CHAPTER 2

RURAL LABOUR MARKET: SOME ANALYTICAL ISSUES

To understand the operation of the rural labour market in India, one must place the specific question of wage and employment determination for the landless or the near landless labourers in the integrated context of the prevalent modes of production and modes of employment in rural areas. In different parts of the country, various combinations of capitalist farmers producing almost entirely with hired labour, or feudal landowners with sharecropping tenants, peasant farms absorbing almost all of the family labour in subsistence production and hiring none, farm households that are net hirers of wage labour, even though many of them may be hiring out family labour at certain times of the year, and finally those who, not having enough productive assets for self employment, hire out all or most of their labour. The large number of households operating small to medium size farms, who allocate their demand for labour between hired and family hands and allocate their supply of labour between own account employment and wage - employment, play
a very significant part in the rural labour market.

Rural labour market is an important aspect of modern economy. It represents the interaction of demands and supplies of various categories of rural labour through which prices of these categories of labour, i.e. wage rates are determined. Theoretically the concept of rural labour market, like that of the market for capital and commodities, does not necessarily refer to any physical place, but represents an obstruction of a system allocating and rewarding labour. Since labour differs from capital and commodities, due to human element involved therein, the concept of labour market incorporates considerations of the complex of economic and social forces influencing the process through which employers recruit workers and workers seek employment.

Employment contracts in contemporary India can be classified into three broad types.

(i) family labour (ii) exchange labour (iii) hired labour
(a) regular farm servants (b) causal labour

The most frequently observed forms of hired labour in India is casual labour and farm servants. By casual labour mean
the labourers who are hired by the day by their respective employers or perhaps for a few days at a stretch for a specific task (e.g. sowing or weeding a field). As opposed to this farm servants, work with the same employer every day and are paid on a long term basis.

The main component of labour market are, the demand for labour, supply of labour and the wage determination. Prima facie, they seem analogous to that of the market for capital and commodities, but in fact, there are market differences in their nature and responsiveness. For instance, the law of supply states that if price increases, supply also increases to hold good only upto certain extent in the case of labour. The phenomenon of backward bending supply curve is observed to be valid to larger extent in case of labour than in case of commodities and other inputs. In the same way, demand for commodities is generally for direct consumption purposes, while that for labour, except in case of some personal services, is not for the direct consumption purposes. Demand for commodities influences the investment decisions and the technology in production process which in turn determines demand for labour, reflecting the derived nature of the demand for labour.
Since the main function of the labour market is to match workers and jobs (employment) and to fix wages in a manner that ensures required quantity as well as quality of labour supply. Its performance is judged by the efficiency with which allocation of labour among different activities takes place.

Theories of Rural Labour markets

The most relevant and important theories of rural labour markets are: the classical theory of labour market or the subsistence theories and second the Neoclassical theories.

The Neo-classical theories may further be classified into different heads.

(i) Efficiency wage theory (ii) perfect competition theory (i) imperfect competition theory ( iv) implicit contracts theory and (v) interlinkage theory.

Taking each theory separately we may define these as:

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1. The Classical theory

The Classical model gave no special treatment to 'labour market' or rural labour market because it was considered analogous to the markets for capital and commodities. The classical thesis with respect to the distribution of workers among employments was only a specific application of the general principle which the classical economists unders to govern the distribution of all resources among uses. Thus the model merely applied price determination analysis of demand and supply as a special case to the wage determination.

In the short run, supply of labour was assumed to be constant. Therefore, demand for labour became decisive factor in the analysis. It was also assumed that the farmers had certain amount of investible funds in a given period as a result of the post savings i.e. profits and these funds would be invested in purchasing the factors of production. This wage fund constitutes demand for labour. If the farmers had relatively low wage fund, demand for labour would be less and wage would be determined at low level.

