

Union Wage Effects on Contract Labor

Santanu Sarkar

This paper predicts different plausible conditions which might have arisen out of a complex relationship of wage differentials between regular and contract workers in helping predict the employer's ability to hire more labor on contractual terms especially if the labor cost was fixed in a fairly unionized sector such as manufacturing in India post-liberalization. It examines the roles played by wage differentials in maintaining demand for regular workers to a change in the wage rate elastic while other factors of production were easily substituted and in maintaining demand for substitution of regular labor while other inputs to the production inelastic. It offers direction towards finding how improved labor flexibility made one of the two categories of workers prosper at the cost of the other's hardships during post-liberalization.

Santanu Sarkar is Professor of Labor Relations, XLRI, Xavier School of Management, Jamshedpur, 831001 India. E-mail: ssarkar@xlri.ac.in

Introduction

The '90s economic liberalization in India led to a significant rise in contract workers in the labor force (Legge, 2020; Valverde, 2009; Shire, Rottweiler, Schonauer & Kalleberg, 2000). Rapid contractualization of work in the post-liberalization era was not solely because the employers circumvented the draconian employment protection laws (EPL) that allegedly impeded economic development and employment generation in the pre-liberalization era. Numerous other factors contributed to labor market flexibility. For instance, if regular workers were receiving a wage premium even during the post-liberalization period because of their high bargaining power, employers were far more likely to get tempted to hire cheaper contract workers to seek labor arbitrage. So, one of the factors that might well have begotten labor flexibility is the prevailing high bargaining power of regular workers, especially in sectors such as manufacturing where union density was relatively high. And, not to our surprise, such a factor has most often lost our sight.

Therefore, in this paper, an attempt is made to explain the complex relation-

ship between wages of regular and contract workers in helping predict the employer's ability to hire more labor on contractual terms during the post-reform period in India. It was the time when the earnings of regular workers in general remained significantly higher than contract workers because unionised regular workers had greater bargaining power than their contractual counterparts. After the Indian government announced economic reforms in 1991, if the demand for regular workers to a change in the wage rate had turned elastic, and other factors of production were easily substituted (Hicks, 1932; Hoffman, 2009), we want to know if the employers, especially in a fairly unionized sector such as manufacturing were able to control the elasticity of the demand for substitution of regular labor. And, if the employers were able to control, it is important to find whether they were able to do so mostly by hiring contract workers by altering the wage differentials between regular and contract workers apart from skirting the EPL. In this paper, we build a simple framework to explain how employers during the post-liberalization period in a reasonably unionized manufacturing sector were able to contractualize work by controlling the elasticity of the demand for substitution of regular labor concerning all other inputs to production.

Reforms have brought about the flexibility of labor as a production unit through labor efficiency and labor arbitrage (Brodsky, 1994). As a result, the share of contract workers in the workforce has grown by approximately

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55 per cent between 1990 and 2022. Contract workers who were 40 per cent of total employment in 1990 grew to 66 per cent in 2022 (Chaurey, 2014). While cost benefits, the lesser compliance burden, ease of administration, hiring flexibility, lesser cost of firing, and tailoring labor supply to market demand are the common advantages of contractualization of work that employers benefited from, the ease of separation by flexibility was appreciated by employers more often than other benefits. Contractualization of work is the most striking market response given that India unlike other countries has hitherto not altered its EPL until the reforms proposed in the form of labor codes (Djankov & Ramalho, 2009; Sarkar, 2019a; 2021; Sarkar & Liu, 2019 in the context of a growing Asian economy such as Taiwan). As a result, even unionized sectors were able to engage contract workers in large numbers (Goldar & Aggarwal, 2012). If rising total factor productivity¹ viz., the ratio of aggregate output to aggregate input delivered by employment growth was one of the reasons, reducing firing costs was another important reason behind increasing hiring of contract workers (Bertrand, Hsieh & Tsivanidis, 2021). This took place, especially with rising FDI in the labor-intensive sectors such as manufacturing (Sarkar & Lai, 2009) since productivity increased with a decline in

¹ Productivity of all inputs taken together.

wages (Lai & Sarkar, 2011; 2017). As the incentive system embraced by liberalization instituted competitiveness, the import market has grown competitive and establishments reallocated labor with a reasonably priced contractual workforce (Chakraborty, Singh & Soundarajan, 2021; Sarkar & Chakraborty, 2021).

