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Roy, Satyaki

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December 2009

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MPRA Paper No. 23468, posted 25 Jun 2010 06:30 UTC

Working Paper
No: 2009/02

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Satyaki Roy

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Satyaki Roy

Institute for Studies in Industrial Development

4, Institutional Area, Vasant Kunj, New Delhi - 110 070

Phone: +91 11 2689 1111; *Fax:* +91 11 2612 2448

E-mail: <info@isid.org.in> *Website:* <<http://isid.org.in>>

December 2009

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CONTENTS

<i>Abstract</i>	1
1. Introduction	1
2. Overview of the cluster	4
3. Production Organisation	7
4. Labour process	9
5. Dynamic issues	11
6. Spawning of the 'small': Self-exploitative fragmentation	15
7. Conclusion	17
References	20

List of Figures

<i>Table-1</i>	Ownership Pattern and Social Background of the Owners in Kolkata	5
<i>Table-2</i>	Distribution of Units by Employment and Output Size Categories during Peak and Slack Periods	6
<i>Table-3</i>	Wages by Occupational Categories in Footwear Producing Units in Kolkata	10
<i>Table-4</i>	Average Labour Productivity, Realisation Price and Fluctuations in Output and Employment	11

FOOTWEAR CLUSTER IN KOLKATA

A Case of Self-Exploitative Fragmentation

*Satyaki Roy**

***Abstract:** Studies in industrial clusters largely identify the institutional failures and imperfections that prevail in the supply of indivisible inputs and collective action. This paper critically reviews a typical 'low-road' cluster in Kolkata and argues that market failures due to existence of information imperfections, externalities and public good and the institutional failure to resolve those imperfections only partially explain the depressed status in these clusters. The explanation, however, critically rests on the fact of asymmetric power relations and conflicts arising between the trader and the small producer reproducing a production relation that thwarts the high road growth path. The spawning of small enterprises in such clusters, as the argument goes, is a result of self-exploitative fragmentation that does not flow from entrepreneurship but is a result of survival strategy of labour in the context of depressed wages.*

1. Introduction

There has been a significant relocation of global manufacturing units followed by a restructuring of global trade in the past two decades. It seems that both in terms of quantum as well as in that of mode of participation in the global production process the role of developing countries is undergoing change. And this is happening precisely when the growth of manufacturing value added in developed countries shows a virtual stagnation, i.e., growing at a low 1.1 per cent per annum while that for developing countries it is 7 per cent. The share of developed countries in world manufacturing value added declined from 74.3 per cent in 2000 to 69.4 per cent in 2005 (IDR, 2009). The evolving division of labour either through rigid links of global value chains or by way of specialized trade provides greater scope to developing countries in contributing to the world manufacturing output. New-structuralism explains the stylized fact of U-shaped

* The author is Assistant Professors at the Institute. E-mail: satyaki.sat@gmail.com

Acknowledgement: The paper is largely drawn from the author's work on the project 'SME clusters in India: Identifying Areas of Intervention for Inclusive Growth' funded by the Planning Commission, GOI. The author would like to thank the faculties of ISID who offered valuable comments and suggestions on the report in an internal seminar held at the institute. The author would also like to thank Prof. S.R. Hashim and Prof. M.R. Murthy for coordinating the project. The author extends gratitude to Puja Mehta and Dhanunjai Kumar for editorial and other assistance.

relation between specialization and per capita income and provides greater insights to capture the dynamics of rise in the share of developing countries in global manufacture (Imbs and Wacziarg, 2003). The literature suggests, countries need to change their portfolio of exports as they move up the income ladder and only by such changes fast moving low-income countries are increasing their share in global trade.

Leather has been one of the important manufacturing activities in India, both in terms of employment as well as a source of foreign exchange. This sector provides employment to about 2.5 million people in our country and happens to be the eighth largest source of foreign exchange. Since Independence the growth and distribution of firms by size categories in leather sector had been largely influenced by policies undertaken by the government. Since 1973, several expert committees set up by the Government of India recommended policies such as ban on export of raw hides and skins, reduction of import duty on machinery and inputs, de-licensing of the industry, targeted campaign to raise foreign capital, establishment of training authority and finally de-reservation of the industry from the SSI sector (Banerjee and Nihila, 1999). These policies resulted in a structural change in output and exports that gradually shifted the export basket from semi-finished leather to finished leather and leather goods of higher value addition. Because of the fact that this sector had been providing employment to a large section of poor people, especially from socially deprived sections and minorities even before Independence, during the post Independence period this aspect of protecting employment gained importance in policies and remained the major backdrop of reserving production of footwear for the small firms.

India exports footwear and components, leather goods, finished leather, leather garments, saddles mainly to European countries and USA and the bulk of these goods are produced by small enterprises. In the year 2007–08 the export of leather products amounted to Rs 140007.33 million and the CAGR in exports in the last five years was 11.91 per cent (CLEI, 2009). Similar to all other sectors in India, leather industry is undergoing change as a result of deregulation and export orientation. The shift in policies was mainly spurred by the following reasons: (a) Restrictions on environmental considerations have resulted in a change in the division of labour where firms engaged in leather processing, tanning and in producing leather goods are relocated in developing countries where pollution norms are relatively less strict. This new context provided opportunities to developing countries to increase their share in global leather and related trade; (b) The initial thrust in protecting and creating employment was gradually de-emphasized in view of enhancing export earnings. Policies were targeted to encourage modernization and consolidation that could help in reaping the benefits of scale economies. What all this means is that although reservation helps in generating

employment, but in terms of competitive efficiency, once we are exposed to the global markets, higher scale of operation and increasing productivity gain greater importance.