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In the long run however, there would be factor substitution possibilities in response to the changes in factor prices. Thus, if labour continued to be available in excess to its demand even at lower wage rate, there would be tendency to shift to more labour intensive techniques of production. Cut in money wages was, therefore, considered by this model as a solution to unemployment problem. However, the lowest extent of wages was assumed to be consistent with subsistence level of workers. Thus in the long run analysis, supply of labour was assumed to be determined by the subsistence theory.

By 'subsistence theories of wages, we shall understand the class of theories which considers real wages to be determined by norms or forces largely extraneous to labour market conditions (such as the opportunity cost of time, the relation between supply and demand, or bargaining power). Examples of such norms are (i) biological 'subsistence' requirements (ii) cultural and social perceptions of 'minimum needs (iii) common moral perceptions of what constitutes a 'fair wage' (iv) traditional 'rights' to say, specific shares of the harvest.

Since conditions of perfect competition were assumed no problems of wage differentials existed because of assumed
homogeneity of labour. Therefore, wage differentials of the short run analysis were removed in the long run analysis under the assumptions of perfect information, and perfect mobility. Therefore, there was no unemployment and no uncertainty in labour market in the long run.

The subsistence theory of wages first appeared in the writings of British classical economists. According to their theory, wages in the short term were determined by the size of the wage fund in relation to the available stock of labour; therefore, the short term theory is one which is consistent with the S-D model, assuming that the total supply of labour is elastically supplied, and the demand for labour is a rectangular hyperbola, which shows the wage rate of various quantities of labour can be employed with the given wage fund. Therefore, there need be no unemployed in the model. Further, the wage rate in the short term may be above or below the subsistence level. But if the short term wage is above the subsistence level, the classical assumed that population and labour force would grow, and if the short term wage rate is below the subsistence level, population and labour force would decline. There is controversy over whether the demographic response was primarily through
mortality or through fertility. On the whole, it seems that the classical relied mainly on the response through mortality; they then interpreted subsistence in purely physiological terms.

As a result of such demographic behaviour, there would, in the long term, be a perfectly elastic supply of labour at the subsistence level, which would lead to an equilibrium wage at that level. The classical subsistence theory of wages is thus a long term theory and further, it is one which assumes full employment both in the short and long term. Therefore, it is not particularly useful for explaining involuntary unemployment. Also, if subsistence is interpreted primarily in a physiological sense, it cannot explain the considerable variations in wages over space and time, which have been observed in many parts of Asia.

Writing under the shadow of the British classical economists, Marx took over the subsistence theory of wages to support his position that, under capitalism, labour is degraded to the level of a commodity like any other, and therefore, has a value corresponding to its cost of production. However, he modified the concept of subsistence to include more than the physiological needs of life.
2. Neo-classical theories of Rural Labour Market

This theory may be classified in different parts which are as under:-

2.1 Efficiency wage theory:

The hypothesis of the nutritionally based efficiency wage was first proposed by Leibenstein. It is assumed that, at low levels of income, there prevails a technically determined relation between nutritional level and labour effort per unit of time. It is assumed that the wage income is the only source of earnings and that the worker neither draws upon past savings nor can borrow against future earnings (in short, that the income entirely enters into the worker's consumption). It is assumed further that there is a technical relationship between consumption and the capacity to work; that, as the wage rate increases, workers will be able to supply effort at a higher level (in efficiency units). Efficiency is assumed to increase with the wage but at a decreasing rate so that there would be a unique wage which would minimize the cost per unit of standardized unit of work (i.e. a wage which maximizes the employer's profit). Bidding the wage lower than the efficiency

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wage would be reducing the return to the employer. At this level all labour may not be absorbed and involuntary unemployment can co-exist with a positive wage.

The proponents of the theory have themselves raised certain difficulties. The first is whether such a technical relationship between consumption and the capacity to work could be strictly postulated and if indeed it works with a time lag or works through a time period, would employers adopt this principle of wage fixation in the case of short period contracts or, contrariwise whether they would not necessarily associate such an efficiency wage offer only with a larger term employment contract. As to the validity of the postulated relation, empirical testing of the hypothesis is not very common but the hypothesis could be difficult to test even in principle.