As per Betcherman (2015), Panagariya, Bosworth and Desai (2008), Ahsan and Pages (2009), Hasan, Mitra and Ramaswamy (2007), and Sofi and Sharma (2015), the draconian labor laws that allegedly created rigidities in India's labor market were somewhat circumvented by employers during the post-liberalization period with their increased use of contract workers. At the same time, Sarkar (2019) and Balasubramanian, and Sarkar (2023) noticed the biased judicial interpretations of EPL² to have served employers' interests, thus helping establishments to withhold normal growth in the elasticity of demand for the substitution of regular labor. According to John Hicks, "elasticity of substitution is a measure of the ease with which the varying factor can be substituted for other" (1932: 117). Conversely, because EPLs were skirted or the Indian judiciary refused to make liberal interpretations of these laws, labor cost was no longer a large portion of the total cost and price elasticity of product demand was also not high as it should have been with economic reforms. Resultantly, the elasticity of demand for the substitution of regular labor has not

grown. Still, what remains unknown is how far the elasticity of regular labor substitution expedited the contractualization of work and what caused the inelasticity.

Labor Flexibility

EPL in India was often blamed for slowing down the growth of employment by deterring investment (Sofi & Sharma, 2015; Dougherty, Robles & Krishna, 2011; Bhattacharjea, 2009). Moves by the protectionist regime in the pre-liberalization era that epitomise a prominent agenda of the then socialist government in India and its alertness to the rising ideology of liberalism in western democracies encompassed enforcing a large number of EPLs to offer protections to workers including the contractual who were only three per cent of the workforce at the time when these laws were enacted. Alongside there were the growth of information technology (IT) and IT-enabled services sectors among others from the service industry where employers succeeded in keeping unions at bay (Sarkar, 2008b; 2009; Sarkar & Charlwood, 2014). Among others, the Industrial Disputes Act of 1947 was enacted to offer rights to workers to protect themselves from exploitation by seeking judicial recourse and calling strikes to maintain bargaining power (Sarkar, 2017). Labor market rigidity was raised by these laws which besides generating hurdles for employers to terminate workers also protected workers by regulating maximum hours and minimum wages (Dougherty, Robles & Krishna, 2011; Bhattacharjea, 2009; Djankov &

² Such as the Industrial Disputes Act of 1947 and the Contract Labour (Regulation and Abolition) Act of 1970

Ramalho, 2009; Deakin and Haldar, 2015). Besides, a steady union density in the pre-liberalisation era helped in maintaining a higher rate of wages (Sarkar and Chakraborty, 2021; Kumar & Mishra, 2008). The labor market witnessed elasticity of demand for the substitution of regular labor because of the substitution possibilities in response to changes in factor prices.

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As economic liberalization impelled the rising demand for labor flexibility, one of the noticeable outcomes was labor market deregulation. This weakened trade unions and collective bargaining institutions. However, when liberalization started promoting the import of inputs, the elasticity of demand for substitution of regular labor should have grown especially if there was stringent enforcement of EPL. As a result, the wage elasticity of the constant-output labor demand should have increased the elasticity of demand for substitution of regular labor concerning labor's output share (Hamermesh & Grant, 1979; Slaughter, 2001; Hasan, Mitra & Ramaswamy, 2007: 469; Hamermesh, 1986). However, Hasan, Mitra & Ramaswamy (2007) and Dutt (2003) noticed mostly labor-demand inelasticity during this period. We presume that one of the possible reasons could be the failure of EPL to prevent employers from replacing their regular

workforce with cheaper contract workers. However, a long tradition of views of informalization of labor leading to a less-advantaged sector of a dualistic or segmented labor market (Kalleberg, 2000; Balasubramanian & Sarkar, 2020) is contested by those who do not believe that trade liberalisation has increased the use of contract workers in India. To them, market-clearing wages had not necessarily forced workers to queue for jobs while subsisting in an informal sector where they suffered from an absence of statutory benefits, irregular work conditions and lower wages (Saha & Sen, 2016).