In this backdrop we intend to inquire about whether consolidation, vertical integration, graduation in terms of size and so on are necessary outcomes of deregulation or not. In our case study we investigate an age old cluster of small footwear producers in Kolkata, West Bengal. According to the Council for Leather Exports there are around 26 clusters of small enterprises producing leather and leather related products spread across 11 states in India. Footwear and components account for the highest share—42.44 per cent of the total export basket related to leather and India is the second largest footwear producer after China, constituting 14 per cent of the global footwear output. In this context we look at a primarily artisanal cluster, in Kolkata, the peculiarity of which is the presence of a clear disconnect in output between exporting firms and those producing for the domestic market. Historically, Kolkata had been the site for traditional tanning activities annually producing around 900 million pieces of cattle-hide and goatskins in 540 tanneries located in Tangra, Tilzalla and Topsia areas. At present, tanneries have been shifted to Bantala—in accordance with the Supreme Court order—and the new leather complex therein hosts 200 tanneries producing 500 tonnes of leather per day. However, in terms of export Kolkata accounts for 60 per cent of the total exports of leather goods such as wallets, ladies handbags, industrial gloves, travel and luggage bags, briefcases, caps and toys (CLEI, 2008). These are produced in relatively larger units employing more than fifty workers and located at Kasba, Topsia and Beliaghata. On the other side, there are around 4500 units of small and tiny enterprises producing footwear, mostly *Chappals* that are sold in the domestic market. The footwear manufacturing small firms are concentrated near Kalabagan, Ahmastreet area, Hatibagan, Tantibagan, Phoolbagan, Narkeldanga, Rajabazar and Tangra-topsia areas. The geographical distribution of small units is related to product specialization, i.e., firms in Tantibagan and Phoolbagan mainly specialize in producing ladies and children footwear while others located in and around Kalabagan and Rajabazar produce gents *chappals*.

It is difficult to identify all of the manufacturing units because the units are dispersed in different corners of the city. We follow the sub-sector approach, or the branch specific case study based on detailed unstructured interviews of key local informants (Boomgard *et al*, 1992). In addition, selective samples are surveyed taking into account the geographical distribution and the mode of specialization of the units. The sample units are selected randomly from Kalabagan, Rajabazar and Tantibagan areas covering 48 units of which 10 are relatively big units. The three areas chosen represent different product specialization. The social and cultural background of the owners as well as that of the workers is also diverse in these areas. The survey was carried out during the period December 2008 to January 2009. By interviewing owners of firms of different sizes

as well as local traders dealing in footwear, the quantitative and qualitative information so received enabled us to explain the inner dynamics of the cluster. The purpose of the case study was to inquire about the production organisation of the firms, their backward and forward linkages, dynamics of the cluster, in the sense, the subcontracting relationships and how it is related to the dynamics of distribution of size categories of units within the cluster.

2. Overview of the cluster

The small enterprises in Kolkata that are engaged in producing footwear are mostly home-based artisan units. In the sample there are four units that started production in the pre-Independence period; 16 units that started operation in pre-1980 period while the rest emerged later on. During the period 1991 to 2009 the number of new units is 22, of which 3 started business in the past three years. Out of the total number of 48 units surveyed, 23 units exist formally, i.e., they at least have trade licenses issued by the respective local authorities while the rest of the 25 units have no formal existence. The informal nature of work and the way they organize the production has been linked to the ownership pattern of the firms. It is found that 87.5 per cent of the units surveyed are either owned as proprietorship or as family owned household unit. The cluster is absolutely male dominated in terms of ownership and only one owner out of the 48 firms that visited was reported to be female. One reason for this skewed distribution in ownership in terms of gender possibly could be that the producers are historically migrant workers from Bihar, mostly from districts such as Munger, Madhubani, Nalanda, Jamui, Banka, Begusarai and Khagaria and they mostly leave their families in their native places. Because of these fragmented households the cluster is highly male dominated and we hardly find female workers working in the units even though the job requires relatively less physical power. The social background of the owners also reflects the artisan roots of the cluster. Traditionally by Hindu caste hierarchy tanning and producing footwear is considered to be a 'dirty' job and assigned to the caste known as *Chamars* who belong to the Scheduled Castes. Later on Muslims and Chinese in Kolkata entered into tanning activities in Tangra-Topsia area and gradually participated in the production of footwear. The owners in nearly 80 per cent of the cases started as apprentice in their family unit or in a neighboring unit and gradually attained skill through on the job training to start a separate unit. We found 11 owners out of 48 having no formal education, another 25 only passed the primary and middle levels, and only 2 graduates in the total sample. The educational background of the owners simply reflects the fact that in Kolkata activities related to the production of footwear remained heavily linked to caste and could hardly attract entrepreneurs with better educational background.

