Keith Hart (1971).<sup>1</sup> Since then, the study of the unorganized or informal sector has become inevitable particularly for the developing world. The process has been started from an urban perspective; however, the concept is now being used for the entire economy. This

shift in the paradigm of such analyses has entailed its range of study from an independent branch of Economics to establish informal economy as an integral part of the entire economy.

A specific characteristic of several informal sector occupations is that they are localized or agglomerated<sup>2</sup> in specific spatial clusters<sup>3</sup> in particular geographical domains. Therefore, it appears to be crucial to explore industrial relations in unorganized spatial clusters and to determine the factors responsible for concentration<sup>4</sup> of such localization.<sup>5</sup> To reveal this, the study is confined to a few specific industries in West Bengal, namely the Gems and Jewellery industry, the Zari and Embroidery industry, the Clay Pot Making industry, the Bag Producing industry, and the Hosiery industry which have a vast unorganized section both in product and labour market processes. The existence of clustered production is so strong for the industries that the regional industrial economy of different clusters is appearing almost as an independent “industrial district” in the map of Bengal informal industry. In this sense, the study objects to detect the factors that determine long-term existence of these particular localized informal industrial clusters in these specific geographical domains inheriting several forms of informal industrial relations. The consideration of the present study is strongly based upon the support of literature derived from classical and new economic geography school, verified on the basis of field surveys and case studies conducted.

## 2. Methodology of Analysis

The logical argumentation of the study is based on literature support, case studies and primary survey results. Specific sites of South Bengal have been selected for the incorporation of the study, namely Bowbazar (Central Kolkata), Sinthi, Bidhannagar and Belgharia (North Kolkata), Bhawanipur (Central Kolkata), Domjur and Panchla (Howrah), and Daspur-Ghatal (West Midnapore). The clusters have been selected not on the basis of their significant position in the map of the industry along with their inter-spatial linkages. The survey process is exhaustive. The survey is based on qualitative purposive sampling with semi-structured questionnaire and indirect interview method. The micro-level field studies, sampling design and data analysis are based on the standard model approach. The implication is that the selection of any sampling region does not depend on data availability (or non-availability) and therefore avoids spatial homogeneity. The study also assumes that the producing firms within a cluster of the industry are non-homogeneous in nature. However, the spatial distribution of production units of a single industry is cross-sectional, given and known. Sometimes an ethnographic study has been approached due to data non-availability and data non-responses in the sample survey area under the purview of the study conducted.

## 3. Informal Industrial Relations: Formation of an “Industrial District” Following the Classical School

To examine the issue of unorganized localized industry formation on the basis of literature support, we may quote Alfred Marshall (1890, 1892)<sup>6</sup> who, in his ‘Principles of Economics’, has referred the idea of “industrial district”<sup>7</sup> to describe location of industries. To Marshall, any localized industry may appear almost as an “industrial district” where concentration of firms has settled down. To refer Marshallian explanation, one of the chief causes behind localized industry formation often is rather the “patronage of a court” factor. In this, richer people of the region assemble there to make a demand for products of especially high quality demanded by the upper milieu of the community which attracts skilled workers from distance areas to the cluster industry. In such localized industries, workers seek employment where they expect to find a good market for their skill<sup>8</sup>. For these, firms attempt to settle down with ensured supply of skill there. Moreover, “presence of a town” factor contributes to ensure demand for high quality industrial products with better purchasing power of the community.

In the Marshallian sense, in an “industrial district” “the mysteries of the trade become no mysteries”; and “children learn many of them unconsciously”. The effect is that specialized abilities is being transmitted from one generation to another from their teen age and becomes an important characteristic of the area. In this way, skills are embodied within one from his/her childhood or teen-age in the region – he/she may become unconscious regarding incorporation of this skill within him/her from the childhood, however, may possess some specialized (social) skill required for production of the industry after a particular age (usually teen age). Since it appears for majority of the people of the area, the area becomes renowned for specialized skill and knowledge in production and acts upon as an important determinant for concentration of firms with hereditary skill in production within the region.

Moreover, to the Marshallian argument, good ideas are promptly adopted into the production process in an “industrial district” since good ideas are in the “air” of the district, which works particularly well into the well-established social networks with well-developed bonding and tie-ups at the local level in case of informal or unorganized occupations. To the Marshallian sense, with specialized skills, usually high division of labour appears within the producing firms due to differentiated skill possession by individuals with differentiated abilities - which sometimes may lead to product specialization and innovation with labour-intensive informal techniques of production. In this way, the localized industry offers “a constant market for skill”, particularly when the production of the “industrial district” requires skill in particular stages of production. The employers of the industry at the local level become assured with ensured supply of skill since there is always a supply of skill in the local market. To Marshall, the “primitive localization” is transformed into almost an “industrial district” in the region in the long run<sup>9</sup>.