The second problem that the proponents of the nutrition determined efficiency wage hypothesis have had to face is the question as to what happens to those who are left unemployed on this principle, since there appear to be no other source of income in the model for these unemployed workers. Liebenstein
(1957) allows that, under social pressures, landlords will collude to lower wages so as to provision their survival. This then is the situation under employment recreated.

Rodger's (1975)* has proposed solution to the puzzle. He considers the efficiency wage providing a floor below which wages would not decline in the slack reasons while the normal demand and supply determined wage operates in the peak reason of high labour demand. However, this defence of the theory is rather weak if its application is to be confined to short, intermittent seasonal phases. The nutrition efficiency relation works out over a long period and cannot for a short period strategy. Field evidence shows that casual contracts dominate even more in situations where workers are draw from the landless poor who hypothetically should be better suited subject for the efficiency wage strategy.

2.2 Theory of Perfect competition

At the other extreme of the theoretical spectrum is the view (favoured by e.g. Squire, 1981, and Berry and Sabot, 1981, among others) that rural labour market are well approximated

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by models of perfect competition, at least in a partial equilibrium sense (on other markets important 'imperfections' may exist). At the outset we should state that we do not find this theory implausible where long run trends in wages and labour allocation are concerned. A simple demand supply framework is broadly consistent with observed long run changes in real wages.

In this model, the various factors influencing wages and employment are neatly separated into two distinct groups - those affecting supply and those affecting demand. There is an upward sloping supply curve reflecting increasing marginal disutility of effort; similarly, there is downward sloping demand curve reflecting the declining marginal productivity to the employer of each additional worker. There is also supposed to be some mechanism, quite independent of the maximising assumption, which makes the market wage fall when supply is greater than demand, and makes it rise when demanded is greater than supply, so that the market wage tends speedily to the equilibrium level where supply equals demand, i.e. to the wage at the point of intersection of the supply and demand curves. The common value of supply and demand at this point then determines the level of employment.
Short run involuntary unemployment should be regarded as an important feature of the labour market, and this aspect is obviously not well captured by the competitive model. It follows that in certain contents this model will be misleading, e.g. when it is used for the derivation of 'shadow wages' for projects involving short run labour contracts.

There are further difficulties in adopting the competitive model to describe short run wage determination and labour allocation. First, there is the basic question of how a competitive equilibrium is defined when sharp and known differences in the quality of labourers exist, and yet the same wage applies to all. To see the difficulty, consider the not unlikely situation where some labourers are involuntarily unemployed but some employers, on the other hand are rational in their demand for the better labourers. Should we expect the unemployed labourers to drive the wage down to get a job, or the rational employers to bid the wage up to attract the better labourers? Second, the competitive model is inconsistent with money wage rigidities over prolonged periods, during which activity fluctuates significantly with the consequences we have stressed. Thirdly, this model cannot account for the
coexistence, during the slack season, of daily wage contracts along with piece rate contracts implying for lower earnings per day.

As for subsistence wages, we seem to conclude that the competitive theory of rural labour markets, is useful in capturing some aspects of reality (such as long run wage movements) while it also fails in a number of important respects.

2.3 Imperfect competition theory

Theories of imperfect competition provide a convenient starting point for the identification of significant departures in labour market structure from the paradigm of perfect competition. Applications of imperfect competition models to rural labour markets in India have tended to focus on the collusion or monopsonistic power of employers—notably in Bardham (1982). However, the pool of employers in an Indian village is typically large and that a lot of 'reshuffling' of partners occurs in casual labour transactions. In such conditions, monopsonistic power could accrue to employers only under some form of collusion explicit or implicit. In the six ICRISAT villages of South India, Binswanger (1984) observed attempts by employers to collude to fix wages, but these attempts were
invariably unsuccessful: Labourers are generally unconcerned about possible success of such attempts. The large yield or quality reductions caused by delays in agricultural operations such as sowing, weeding, and harvesting appear to result in competitive pressures on the labour demand side that make collusion unsuccessful' (Binswanger 1984 p.150). During peaks the large returns to timely completion of operations provide a strong incentive for employers to violate explicit or implicit agreements to hold down wages. This is particularly true when the pool of employers includes a large number of relatively small farmers who only hired labour for a few days during the peak and are therefore unconcerned with the danger of inflating future labour costs. During peak seasons competition does usually exist between employers. During slack seasons labourers are, of course, in a vulnerable position since they are often involuntarily unemployed, but this does not imply monopsonistic power on the part of employers, and indeed a classical monopsonistic equilibrium would be one where labourers are on their supply curve.