Table-1
Ownership Pattern and Social Background of the Owners in Kolkata

Mode of Existence		Religion of the owner	
Formal	23	Hindu	34
Informal	25	Muslim	14
Total	48	Total	48
Ownership		Previous occupation of the owner	
Proprietorship	30	Leather related	38
Family owned (HE)	12	Others	10
Partnership & oth.	6	Total	48
Total	48	Educational background of the Owner	
Sex of the owner		Graduate	2
Male	47	H. Secondary	3
Female	1	Madhyamik/high school	7
Total	48	Middle school	16
		Primary	9
		No formal Ed.	11
		Total	48

Source: Survey results

There are two peak seasons in the industry: one, during pre-festival period, i.e., August to October, and two, during summer, i.e., February to May. However, in most of the small units, production continues uninterruptedly only for three to four months in a year.

According to the size of output there are broadly three categories of units: (a) those producing less than 200 pairs per week and their share in the total sample during peak and slack periods is 39.6 and 77.1 per cent respectively; (b) those producing between 200 to 500 pairs per week accounting a share of 35.4 and 14.6 in the sample during peak and slack periods respectively; (c) 25 per cent of the sample units produce more than 500 pairs per week and the share of such units during slack period is only 8.33 per cent. Considering employment during peak and slack periods we can identify similar categories: (a) 54.2 per cent of the sample employ less than six workers during peak period and 81.2 per cent of the sample units employ less than six workers during slack period; (b) 45.8 per cent of the units during peak season and 18.7 per cent during slack periods employ more than six workers.

Fluctuations in terms of output and employment also reveal the fact that the number of workers retained in slack period is the minimum number working throughout the year. Hence, the number of units employing more than six workers throughout the year is 9 out of 48 firms surveyed. Table-2 also reports the highest number of workers employed in a firm within the sample. We come across a single unit producing 3000 pairs per week

employing 85 workers in the peak season and 2000 pairs per week employing 60 workers during slack period.

Table-2
Distribution of Units by Employment and Output Size Categories
during Peak and Slack Periods

No. of Workers	Peak	Slack	Pairs/Week	Peak	Slack
Less than 2	2	17	Less than 100	3	23
3 to 6	24	22	100–200	16	14
7 to 10	14	5	201–300	9	4
11 to 15	4	0	301–500	8	3
15 and +	4	4	501–1000	6	2
Total	48	48	1001–3000	6	2
Highest Reported	85	60	Total	48	48

Source: Survey results

Surprisingly, Kolkata footwear cluster is no longer producing leather *Chappals* for which it was well known in the past. Both demand and supply factors contribute to this shift. As regards supply, the traditional small tanneries are not allowed to operate in residential areas and hence have either closed down or relocated to Bantala leather complex. The new place is far away from the city as a result of which labour cost and other transaction costs increase and on the other only bigger firms could relocate production to the new site that require fresh lease of investments. As a result, cost of leather increases and higher prices fetch lesser customers, especially those producing for the mass market. Also, the demand has undergone a change towards non-leather footwear, those assumed to be cheaper and more durable compared to leather products. Especially there has been significant progress in producing ‘leather-look’ and ‘leather-like’ close substitutes that has impacted upon the footwear industry at large throughout the world. Barring a thin segment of the upper middle-class market, footwear consumption has drastically shifted towards non-leather items and Kolkata has adapted to the changing demand. As a result, the share in the consumption of leather has increased for exporting units that produce leather goods such as wallets, ladies bags, industrial gloves and sell them to Italy, Spain, Germany, France, Belgium and USA. These units are hundred per cent export oriented units employing 70 to 350 workers. What appears to be interesting is that these exporting units are located within the leather cluster using easy access to raw materials and the pool of traditional labour but they are in no way linked to the small producers in the cluster. Mostly, the relatively bigger units do not produce for the domestic market and only very few of the bigger firms are engaged in the production of footwear.

3. Production Organisation

The raw materials used in the production of *chappals* are—leather, foam, rexine, rubber, PVC soles, leather board, sponge, rubber milk and adhesives. *Chappals* are normally made up of head skin; however, higher qualities of goat leather are used to make leather bags and high valued ladies *chappals*. Non-leather substitutes imported from Korea and China are easily available from local traders. The traditional cobblers use simple tools such as stone, scales, scissors, hammers, nails, various dyes, *chakki*, *khurpi*, *lehenga*, punch and punch-boards. They produce footwear of lower quality depending on traditional manual skills. We came across a few footwear producers who invested in higher order stitching machines in order to meet the stipulated standards demanded by the parent firm. Product specialization is high in the cluster and the units specialize in producing ladies, gents and baby footwear. Apart from basic raw materials some intermediate products such as PVC soles and wooden heels in the case of ladies *chappals* are procured from traders. Most of the inputs are procured from local traders who source them from outside the state. Leather boards used in Kolkata are usually procured from Jalandhar and Chennai and latex from Kerala, although foams used in making non-leather footwear are produced within the state. There are more than 200 types of accessories related to footwear sold in an average shop dealing in footwear items and increasingly the demand is for embroidered accessories. Raw material prices vary in a big way between peak and slack periods. In the case of latex and other solutions and for some tools the variation might be as high as 100 per cent while the sole prices in peak seasons rise by more than 55 per cent compared to slack periods.