So, in the post-liberalization era, if EPLs were circumvented, the elasticity of demand for the substitution of regular labor should not have increased. Rather, the lack of effect of stringent regulations is likely to have created opportunities for employers to reduce costs by making industry-level output independent of demand conditions, especially in imperfect competition.

Contractualization of Work

Import liberalization exposed the domestic firms in India to global competition. This in turn affected firms, especially ones in labor-intensive sectors including the public sector undertakings (PSU) (Goldar & Kumari, 2003). Liberalization increased competition by abolishing controls on restrictive trade practices and de-reservation of sectors hitherto earmarked for labor-intensive industries. There was a transition in labor politics as the economy shifted from manufacturing to services. Manufacturing

which accounted for more than half of the overall industry was affected by industrial deceleration. Employment in manufacturing rose to 2.3 per cent in 1990 but declined by 2.1 per cent in 2000. Until 2014, manufacturing's share in GDP and employment stagnated at 15 per cent and 12.6 per cent respectively. Later, it decelerated with a negative growth rate.

Manufacturing firms no longer passed on to consumers the cost of labors' privileges.

Soon, the production system with high rents crashed when the government retreated from its all-pervasive role. Manufacturing firms no longer passed on to consumers the cost of labors' privileges. The effects of the elimination of regulations on entry and production on manufacturing output, employment and investment were considerable. To Bhattacharjee (1999), given declining employment elasticities in manufacturing and the unlikely expansion of employment in PSUs, "the majority who will join the labor force during 2000 is likely to work as casual (and contractual) workers" (Visaria & Minhas, 1991: 978). So, the EPLs, if at all had benefited labor before 1990, had promoted workers' interests in the fairly unionized manufacturing sector owing to political pressures to hoard labor, thus increasing the wage differentials between regular and contractual workers.

Therefore, we are particularly intrigued to find how in the fairly unionised manufacturing sector the employers

gained from a rapid contractualizing of work post the '90s liberalization. To find this, we developed a very simple framework by using the earnings of regular and contract workers in manufacturing and the pay differentials to understand how employers were able to effectively engage contract workers without letting the labor demand elasticity as well as the elasticity of demand for substitution of regular labor rise. We postulate that in a fairly unionized sector, if EPLs were skirted as we meet the below-given conditions concerning wages of regular and contract workers and the wage differentials, we are likely to have four independent quadrants.

- a) When regular workers (RW) earned high real wages viz., HW_{RW} or earned low real wages, viz., LW_{RW} , and similarly, when contract laborers (CL) earned high real wages viz., HW_{CL} or earned low real wages viz., LW_{CL} , and
- b) When there existed a significant wage differential between regular and contract laborers viz., $(HW_{RW} - LW_{CL})$ and $(LW_{RW} - HW_{CL})$, or there was an insignificant wage differential between regular and contract laborers viz., $(HW_{RW} - HW_{CL})$ and $(LW_{RW} - LW_{CL})$.

Here, if the difference between the real wages of regular and contract workers in an establishment in the manufacturing sector was greater than the average sector-wide wage differential then we will treat it as a condition indicating a "significant wage differential" whereas if the difference between the real wages

of regular and contract workers was smaller than the average sector-wide wage differential between the two categories then we will treat it as a condition indicating an “insignificant wage differential”. In the above condition following Hicks-Marshall laws,

- 1) low-paid regular workers could aid low-paid contract workers in organizing, unionizing, and negotiating high wages, or
- 2) high-paid regular workers could prevent contract workers from organizing, unionizing, and negotiating high wages, or
- 3) low-paid regular workers could negotiate such wages that helped employers maintain high demand for them by upholding the own-wage elasticity of their demand high, or
- 4) high-paid regular workers could negotiate high wages since the elasticity of substitution of regular labor would not affect the demand and supply of regular workers.