2.4 Implicit contracts theory

The theory of 'implicit contract' has acquired great prominence in discussions of unemployment in developed
countries, though its specific implications in developing countries have been insufficiently explored. A 'contract' is an agreement between employer(s) and employee(s) concerning wage and employment levels under different states of nature. The theory explores the structure of chosen contracts under alternative assumptions (e.g. about insurance opportunities or the information available to contracting parties) and stresses the dual role of contracts, labour allocation, and risk sharing (Rosen 1985) In particular, when workers are more risk averse than employers, their desire to insure against income fluctuations will tend to reduce wage flexibility.

'Contracts' are usually thought of as involving an important temporal dimension, and to this extent the relevance of this concept to casual labour appears, at first sight, very limited. In fact, much of the formal structure of the theory is applicable to one period contracts, though the choice of possible contracts will obviously tend to be more restricted in this case. Uncertainty, on the other hand, is a central aspect of this theory, and this severely restricts its applications to daily casual labour, were very little uncertainty is resolved over the period covered by the contract.
2.5 Interlinkage theory

Several writers (eg. Bhaduri, 1973* and Hayami and Kikuchi*, 1981) have regarded 'interlinkage' as having a central place in a convincing theory of rural labour markets in India. However, the empirical evidence in support of the widespread prevalence of interlinkage is rather thin. There is, of course, a difficulty in defining a slippery concept such as interlinkage, since rural factor market are 'interlinked' in a number of obvious facts but not altogether relevant ways. A fairly clear and useful definition is that of Bell. 'An interlinked transaction is one in which the two parties trade in at least two markets on the condition that the terms of all such traders are jointly determined' (Bell 1976*, P.34). According to this definition share cropping is the most obvious and important form of interlinkage. There also exist, in some parts of India, other 'institutionalized' form of interlinkage, of which the best known is perhaps the dadam system of west Bengal. Dadam is a form

of interlinkage between credit and labour according to which a loan is repaid in labour during the peak season. Village studies during the 50s and 60s describe a number of institutionalized interlinkages of this kind, but most of them have undergone rapid decay, and today their incidence no longer seems to be very large. Individual initiatives towards interlinkage do occur from time to time - as when a money lender leases out a piece of land to a tenant in order to allow him to repay his debt. But the quantitative significance of these rather isolated deals remains very limited, and certainly in the context of the labour market, this phenomenon must be regarded as marginal.

While interlinkage cannot reasonably be regarded to lie at the centre of a theory of rural factor markets. It is an economic phenomenon of interest and deserves study.

This concludes our brief review of the most common theories of rural labour markets.

3. Evidence

It is possible that over the long period, labour markets do behave according to S.D. Model, (Supply - Demand) and wage vary according to demand and supply conditions. In recent years, several attempts have been made to collect data on wages and
employment from South Asia in particular and to analyze them using sophisticated econometric techniques, the results of some of these studies have been reported by Binswangen and Rosenzweig (1981, p.52) as confirming the prediction of the supply demand model that rural wages do in fact vary over time and space in apparent response to changes in demand and supply conditions. Other studies, of the Indian wage date, in particular, can also be interpreted as lending some support to the S.D. Model. For example, the analysis of state level wage data by K. Bardhan (1973) indicates that those states with low agricultural productivity have consistently had low wages, while those with high and growing productivity have high wages. Several other south Asian studies using district and village data have emphasized that wages very positively with land augmenting variables such as rainfall and irrigation (Rosenzweig, 1978). There is also much evidence to suggest that agricultural wages and employment vary according to seasonal fluctuations in demand (Bertrand and squire, 1980, p.493; Ahmed 1981* , P.310; Ghose, 1980, p.423). However, while the fact that agricultural wages vary over region and season indicates a degree of sensitivity of market pressures.