Since most of the firms do not have any formal existence, it is obvious that transactions with formal credit institutions normally do not happen much. Most of the small units depend on friends and relatives for short-term credit or borrow funds from the informal credit market paying interests ranging from five to eight per cent per month. However, trade credit is available from raw material traders for seven days and sometimes from the parent unit who adjust it in subsequent payments. In this network of credit, the social capital is heavily influenced by non-economic factors such as caste, religion and residential status of the owner. Usually people from the same religion enjoy greater benefit and since large number of the raw material suppliers belong to a specific religion, producers of the same religion reap the benefits of trust. Credit is not easily available to owners who retain their migrant status, i.e., keep their families in villages and visit their home once or twice a year. Normally it is held that security of repayment is relatively less in the case of such borrowers compared to a fully-fledged settler and hence migrants are deprived of equal access to credit.

According to the production organisation, three layers of small units can be identified. Apart from the few independent units which sell their products in their own brand names, the categories of small firms are as follows:

1. A few subcontracting units are linked with one or two reputed brands having high market shares such as Khadims, Sreeleathers, Elite, Elegant, Bata, Ford, and Dynasty. The raw material of specified quality is supplied by the parent unit and the whole of the produce is purchased.
2. Most of the small firms in the cluster produce *chappals* of different designs and quality and supply them to two or three specific traders. In these cases, the small producer has to buy raw materials and supply the final product to the trader.
3. There are units which do not maintain any fixed relationship with any trader and sell goods of inferior grade at Birshulhat or College Street market. The wholesalers purchase footwear directly from the producer and pay cash on the spot.

Very few units in the cluster have their own designers. In most of the cases either the owner improvises designs or assigns freelance designers or *masters* who charge between Rs 130 and Rs 150 per design. Normally, the producer has to change designs at least thrice a year. Sometimes designs are also provided by parent firms. Usually 10 to 12 pairs of various designs are prepared before each season and each pair costs between Rs 200 and Rs 250. Hence, this is a kind of fixed investment at the beginning of the season by the small producer in order to receive orders from traders or parent firms. The margin of the producer depends on the marketability of his design and can derive extra profits as long the novelty of the design remains in the market. Sometimes a single design stands the test of marketability for about six to eight years although the economic rent attached to it declines over the years. The traders supply unique designs given by a definite producer to others. In this way the trader aims at reducing the economic rent which the individual small producer derives from innovation.

Small firms engaged in a subcontracting relation with reputed brands propose designs at least twice a year to the specific shops of the parent unit. These designs, if endorsed, are then ordered in requisite quantity. Necessary raw materials are supplied either directly, or through issuing coupons to the subcontracting unit to collect specified materials from traders. Representatives of the parent unit visit regularly to monitor the quality of production. Because, these reputed firms have retail outlets across the country, the life cycle of a specific design spans over a longer period. As a result, the subcontracting unit receives production orders throughout the year. Otherwise, most of the small firms try to maintain transactions with two or three traders simultaneously, so that if payments are delayed in one, they can switch to the others. It is quite common that after work orders

are issued to small producers for the ensuing peak season, the prices of raw materials increase. This is possibly due to a nexus between local dealers of raw materials and footwear traders. The burden of higher cost is transferred to the small producers, as the contract of supply price remains unchanged.

Footwear produced in Kolkata are sold to wholesalers having shops in College Street market or popularly known as Yahudi market. One of the specialties of Kolkata footwear market is that goods are sold with a guarantee of at least three months, which is rarely offered in other domestic markets and not even for products imported from Taiwan and China. These wholesalers sell the *Chappals* through showrooms located in different district towns in the state as well as in states such as Jharkhand, Bihar, Orissa, Assam, Tripura and other north eastern states. Competition within the small producers is primarily based on price and hence cutting costs is the usual route to grab a greater share of orders from the parent units or traders. As reported, increasing use of moulded non-leather products produced in Delhi has largely affected *chappal* producers in Kolkata. These non-leather products (e.g., Eva Chappals) cost Rs 40 to 70 a pair, while no leather footwear can be sold at a price less than Rs 200. As a result, producers are forced to work at a lesser margin and the traders' margin has also been drastically reduced. Moreover, there has been a change in the demand pattern of footwear. Earlier demand for *chappals* used to be high in festive seasons but now it is relatively constant throughout the year. Most of the producers reported a decline in orders in the recent past possibly because of the impact of recession that has affected the real economy.

4. Labour process

Workers and their home-based units situated in the dirty congested slums reveal explicitly the marks of poverty and deprivation. Places of residence and production sites are clubbed into a small rented room, where a wooden *chouki* is the only private place to rest. Earlier the traditional *Chamars*, who migrated from Bihar and UP were the only producers of footwear. However, people with different caste and religious identities have entered the labour market in the past few decades. The worker acquires skill and training at an early age either by observing the production process in his family unit or working as an apprentice in other's unit. Normally an unskilled worker requires on the job training for about 8 to 12 months to acquire a specific skill. The labour market is flexible and competitive, and wages are paid on the basis of piece rate. Abundant supply of labour together with the absence of labour institutions such as trade unions has pushed down wages to the reservation level. Various occupations related to footwear are the following: soleman, upperman, those engaged in stitching, fitting, finishing and stamping. Some workers specialize in embroidery work based on designs. These people are called for if required. The helper is actually the apprentice who starts his career by

bearing orders of skilled workers. Wages for various occupations are more or less uniform across the units as shown in Table-3. The average income of a skilled and unskilled worker in Kolkata footwear cluster amounts to Rs 2300 and Rs 1400 a month respectively. The declared total minimum wages per day in tannery and leather manufacturing in West Bengal as on 07.03.2009 was Rs 126.42, Rs 130.27 and Rs 136.04 for unskilled, semi-skilled and skilled workers respectively. Hence, actual wages paid to workers is much less than the declared minimum wages in the specific occupation.