Employment Protection Laws on Contract Labor

Rapid contractualization of work in the post-liberalization era in India reduced the wage, especially in labor-intensive sectors. It also brought a significant cut in the cost of liaisoning since few regular workers were on the roll. Close to 2/3 of the workforce were hired on temporary contracts through intermediary agencies, mostly contractors. Successive Indian governments after the liberalization tried to balance economic and labor reforms

by adopting a ‘reform by stealth’ approach (Kudaisya, 2007; Jenkins, 1999; Ota, 2008: 127). Against the ‘opening of flood-gates idea’, there was a slow change of policies in the first few years (Singh, 2005). As a result, when institutions of economic reforms pushed the government to persuade flexibility, EPL such as the Contract Labour (Regulation and Abolition) Act of 1970 were still in a position to safeguard the interests of a growing flexible workforce provided the lawmakers’ intent captured in the statute was upheld by the judiciary (Balasubramanian & Sarkar, 2022).

However, for most of the post-reform period, neither the Courts exercised their independence strictly (Sarkar, 2019), nor the government helped build a positive price elasticity of demand for contract workers and improved their earnings. In such a condition, it was far more likely that a steady supply of cheaper contract workers helped maintain demand for these workers given that they were not collectivised and had practically no bargaining power (Shamir, 2016). If the general attitude of workers in manufacturing industries towards unionization in India has not been different depending on the types of contract of employment (Sarkar, 2012; Sarkar & Huang, 2012), then it is all the more important to find if low-paid non-unionized contract laborers are substituting regular workers because employers do not allow contract laborers to unionize or contract laborers want to keep themselves non-unionized so that they can easily replace high-wage, unionized regular workers. Therefore, as low-paid contract workers began substituting

regular workers either contract workers were prevented by employers from getting unionized or these low-paid workers kept unions at bay since they were interested in maintaining demand inelasticity and making regular workers easily replaceable. Hence, it is important to find if regular workers' (relative and total) bargaining power because of high strike leverage or wage-employment trade-off (Myers & Saretto, 2016) had a bearing on the relative wage structure and rate of changes in aggregate money wages earned by contract workers at any given point in time post-1991. The jury is still out on whether contract workers in the manufacturing sector have earned fair wages post-liberalization and whether this has in turn made their demand elastic.

Predicted Conditions

We postulate that during the post-'90s reform, because of a growing dualism of the labor market, the market-clearing wages bred segmentation of the labor resulting in inequality in pay between regular and contract workers (Jahn & Pozzoli, 2013; Nakamura, 2013). The wage differential increased as the supply of contract workers surpassed their demand. The contract workers were unable to negotiate a high-wage contract as they were not unionized (Bentolila & Dolado, 1994; Svejnar, 1986). So, these workers were far less likely to receive the protections afforded by trade unions. As per Guy Standing (1999), employment precarity is an outcome of the representation precarity (viz., the absence of a collective voice) along with income

precarity. Hence, the non-unionized low-paid contract workers represented one of the biggest chunks of the contingent workforce in India, even bigger than temporary, casual, substitute, and fixed-term employees because contract workers were hired through intermediary agencies instead of getting directly employed. Besides, at a given time when India witnessed growth in employment with a drop in the real wage after the '90s liberalization, the highly unionized regular workers chose to go on strike (Myers & Saretto, 2016; Card & Olson, 1995; Cramton & Tracy, 1992) and to offset income losses induced by strikes, employers tried to control real wages by contractualizing work.

The representation precarity among low-paid contract workers was one of their biggest impediments in securing better terms of the contract and gaining higher wages.

Therefore, according to our presumption, the representation precarity among low-paid contract workers was one of their biggest impediments in securing better terms of the contract and gaining higher wages. "Capacities for collective opposition against an employment system characterised by contractual jobs were limited" (Kalleberg, 2000: 349). Therefore, we do not easily find a contract workers' union even in a fairly unionized sector such as manufacturing after 30 years since the time of the rapid engagement of contract workers (Sarkar & Kuruvilla, 2020). On the other hand, we

presume that the likelihood of friction between the workers doing core and peripheral jobs in the same establishment is likely to have grown with regular workers (functionally flexible) and contract workers (numerically flexible) sharing common workspaces and living spaces (Anghel, 2008). Physical differences at the workplace became irrelevant when the common living places shared by the two categories became a significant dimension of the social relations of production during post-liberalization (Sarkar, 2015).