## 4. Informal Industrial Relations: Hierarchical Labour Migration Following New Economic Geography School

To the New Economic Geography by Paul Krugman (1991, 2010), a combination of transport cost advantage, economies of scale and factor mobility results in increasing returns at the firm level. A circular causation of all these appears there. It provides maximum individual interaction in the informal industrial periphery hinterland from the informal industrial ‘core’ of the region with well-established social capital network. The functioning of the “spread effects” accrued from the ‘core’ eventually impedes development of the periphery with expansion of the informal industry through multiplier effect on employment and output and a “relay” function

appears through urban hierarchy at the peripheries from the 'core'. This creates an incentive among the producers to form firms within the localized informal industrial economy at the periphery which may change the spatial production pattern dramatically with horizontal expansion of the 'core' to the peripheral units.

The core-periphery model of Venables (1996) of NEG school starts working herewith in which it is assumed that the mobile workers spend their income at destination. This causes a circular causation in locational decisions at destination and acts as a strong influential factor to the growth of the existing localized industry of the region. This immobility of income at destination further has executes the Home Market Effect (HME) by which the geographically concentrated industry generates an additional demand for its products, particularly in the peripheries of large urban locations. This attracts a large number of imperfectly competitive firms towards the large regional market.

To analyze factor mobility in the informal industries, it is to refer here that the informal workers of the industry enter into the job market not with any physical and financial capital but with a social capital that is nothing but a reference (even often oral) by any of his/her senior experienced community member(s) who is/are already established in the market and are relatives, neighbours, friends and community member of the trainees. Here, social capital acts as an informal insurance coverage in such an informal labour market to make him trustworthy to the recruiter. However, a mere social capital coverage (in absence of formal social security measures) and informal form of bonding become insufficient to tie up (skill) labourer at a particular firm at a particular place since a skilled informal labourer has always a tendency to flow across spaces for higher (expected) wages in absence of much paper works. The already "settled" migrants work as the "bridgeheads", form higher expectation about higher standard of living at destination, provide necessary information-remittance-feedback-training (even accommodation), and supply necessary social capital required to the newly migrants at their workplace. In this way, they reduce material-psychological costs and risks of spatial migration by formation of a "migrant community". Such migration "networks"<sup>10</sup> are renowned in the region from where migration has become almost systematic by following a particular pattern or system (the "system migration"<sup>11</sup>).

Higher is the skill and access to social capital network, higher is the probability for inter-state and international migration, thereby higher income earnings. This approaches a 'stochastic' pattern of skill-deterministic labour mobility earns much higher income. This higher income, saving, contacts, and long years' experience they can invest and become small and medium independent entrepreneurs over time. In this way, a vertical (hierarchical) labour mobility appears there within the industry in which previously labourers work as individual entrepreneurs. The entrepreneur-cum-vertically-migrant worker now attracts a pool of investment and employment at the local level from the peripheral areas. This acts as an influential factor to make spread of the peripheries in the hinterland of the region through effective HME, thereby promoting growth of the industrial economy and development of the regional economy. What is significant here is that issue raised by Becattini (1989, 1990) that government and/or government-sponsored institutions are not able to create an industrial organization with collective efficiency, rather a minimum concentration of privately initiated industrial activity may involve therein – which is the case for informal localization.<sup>12</sup>

## 5. Conclusion

The theories on location economics refer that industries do not develop arbitrarily. The present study is an effort to explore factors influencing localized informal industry formation in thereby incorporating various forms of industrial relations in a few informal localized industries in West Bengal. The exploration is based upon the classical syntax and new economic geography synthesis of Location Economics literature. To analyze why and how industrial organization of these localized industries is formed; the study is framed within the broader context of Regional Economics to include spatial dispersion and coherence of different clusters of this particular unorganized industrial activity. Further, uneven distribution of agglomerated production units across space and time is also attempted in references to the evidences of several micro-level field surveys and case studies conducted. What is crucial for this particular informal localized industry is that even the industry exhibits linkages in both product and labour market processes, the exploration of entrepreneurship development has sustained growth and expansion of production of the informal localized industries with multiplier effect on employment generation in the regional economy.