Table-3
Wages by Occupational Categories in Footwear Producing Units in Kolkata

Occupation	Wages (in Rs/dozen)
Soleman	100–120
Upperman	60–72
Stitching	30–35
Fitting	24
Finishing	20
Embroidery	24
Stamping	5
Helper	1000/month

Source: Survey results

The ‘soleman’ and the ‘upperman’ are usually fixed employees in a specific unit while fitting and sewing jobs are mostly outsourced. In most of the units work is done on ‘putting out’ system and during peak seasons a worker works for 16–18 hours per day. Workers are employed on contractual basis according to the need. Most of the owners try to retain the skilled upperman and soleman even during off-season. They engage them in producing a minimum level of stock or goods that are sold at a lesser margin during the slack period. Most of the workers have to seek alternative occupations such as working as *rajmistri* (construction jobs), *mutia* (loading/unloading jobs) or agricultural labour during off-season. Many of them also migrate to other states for footwear jobs where festival seasons are different from Bengal.

The occupational multiplicity as well as cyclical migration of the working poor across space and occupation has been recognised as a significant feature of Asia’s labour market. These are the ‘wage hunters and gatherers’ who move horizontally for alternative occupations during crisis (Jan Breman as quoted in Kannan and Rutten, 2004). Another important feature of the labour market is its migrant nature and the related household structure. Most of the workers have migrated from different parts of Bihar but have left their families in their native villages. This fragmented household, as well as multiple occupations, in a way, helps conceiving of a low reservation wage.

On an average during peak season, depending upon the design, 5 workers engaged in various occupations taken as group produce 24 to 36 pairs of *chappals* on working 15–18 hours a day. However, we can arrive at a somewhat gross measure of labour productivity in peak and slack periods by measuring physical units per worker per day and that comes around 7.74 and 4.61 respectively. The share of labour cost in an average *chappal* produced in Kolkata turns out to be 24.4 per cent. The average realization price of footwear in Kolkata is Rs 73.83 and the producer’s price remains more or less same across seasons.

Table-4 reveals that on an average, output in physical units of a firm is nearly 42 per cent of that produced in peak periods. However, employment in slack periods is nearly 59 per cent of employment in peak seasons. Even if the labour market is fully flexible the decline in employment is less than proportionate to decline in output and that is possibly because of the fact that the owner wants to retain skilled workers during slack periods although that might not match with the production requirements.

Table-4
Average Labour Productivity, Realisation Price and Fluctuations in Output and Employment

Parameters	Mean	S.D.	Coef. of variation
Realisation Price/pair	73.83	14.63	19.82
Pairs/Worker/Day (peak)	7.741	3.536	45.68
Pairs/worker/Day (slack)	4.609	2.412	52.33
Output (slack) as % of output (peak)	41.866	15.622	37.31
Employment (slack) as % of employment (peak)	58.894	17.081	29.00

Source: Survey results

Labour turnover is relatively high in smaller units because these smaller firms cannot engage their workers throughout the year. As a result, workers stay in a small unit for six months or one year and could opt for another firm that offers higher wages. Turnover of labour is relatively less in bigger firms which provide assured work for a longer period in the year and in such cases workers may stay in the same firm from 3 to 7 years.

5. Dynamic issues

Footwear cluster in Kolkata bears little resemblance to trends of increased competitive strength achieved in the Indian leather industry. The cluster is mostly confined to the lower end of the multilayered footwear market producing with hand tools, traditional techniques and inputs of inferior quality. As a result, the units in the cluster are barely eking out survival in a situation of losing markets and stagnation. In this section we

figure out some of the dynamic issues that largely influence the trajectory of growth of the cluster:

First, increasing use of non-leather materials has a significant impact on the cluster. Earlier, traditional cobblers were only *Chamars* by caste and the social taboo restricted the supply of labour. With the increasing use of materials such as rexine, PVC soles and foam, the industry lost its entry barrier of 'untouchability'. As a result, influx of people from different castes and religion, both added to the number of units as well as the supply of labour. Moreover, machine moulded PVC soles have also substituted a few stages of insole jobs thus contributing to the relative increase in the supply of labour in the cluster. Greater durability of non-leather materials increases the life span of footwear. As a result, the cluster catering to the lower end of the footwear market faces a decline in the sales turnover.