We further posit that in time, high-paid regular workers started to understand that their wages were protected not only because of their bargaining power and strike leverage, or their employers' discretionary pricing power but also because their contractual counterparts agreed to work with low wages. Especially where the employer maintained a fixed labor cost, in a zero-sum game for regular workers, they were able to obtain a bigger share of the pie (high-paid) because the contract workers in the same establishment accepted to work with a smaller share (low-paid). It is a scenario commonly found in India's large manufacturing firms (Sarkar & Singh, 2018). But what compelled low-paid contract workers to agree to remain so? Was it because of their oversupply or because in a deregulated labor market (Kaufman, 1997), employment was of greater significance to them than better wages supporting Mertens, Gash and McGinnity's (2007) observation of workers choosing between regular and contract jobs instead of between a contract job and unemploy-

ment? Or, was it dependent on regular workers' responses to wage differentials?

Therefore, it brings about a curious case of regular workers either persuading or dissuading contract workers from unionizing and negotiating higher wages. If low-paid contract workers valued higher wages more than before, we posit that either the high-paid regular workers prevented low-paid contract workers from collectivizing because the latter's greater bargaining power would slice a major share of the wage premium earned by regular workers or, regular workers tried to avert contractualization by demanding only a reasonable wage. Therefore, in this paper, we tried to predict four different plausible conditions which might have arisen out of a complex relationship of the wage differentials in predicting the employer's ability to hire labor on contractual terms, especially when the labor cost was fixed in a fairly unionized sector post-reform. The purpose is to evaluate the impact of changes in the supply of skills on wage differentials between regular and contract workers during the post-liberalization period which as per our presumption depended on the patterns of substitution and substitution possibilities of high-paid regular workers by low-paid contract workers besides the impact that the fixed labor cost had on wage differentials.

Condition 1

In the first condition, we envisage that both contract and regular workers were low-paid which could be for various economic, political and social reasons

(Dube & Kaplan, 2010; Campbell & Kamlani, 1997). Although Bosio (2014) and Comi and Grasseni (2012) suggested that the role of unions in increasing the wage differentials between regular and contract workers is larger among low-paid workers with union wage premium being larger, in this scenario, we posit that the low-paid jobs performed by both categories had not created any significant wage differentials. The bargaining power of contract workers was typically low with very low firing costs and so, they were way far from any wage premiums. However, the regular workers too were paid at the statutory rates and they were concentrated in low-paid jobs.

However, as both suffered equally, the union of regular workers that failed to negotiate higher wages played altruistic by helping contract workers organise under a common banner of the regular workers' union (Pulignano & Doerflinger, 2013; Balasubramanian & Sarkar, 2017; 2020; Sarkar, 2008). For the union, membership growth was a dominant way to increase relative bargaining power (Schnabel, 2020) and especially where the union got politically affiliated, expanding membership size preceded bargaining for wage gains (Bhattacharjee, 1999). So, the union of regular workers was keen to have contract workers also as its members. However, in time, the union, as we predict, tried to take advantage of a permissive economic environment. And, the union's move finally made the demand for both categories of workers elastic. Both have taken part in striking action and where necessary, regular workers fought for the regularisation of

contract workers. To Balasubramanian and Sarkar (2015) and Serrano (2014), this rare display of solidarity by regular workers for espousing the cause of their contractual counterparts was a necessary step in the direction of union revitalization in developing countries like India. However, the low wages drawn by both categories paved the way for a common trade union to exist in the first place (Pulignano & Doerflinger, 2013).