## 6. Acknowledgement

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### Appendix

1. The Theoretical foundation of the informal sector may be found to the Harris-Todaro Model (1970). To define informal sector, the well-known opinion is that the informal economy includes all income-generating activities that operate outside the regulatory framework of the state (Castells & Portes, 1989; De Soto, 1989; Harding & Jenkins, 1989; Feige, 1990). Since the early 1990s, however, debates have been started regarding there is any clear cut boundary between formality and informality in several economic activities.

2. The term 'agglomeration' of firms refers to decline in average costs in production as more production occurs within a specified geographic area [Anas, Arnott and Small 1998]. In other words, it relies strongly on increasing returns to scale, considering internal and external economies of scale.

3. Cluster of enterprises is a geographical concentration of micro, small, medium and large enterprises producing same or similar type of goods and services.

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- i. Saha, Sukanta (2015), Argument for Informal Cluster Industry Formation: The Case of Sinthi Gold and Jewellery Industry, Journal DeshVikas, Vol. 2 Issue 1 April-June.
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4. As referred by Brulhart (1998), while concentration analyzes location across space of a few well-defined sectors, agglomeration analyzes location across space for a larger part of economic activity, and specialization deals with share of a particular location in specific industry in comparison to share of other locations in that industry.

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- (i) Saha, Sukanta (2015), Bowbazar Gems and Jewellery Industry: A Classical and NEG Syntax, Journal of Economics and Commerce, Vol. 6 No. 2 July-December.
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- (iii) Saha, Sukanta (2015), The New Economic Geography Synthesis: An Insight into the Informal Spatial Clusters, 'Business Innovation', Book Massage by HRD Ministry SmritiIrani, Ed. By Dr. Ajit Dhar Dubey, Asst. Professor, Department of MBA, The Oxford College of Engineering, DDU University, Gorakhpur, published from Research India Publication, pp. 127-134.

6. The analysis of location started much before than Marshall with 'monocentric city model' of Von Thunen (1826) - Von Thunen's "Der Isolierte Staat in Beziehung auf Landschaft und Nationalökonomie".

7. To Marshall, an "industrial district" is an area or district that has emerged almost as a "district" where concentration of small and medium firms has settled down. Here, the idea of "industrial district" does not simply refer to a "localized industry" but more than it. Usually a "localized industry" refers to an industry that has concentrated in a certain geographical space. But an "industrial district" refers concentration of firms in an industry has already settled down.

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- i. Saha, Sukanta (2015), Whether Firms Are Leap-frogging: In the Bengal Zari & Embroidery Industry, International Journal of Current Research, Vol. 7 Issue 09, September 2015, pp. 20920-20925.
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9. The Christaller model of central place is, however, inductive rather than deductive in the sense that the model is primarily based on observations rather than exploration of any schema constructed from first principles. To Parr (2002), the Loschian approach is completely deductive and a microeconomic foundation has been approached to understand the urban system. It shows that industrial concentration and urbanization may arise independently of local peculiarity and particularity.

10. Ref: Djajic, 1986; Appleyard, 1992; Massey et al, 1993; Bocker, 1994; Waldorf, 1998; Levitt, 1998; Massey, 1999; Taylor, 1999; De Haas, 2003.

11. Ref: Mabogunje, 1970; Arizpe, 1981; Borcoz, 1987; Portes & Borcoz, 1987; McKee & Tisdell, 1988; Fawcett, 1989; Massey, 1990; Kritz et al, 1992; Martin, 1992; Gurak&Caces, 1992; Bohning, 1994; Martin & Taylor, 1996; Rotte et al, 1997; Vertovec, 1999; Olesen, 2002; van Dalen et al, 2005.

12. In the Big Push theory (Rosenstein-Rodan, 1943), the solution to the insufficient size of the local market is referred to a co-ordinated (government-led) expansion of investment - hence big push enters into. This enables firms to reap the benefits of economies of scale, thereby promoting industrialization of a backward region. Without such a big push, the backward periphery cannot catch up with the core.

In 1957, Gunnar Myrdal introduced the concept of circular or cumulative causation. In this, once a region (or country) takes lead in the process of economic development, positive external economies of scale in the region (or country) appears there – which ensures that the location will become an attractive place to invest and more attractive location for the labourers to work. The existence of strong localized spillovers leads to the establishment of a core in the region with large market and a periphery [Dicken and Lloyd 1990].

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