Second, for the middle end of the market expansion in the consumption of footwear signifies a changing pattern of demand. The consumers are least concerned about durability and reasonably pay for multiple styles and designs. In order to respond to this changing pattern of demand the cluster should concentrate on design intensive jobs producing different styles of uppers that cannot be easily machined. Otherwise, in the market for standardized goods, price is the only cutting edge in competition and that too cannot be lowered any further. Because, the wages paid to the workers are very close to the reservation wage level. Earlier *chappals* from Calcutta were supplied to Delhi, Chennai, Kerala, Bangalore and Assam in large quantities. However, emergence of production sites in different parts of the country resulted in a decline in Calcutta's share in the domestic market.

Third and perhaps the most important fact is that the small manufacturing enterprises have to depend on traders to sell their products. Competition is based on the supply price, and the only way to increase sales is to reduce the supply price. In other words, the small producer has to share an increasing portion of his profit with the trader in order to increase sales. Generally by selling an ordinary *chappal* the owner's share of profit is only Rs 5 to Rs 10 per pair. The larger share of margin derived from the sale of a footwear goes to the retailer. Normally the retail price is nearly 2.5 times the realization price of the producer. In dealing with the trader, payments are delayed and on an average 30 to 60 per cent of the net claim is only realised in each deal with the trader. This mode of payment accelerates transfer of a portion of the small producer's capital to the trader. And, the producer becomes dependant in such a way that s/he cannot break the relationship until s/he realises the due claim. In such a situation, the small producer is ever inclined to produce goods with higher value-added because such a venture would lead to a transfer of further greater amount of productive capital to the traders. Firms

working as subcontractors for reputed brands face further problems. They have to buy stipulated branded raw materials bearing marks of a specific company, especially soles, by involving higher working capital. Now if a lot is rejected by the parent firm the subcontractors have no alternate way to fall back upon and cannot even realize the costs because of the brand names printed upon those goods, it becomes a legal offence if a producer sells those rejected goods in the market carrying brand names. In many instances such rejection from parent firms had destroyed a large chunk of the working capital of the subcontracting unit. Moreover, it is a credible threat that reproduces dependence upon the specific parent firm and sometimes used in reducing the payments made to the subcontracting unit relative to net claims. The proportion of value realized in a subcontracting transaction is also related to the size of the subcontracting firm. If the parent firm purchases in large quantities from the subcontracting firm, the percentage of value realized in each transaction would be relatively higher compared to cases of purchasing smaller quantities. This implies that smaller firms have lesser bargaining power vis-à-vis traders to realize their working capital. There is also a process of cutting down residual payments to the tune of 2 to 3 per cent if a subcontracting firm wants to finally wind up a subcontracting relation with the parent firm.

Fourth, according to the usual proposition of the theory of distribution, the wage is read off from the marginal productivity curve. It says that wages in small enterprises are low because the marginal productivity of the worker is low. However, in any case labour productivity is determined by several factors, which are conditional outside the control of labour and cannot be solely explained by the individual capacity of the worker. In a developing economy the marginal productivity is not an independent variable determining wages rather wage, marginal as well as average productivity are interdependent variables in a labour surplus economy. As a result, it seems plausible to conclude that wages are low not because the labour productivity is low, but the opposite direction of causation explains better the wage-productivity relation for the unorganised workers in small manufacturing enterprises. The relationship between wages and work-efforts of workers can be explained by the notion of 'fair wage'—where the norm of effort of the worker is not generated by individual rationality but by a social norm, which regulates worker's behaviour. The fair wage is the perceived value of a unit of labour in the context of a wage contract. The fair wage-effort hypothesis based on the sociological notion of 'gift exchange' states that if the actual wage is less than the 'fair wage,' workers supply a corresponding fraction of normal effort (Akerlof, 1982).

Further, it is held in common parlance that by dint of insertion in the global value chains, wage claims of workers would increase in developing countries. However, there is no evidence of such increase in wages, instead there is a decline in the industries that constitute half of the manufactured exports from India. Thus, once we recognize the

power relations embodied in exchanges in the labour market, we find that the distributional conflicts between labour and capital is never resolved on the basis of their claims competitively determined as return to scarcity in the usual general equilibrium sense. Forces of demand and supply set only the boundaries of space, within which wages are set. Within this space, wages reflect the outcome of bargaining in the context of wage setting institutions and social norms. Change in ideology, politics and resulting changes in the labour market institutions join the economic forces of supply and demand to determine employment and wages. The existence of perfectly competitive factor markets relies on the assumption that factors have perfect and costless mobility and the marginal products are perfectly and costlessly visible. Relaxing the assumptions opens the possibility that a factor can be paid less than its marginal product and yet still finds it not worthwhile to seek out another employment option. This explains why the workers in Kolkata footwear cluster do not have choices to leave the occupation although they are ill-paid. Rather declining incomes due to lesser availability of jobs in a stifling competition induces a worker towards becoming a self-exploitative 'owner' (discussed in the next section).