The broadening of the concept of subsistence to include an 'historical and moral element' made it possible for wages to vary over time and across countries, a variation which has been used as a central explanation for 'unequal exchange' by Marxist writers such as Emmanuel (1972). This was an advantage over the Ricardoian theory which set wages at the biological subsistence level, in turn implying uniform wages in all countries. But at the same time, it meant that the 'historical and moral element' could no longer be explained by the sort of demographic theory that Ricardo had relied on. Instead Marx's theory of wages 'essentially starts not from population movements but from the movement of the accumulation of capital.' (Mande, 1977, p.143).

His theory was that, in the long run, the accumulation of capital will lead to the displacement of workers, and thus to the growth of a reserve army of unemployed labour. It is this enables capitalists to drive down wages to the subsistence level, albeit a concept of subsistence conditioned by historical and moral factors. In the short run, Marx conceded the trade unions could exert countervailing bargaining power against the exploitation of labour. He also conceded that, in the less densely populated areas of North America, wages may rise rather than fall in spite
of the rapid introduction of mechanized production techniques, so long as workers had the option of extending the land frontier (Mandel, 1977, p.148).

Several hypotheses have been offered to reconcile the seasonal unemployment of casual (short-contract) agricultural labourers with a positive wage rate that does not seem to clear the market.

The hypothesis of subsistence or nutrition-efficient wage, determined by the employers' incentive to keep labourers in functioning order or to capture the work efficiency effect of their food intake, is hard to reconcile with the high incidence of poverty among land poor labourers, and with the fact that the average as well as the seasonal minimum wage rates vary widely across regions and by age and sex within a region (Bardhan: 1982; Ghosh: 1980), cited in support of nutrition-efficient subsistence wage are the practice of attaching some labourers, higher wages for those with higher dependency ratio, and meals at work as part of wage for casual labourers. Each is consistent with the alternative explanation in terms of the employers-creditor as a discriminating oligopsonist, the seasonal pattern
and intensity of his labour demand influencing his decision to use credit - tying or inter seasonal tying, and incentive wage to insure supply and minimise costs for the peak season.

The efficiency wage models (Akerlof and Yellen: 1986) generally focus on the employers’ interest and initiative to explain the rigidity of wage rates in the face of unemployment. The two main problems with the applicability of efficiency - wage hypothesis to the rural labour markets in India are first, the downward rigidity is observed for the money wage rates rather than real wage rates, (Osmani, 1990) and second, wage cuts are often attempted by employers and resisted by labourers (Dreze and Mukherjee, 1987). The lean season wage varying and yet the employer’s use of lean season hiring to organise peak season recruitment. The labourer gets hired in the slack season less by bidding the wage further down then by committing supply or accepting less than the expected market wage, for the peak season.

Dreze and Mukherjee (1987) note that inter seasonal linking may not be as common in other parts of the country as in West Bengal, at least not as common as the downward rigidity of money wage rate despite seasonal unemployment. They attribute
the rigidity to labourers reluctance to resort to wage cuts during slack season because they fear permanent reduction of the 'wage standard' as a result, and because of informal moral pressure against undercutting. The more desperate labourers, in their analysis, are likely to take lean season loan to be paid back in cash or in labor. But then, it seems unlikely that a labourer would manage to get crédit or get hired in the lean season without offering to work at concessional wage (at the time or later) or paying usurious interest.