Condition 2

In the second scenario, unlike the previous one, we envisage that there was wage inequality. But, in place of regular unionised workers, the contract workers were high-paid. Contract workers were not only entitled to similar working conditions as permanent workers but were compensated with higher wages possibly because of their shorter job tenure and lesser job security (Rosen, 1986). Besides, regular workers' bargaining power declined when contract workers started getting work on favorable terms, especially where the establishment maintained a fixed labor cost (Cogan, 1980). Because employers placed a high premium on employment flexibility, downward pressure on the market wage rate hindered their enduring contractual commitments (Dau-Schmidt, 2001). We further posit that in certain occupation types, even high-skilled workers had chosen fixed-term contracts over infinite-term (Mertens & McGinnity, 2005). Contract workers had succeeded in turning their flexibility into an asset and achieved a wage premium whereas regular workers received a wage penalty. Although union-

ized regular workers' failure to gain a better deal could be for various reasons such as a change in principles underlying the industrial relations system due to economic and labor reforms (Baccaro & Howell, 2011) or because of neo-capitalist ideas that affected their unionization, we posit that ease of substitution of regular workers during their strikes was one of the key factors that raised the demand for contract workers. And as their demand has grown the contract workers became expensive.

Besides, contract workers in this scenario realised that the price inelasticity of their demand was due to regular workers' continual fight for higher wages. As a result, the contract workers helped employers during regular workers' strikes so that strike wage rises. However, the regular workers' union upon understanding this worked for increasing the elasticity of demand for the substitution of regular workers by contract workers. And one of the common ways was supporting contract workers to unionize so that they no longer remain cheaper. However, what if contract workers preferred flexible work arrangements to wages paid as expected by Lab and Wooden (2019) or they preferred contractual employment because of the higher growth in daily wages for them compared to the growth in daily wages for their regular counterparts (ILO, 2018)? Apart from getting regularised in a case when the contract was found sham and bogus by state labor machinery, whether the contract workers have sought regularisation during post-reform depends on the per-

ceived benefits of doing so which in this scenario was not favorable towards seeking regularisation. Moreover, what if regular workers succeeded in getting contract workers unionized which brought in friction between the two unions as each fought to maximise pay-off? These are the potential research questions that scholars can take up in future.

Condition 3

Like the second condition, here too a wage differential was found but unlike in the previous condition, the unionized regular workers were high-paid. As noted by ILO (2018), regular salaried workers in India have been earning more than double the daily wage earnings of workers with informal contracts during the post-reform period. Therefore, we posit that the contract workers in the present scenario were low-paid as there was a possible heterogeneous wage outcome of different types of contractual employment with a wage penalty for contract workers. So, the minimum wage regulation was potentially impotent as contract workers were paid at rates below what was legally required. As empirical research typically finds the contract workers to have received a wage penalty, we posit that these workers had no entitlement to benefits that were available for regular workers in this scenario. There are several potential explanations for the wage differential.

Most importantly, differences in firing costs and replaceability between regular and contract workers mean that even

otherwise identical workers³ within the same firm were paid differently. While regular workers' ability to gain from high-wage employment was because of their greater bargaining power (Mishel, 1986; Rupper, Stancanelli & Wasmer, 2009) as wage determination through negotiation clung to the relative bargaining power of the management and union, establishments with a stable core of regular workers were employing contract workers who could easily be laid off whenever demand declined (Booth et al., 2002). Besides, inter-state migration of labor and increased labor force participation of women who were found to be good substitutes for low-skilled men increased the supply of low-skilled contract labor that drove down their wages. Due to their greater job security, regular workers were in a better position to bargain for higher wages or to lower their productivity while retaining the same wage. The bargaining power of regular workers was further enhanced by the tendency for unions to better represent the interests of these workers (Campbell, 1996; Gumbrell-Mc Cormick, 2011). However, the unionized regular workers were high-paid because a large proportion of contract workers in these establishments were low-paid (Lab & Wooden, 2019). So, the savings by the establishments from contracting out most of the work was utilised in paying high wages to the rent-seeking union of regular workers.

³ By otherwise identical workers, we mean if establishments were able to skirt EPL, contract workers were engaged for performing perennial and core jobs akin to what their regular counterparts were doing.