Fifth, the degree of horizontal cooperation in the cluster is low. This is because, in the absence of defined property rights everyone aims to restrict interactions, in order to defend the premium of asset specificity created through innovative designs. Because new products can be easily copied or supplied by traders in large numbers, competition among firms is ultimately on the basis of sale price. In such situations undercutting of prices inhibits trust and inter-firm cooperation is never strong. Interdependence based on production links is mostly absent, since everyone can produce the whole product. While interacting with the traders, the small producers often realize the necessities of cooperation and some associations of small producers evolved in the cluster. The *Charmashilpi Samity* in Rajabazar area (Kolkata) and similar associations of small producers in Tantibagan (Kolkata) were successful in realizing the due claims for their members when some disputes arose. The *Samity* also succeeded in imposing conditions upon traders of Yahudi market that they have to intimate small producers, at least one month before increasing the prices of raw materials. They also opened a retail counter at the College Street market where small producers can sell their products directly to consumers. The association also established marketing links with *Charmoja*, a West Bengal Government undertaking and supplied footwear for several months. However, the number of *Charmoja* outlets, as reported has gone down from 56 to 6 over the years and the small producers have no other alternative institutions but to depend on the local traders.

Finally, survival and growth of small firms depend on their ability to carve out their market niche through superior ability to cater to the special needs of customers (You,

1995). Salais and Storper (1992) further argue that even product specialization does not necessarily give advantages to small firms. It is the dedication of such products to customers by which small firms create their market niche. In a design intensive industry what is primarily needed is information and knowledge about the pattern of demand as well as adequate training to respond. Supplies of good quality raw materials should be ensured to meet global standards. In order to explore markets without depending on the intermediaries, collective efforts to form trade associations is required. These institutions to provide public goods are mostly absent in the cluster. Imported footwear because of higher price could hardly affect the domestic middle or lower end of the market, although they have largely influenced the tastes and preferences of consumers even in the lower end. Failing to meet the changing demand may result in losing domestic markets, as experienced in Kolkata footwear cluster.

6. Spawning of the 'small': Self-exploitative fragmentation

The unorganised small manufacturing enterprises draw our attention to the complexities of exchange relationships that are mediated through production organisations and institutions. Market failures due to existence of information imperfections, externalities and public good and the institutional failure to resolve these imperfections only partially explain the depressed status in these clusters. Asymmetric power relations and conflicts arising between the trader and the small producer reproduce a production relation that hinders the high road growth path.

The common dynamics of growth in the small manufacturing enterprise clusters is very much conditioned by the exchange relationship between traders and small producers. The kind of exchange relationship is not similar to the competitive equilibrium conceived of in a Walrasian economy—where the identity of exchange partners is irrelevant, and all agents are indifferent to current transactions and their next best alternative. The trader-producer relationship in these clusters, what may be called *contested exchange*, is where the trader has the power over the small producer to impose sanctions affecting the future stream of revenue while the latter lacks the capacity with respect to the trader. Exploring the micro foundations of the political economy of capitalism, Bowles and Gintis (1990) identified different natures of contested exchange, prevalent in a capitalist economy. This section draws attention to the centrality of trader-producer *contested exchange* as the key element to explain the growth trajectory of small manufacturing enterprise clusters such as the footwear cluster in Kolkata.

The small producers in these clusters do not face market, where each firm could take price or market demand as given and can largely ignore its competitors. Rather they had to consider others' behaviour. Increasing revenue depends on the extent to which the

small firm agrees to quote a relatively lower price in comparison to others. Further, the capacity to absorb fluctuations in raw material prices and a number of contingencies concerning the future state of the world is the tacit element relevant to the exchange with the trader. In most of the cases, the small producer is engaged in transactions which cannot be precluded, let alone guaranteed through contractual agreements. In such situations, profits become more unpredictable. And, maximisation of sales instead of profits becomes the perceivable objective of the firm. The strategy is close to Baumol's (1959) *sales maximization hypothesis*, where the firm maximises sales subject to a minimum profit constraint.

The producer aims to maximise revenue by sharing an increasing portion of his profit with the trader. The small producer can get entry into the market only through the trader and this gives the trader a power of endogenous enforcement during the course of transaction. If satisfied, the trader promises renewal of contract, otherwise he can terminate it. The power of enforcement runs from the trader to the producer and not the other way round. The different modes of sanctions and pressure define the moments of power. To the small producer, increasing the revenue is subject to paying a greater premium of profit to the trader, be it directly or indirectly. The trader transfers the burden of fluctuations in raw material prices to the small producers, compels the small firms to supply at lower rates during off-season, retains a part of the productive capital of small producers through delayed or partial payments, and even increases margin through supplying one producer's specific design to others. However, these are all 'hidden' stories in an incomplete contract between a trader and a small producer and there is no relevant third party to monitor or redress. Bowles and Gintis (1990) identified this kind of contested exchange as *endogenous claim enforcement*, which gives rise to a well-defined set of power relations among voluntarily participating agents even in the absence of collusion or other obstacles to perfect competition.

In the context of such contested exchange the goal of the small producer to maximize sales gives rise to a process of self-exploitative fragmentation. This process can be briefly stated as follows.¹ In order to increase revenue, subject to an acceptable minimum profit, the subcontracting unit engages in a contract with the trader/parent firm and agrees to pay a higher premium in order to bag higher share of orders. This continues even to the extent where the small producer could retain actually no or negative profit but agrees to do so because to the owner of a small enterprise profit is often conceived of as the net of total revenue minus the cost of inputs and the cost of hired labour. The imputed cost of unpaid family labour or his own labour is not considered while computing profits.

¹ The model in details has been discussed in Roy (2007).