Rodgers (1975) has attempted the most ambitious tests of the nutrition wage framework exploiting one of the theory's implications not emphasized by its advocates - namely, that employers will pay attention to workers' actual consumption. Thus, workers with dependents will need higher nutritionally based wages than unattached workers. Similarly, workers from landed households - households with rental income from land - would be better fed than landless workers and thus would supply the same effort as the latter but for a lower wage. Rodgers finds that in one group of Bihar villages, average wage rates for the area are higher where households are primarily Muslim, that is, where women tend not to be workers. Although this evidence is consistent with the notion that employers pay higher
wages to males who have more dependents, it is also predicted by the supply demand model in which male and female labourers are substitute factors in production. Rosenzweig's (1984) study of Indian district level data based on a supply demand framework indicates that both male and female wage rates in agriculture are higher where Muslim households are prevalent.

Rodgers also points out that the nutrition wage theory might account for labour—tying arrangements, if effort is a function of sustained nutritional intake. But long term employment contracts (exceeding a few weeks) are not very common in the South and Southeast Asian countries (Bardhan and Rudra 1981) when such contracts are entered into, they seem to be based on the demand for specialized skills on an assured basis—such as bullock driving or herding—and on worker's need for credit and problems of adequate collateral (Bardhan and Rudra 1981; Bhalla 1976). Moreover, nutritional considerations cannot explain the absence of long term contracts for female workers. Given the generally lower wage rate for women, nutritional considerations should apply to them as well as to men.

With workers of equal productivity, the efficiency wage relation could be based on moral effects. Workers receiving
higher absolute wages are assumed to put forth more effort. In such a model, survival of unemployed workers could be assured if employed workers from landless households shared their income with unemployed household members, in this case, however, the efficiency and the worker would not depend on his or her own nutritional intake.

The another mode of an efficiency wage relation is based on the possible screening function of wages (Weiss 1980). If labourers are heterogeneous, that is, if they have different levels of interent efficiency, high quality workers should have high opportunity costs in some self-employment activities, whereas low wage workers should have low opportunity costs. This at very low wages, the post of applicants will consist of only the lowest quality workers. As wages rise to progressively higher level, the pool will start to include workers of higher quality. If farmers have no way of distinguishing between high and low quality workers and cannot pay them accordingly, they will draw at random from the applicant pool. Raising wages produces a workforce of higher quality, which brings us back to the predictions of the efficiency wage theory. In a peasant agricultural setting,

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where labour is largely casual, the model is difficult to apply since information about the quality of labourers resident in the village accumulates over time and is widely shared.

The wage rate for casual labour (of a given sex, and for a given farm operation) is remarkably uniform within the village, and workers recognised by the employer as belonging to different ability types do not get paid at significant different wage rates (Bardhan P.K. 1984), even the employer has monopsony power. The most likely reason for this is the employer's unwillingness to create distinction among his workers. He concludes with the results that the agricultural wage rate is quit sensitive to the demand and supply factors. Therefore, in the peak season or when the demand for labour is quite enough, the wage rate will be high and in the slack season the wage rate will be lower depending upon the nature of the supply of the labourers. Still the labourers in lean season gets more than its marginal product to ensure the employer a dependable supply of labour in the peak season (Bhalla, 1993).

Apart from wage differences across villages, rural wages have also been found to be sensitive to demand and productivity variations (Bardhan, 1984 47-56; Bhalla, 1991). As Bardhan
(1984) has argued, this cannot be explained by the hypothesis of a conventional or institutionally determined wage taken by itself. Neither can it be explained by the market clearing assumption since involuntary unemployment in rural areas is well documented. Bardhan (1984) has constructed two alternative models to explain demand based wage variations in the presence of unemployment. In one, the employer has monopsony power within his village but recruitment costs (in or out of peak seasons) have to be incurred which increase as village unemployment declines. The employer will then raise wages to a point which minimises the sum of wage and recruitment costs.