Moreover, the 'real' roles of EPL in the post-liberalization period were sensed in this scenario where laws could specify minimum wages for contract workers whereas unionized regular workers were far more likely to be paid at rates above the relevant statutory (minimum) wage. Low-paid contract workers, as per Lab and Wooden (2019) had fewer job alternatives because of their low skills signifying higher risks that they run in becoming unemployed during the recession. But, contract workers presumably helped establishments in their 'good business judgment and a necessary strategy to compete with goods from lower-wage countries' (Dau-Schmidt & Ellis, 2010: 2) by sharing a smaller part of the economic rent of labor with contract workers. Here, the regular workers' union tried to prevent contract workers from collectivizing. And in a deregulated labor market with the global economy impacting employment relationship, if the union's resource base was endogenized, to establish a wage markup, regular workers' unions had shown their collective response face by prohibiting contract workers from organizing. Besides, the union was cautious of the substitutability of regular workers and thus, remained extra vigil against the establishment's defiance of the Act of 1970 by engaging contract workers in core jobs.

Condition 4

As found by Lab and Wooden (2019), the relationship between contractual employment and wage inequality is not straightforward since there need not be high wage differentials even when there

is a high share of contractual labor in the workforce. So, in our last scenario, wage inequality was the least when the share of contractual employment akin to permanent employment had not declined. ILO's (2018) observation corroborates this presumption since it too observed a reduction in the wage differential between contract and regular workers during 2004 - 2012 in India. Post-liberalization years witnessed nominal and real wages to have grown in labor-intensive industries such as manufacturing. The evidence of wage growth for regular and contract workers has shown a positive trend at the aggregate level (compound average annual growth in real average daily wages for all workers, which was 5.5% from 2004 to 2012 was 3.7% between 1993 and 2012 (ILO, 2018).

However, beyond the rise in wages, we are intrigued by the labor market's obsession with income equality. The trend toward rising equality signifies a drastic fall in the relative demand for skilled labor because of an increase in their supply. This as suggested by Topel (1997) could be because of the government's skill development drive post-'90s liberalization. Given that a monopolistic regulated market condition no longer existed after liberalization to drive wage growth, we posit that improved productivity by both categories of workers was able to offset the rising labour costs and helped in the growth of wage rates (Lai & Sarkar, 2022). Among the other plausible conditions that might have contributed to this scenario was the high discretionary pricing power determining employers' ability to pay high wages and centralized

bargaining that offered high bargaining power to contract and regular workers.

However, where the establishment managed to keep their labor costs fixed and a rise in regular workers' pay pulled down contract workers' wages, even if regular workers' improved productivity helped in compensating for rising wages unless the firm economic structure allowed real wages and productivity to simultaneously grow, and productivity has not failed to keep up with wage growth, this scenario would have not existed in reality. So, the facilitating conditions include growth in real wages which matched productivity gains with no significant decline in the unionization rate causing a wage-productivity gap. Besides, a resurgence of unions in the manufacturing sector helped workers (regular and contract) reap more benefits from productivity gains, allowing the compensation increase to match productivity gains. So, post-90, there was a growth in real (inflation-adjusted) average hourly wages in India's manufacturing alongside an acceleration of labor productivity in manufacturing measured as the change in output per hour worked.

However, what if the improved productivity of regular workers was compensated with high wages but after some time contract workers no longer allowed regular workers to maintain inelasticity of their demand? Or, what if regular workers upon realizing it, helped contract workers to unionize so that the elasticity of demand for substitution of regular workers helps them in retaining their demand inelasticity? Or, what if the rising

elasticity of demand for regular workers on account of the wage-productivity gap offered space to contract workers to replace regular workers, especially when contract workers were not unionized? Or, what if the contract workers were paid high only to the extent that their high wages had not affected the inelasticity of the demand for regular workers?

The above plausible scenarios that we postulated considering fixed labor-cost for the establishment and wage differentials between regular and contract workers in a fairly unionized manufacturing sector in India post-liberalization should help us understand how India's tryst with neoliberalism improved labor flexibility by making one of the two categories of workers prosper at the cost of the hardships of the other section. Therefore, we suspect that in place of the traditional wage bargaining between employer and union whether the battle between high/low-paid regular workers and low/high-paid contract workers to maximize respective payoffs from a fixed non-negotiable labor cost is going to be the new trendsetter.

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