Because of this misunderstanding although the actual profit is pushed below the acceptable minimum level, the small producer considers it feasible to restore the 'fair' level of minimum profit through reducing costs. As in most of the cases, wages of the workers have already touched the reservation wage level—it cannot be pushed down further. And the only way left for the small producer to reduce 'costs' is self-exploitation. This is done either by the owner employing own labour or unpaid family labour.

On the other side, large numbers of small producers depend on a few buyers. The local big dealers face a competitive output market. However, while purchasing inputs or final products from smaller units they behave like oligopsonies. As a result, there are pressures on the prices for inputs as well as on inputs use, compared to that in a competitive market situation. Thus, the subcontracting units produce finished products on a lower scale. More the degree of imperfection, lesser will be the margin of profit for smaller units as the pressure for reducing costs cannot be transferred to the workers whose wage level has already touched the level of reservation wage. The only space left for an owner of a small unit is to restrict the upward mobility of labour, by refusing to recognize his skill accumulation, and thereby claims for increased wage. Capital intensity in these units being relatively low, little amount of capital to buy simple tools and rents for machines is sufficient to open a new unit. Therefore, a skilled labourer after acquiring some experience about output market can easily move on to start a new enterprise.

The process of self-exploitative fragmentation occurs in two ways: (a) the owner gradually replaces hired labour with herself or by unpaid family labour, or (b) the skilled worker starts an own account enterprise and becomes 'free' to exploit herself while earning higher than his past income as hired labourer. Moreover, the earnings of a self-exploitative owner do not necessarily exceed even the incomes received by a hired skilled labourer. If the quantity of orders received is low, the owner of an own account enterprise is left with an income even less than that of a skilled labourer. Following successive failures to earn at least a skilled worker's wage income, the owner lacks the capacity to offer credits to the trader. And s/he is no longer interested in entering into a long-term relation with any trader. The small producer then depends on spot markets or sells to wholesalers, in exchange of cash payment. That is, anonymous arms-length market instead of a trader-producer exchange is the last refuge of the small producer.

7. Conclusion

The relationship between trader and the small producer is the key element in the dynamics of the cluster. The small producer has to share an increasing portion of his economic surplus with the trader in order to increase sales. The mode of payment between the trader and small producer helps in transferring the productive capital to the

trader. This not only strengthens the dependent relationship, but also inhibits small producers in producing higher valued goods that involves greater amount of capital. Institutions to protect rights on innovative designs are absent and the trader disseminates a specific design to others in order to reduce claims for exclusive designs. In a cluster comprising large number of small home-based units, everyone faces stifling competition. And in the face of losing margins, the owner replaces the skilled worker with own labour.

In the case of footwear, the product life cycle is short, goods are demanded in smaller batches and frequency of variation in design largely determines the buoyancy of a product. Because of the design intensity of the goods, mechanization of production has a limited scope. In such a scenario economies of scale can be derived from increased division of labour, despite being mostly manual work and by reaping the benefits of bulk purchase of raw materials. Firms that are relatively large in Kolkata cluster started operating on a small scale and grew horizontally, that is, the same operation is repeated in greater number employing large groups of workers without any significant change in the technical composition of the production process. There is no sign of vertical integration as such and the firms perceive the problem of space as the major constraint of growth. Both the small and large firms cater to the local/regional market and the owners, having a limited vision because of their educational background, lack the kind of entrepreneurship needed to leap forward. Rather the fragmented nature of the cluster helps in reducing the share of margin for the manufacturer and increases that for the traders. This perhaps explains why in Kolkata we do not find new big manufacturers like Bata, Elite and so on but we come across emerging brands such as Khadims and Sreeleathers who largely source goods from small producers and sell them across the country.

Interventions through state policies related to leather industry in India were never conducive for a high road growth in SME clusters. The policies changed over time with the changing perceptions of export policy. Before the nineties the main plank of state policy was to enhance export by exploiting the ability to produce at a lower cost and that suited the policy of protecting small artisan firms. In more recent periods perceptions regarding exports changed where policies aimed at targeting high-valued segment of the global leather market. In order to reap the benefits of scale economies in such segments the protection for small firms is withdrawn. However, keeping the competitive edge in exports through low labour costs remains the overriding concern. The state policies related to the de-reservation of leather industry are tailored in favour of large and medium enterprises and at the same time provide them ample scope to exploit the informal labour market. This issue of allowing higher scale of operation through deregulation on the one hand and reaping the benefits of low wage on the other is the

crux of the policies adhered to in the context of leather industry. This might work well to an extent while targeting the mass market through producing standardized products. But in order to respond to changing demand for design intensive goods, firms need to move towards higher value addition in which case the focus would be on quality of the product instead of relying on pushing down wage costs alone. In such case competition would be based more on the use of higher technology, higher value addition and the use of higher quality of raw materials instead of reducing costs in wages. This would in a way counterpoise the trends of self-exploitative fragmentation and induce consolidation to reap the benefits of scale advantage.

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Institute for Studies in Industrial Development

4, Institutional Area, Vasant Kunj, New Delhi - 110 070, India

Phone: +91 11 2689 1111; Fax: +91 11 2612 2448

E-mail: info@isid.org.in; Website: <http://isid.org.in>

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