Rudra (1984) has emphasised that empirical findings challenge conventional models of rural labour markets, where anonymity, free mobility and competition are largely absent and instead personalized transactions, relative isolation and localized monopolies are widely observed, the conventional competitive models is clearly irrelevant. He therefore, makes a plea for a '......new paradigm...... to explain the processes of demand and supply of labour and wage formation in Indian Villages' (p. 264).
J. Mohan Rao (1988) argues that the rural labour markets are fragmented at the village level, due to the fact that it is profitable for both, employer and employee. Village employers will obviously recruit village peasants first to meet their labour demands, for this will always give them additional profits compared to recruiting outsiders. At the same time, village peasants will give village employers the first right of refusal of their services. Any employment they can get within the village is a 'bird in the hand'. Hence, labour will be exported out of the village only if village labour demand falls short of the village labour supply, similarly, outsiders will be hired only if the reverse condition holds.

To reduce the problem of risk, uncertainty, moral hazard and transaction costs is to link transaction of one market with other markets is an essential way (see for example) Braverman and Srinivasan, 1981, Yotopoulos and Flora, 1989). Thus tying of labour services with consumption credit, tenancy or any other form of patronage are devices resorted to by the employers to reduce supervision and a variety of risk in production by ensuring timely supply of labour (Bardhan, 1979, Platteau 1990, Sarap 1991). Several authors have shown that such relationship between the employers and labourers perform important function
of minimising transaction costs and ensuring against various kinds of risk and moral hazard given asymmetry of information between the agents and when credit and insurance markets are underdeveloped (see for example Bardham, 1979, 1982; Rudra, 1982; Plattean and Abraham, 1987; Rao, 1988). Thus the relationship between the regular farm servant and his employer will take a patron-client form; the patron saving on the non-wage costs of recruitment and supervision and utilizing hired labour and client benefitting from greater employment security and higher total earnings [Rao, 1988]. Even the casual labour may be tied with consumption loan. In such a case the employer is sure of the labour service of the labourer. The labour contract itself acts as a collateral substitute for the labour for easy access of consumption loan. In such a case there is no violation of contract on the part of the labourer because dishonesty in such a situation will be too costly for him in terms of its spill over effects threatening other transactions (Bardhan 1983, 86).

Further when supervision and monitoring of work efforts is costly for employers they may resort to incentive payment to workers in order to motivate them for greater effort. This is the choice between piece rate and time rate of wage payment. The mode of payment for short term labour contracts (e.g. piece rate
and time rate) can be interpreted in terms of incentives and mechanism of contract enforcement [Binswanger and Rosenweig, 1986; Bardhan 1979]. Piece rates are general feasible where labourer’s specific output is easily measurable in both (i) quantitative and (ii) qualitatively terms as in harvesting of grains.

The neo-classical institutional economics focus its attention on allocative efficiency improving institutions given the resource endowments of the parties. The dynamic relationship of agents in the contractual arrangements may lead to regressive consequences for the poorer agents (in this case the labour households) [see Abhijt Sen, 1981; Bhaduri, 1980, 1986b; Srivastava, 1989]. That is, the terms and conditions of contracts in various transactions would depend crucially on ownership structure and property relations [Bardhan, 1989].

Several authors have highlighted the importance of localized monopoly power enjoyed by a few (mostly landlord employers) who control land, labour and credit transactions inside the villager [see Bharadwaj, 1974, 1985; Griffin, 1979, Bardhan and Rudra, 1978; Beteille, 1980; Bardhan, K. 1989]. Given the unequal bargaining power with the large farmer employers
arising out of oligopoly control of land and credit markets, the
terms and conditions of contractual arrangements between the
employer and the labourers would be highly unequal to the
landpoor households given the lack of opportunity to cheap credit
and outside non farm employment. Thus there will be difference
in the terms and conditions of different contracts because of
the differences in the power of the dominant class.

In the light of the above theoretical discussion, the
present study attempts to analyze various issues pertaining to
hired labour in rural Haryana in the context of the functioning
of the rural labour markets in Haryana.