Kerala has been showing an industrial deceleration since early seventies. It is often alleged that Kerala’s trade unionism and its way of functioning has a significant relationship with its slow industrial growth. It was in this context that we attempted this study which seeks to analyse the association between trade union activities and industrial growth of Kerala. The exercise has been done through the testing of wage-cost hypothesis and psychic cost hypothesis in the small-scale industries sector in the State. The wage cost hypothesis was tested with the help of both industry wise and State wise data relating to small scale industries. This enabled us to show that there exists high wages in Kerala’s small scale sector. The State wise analysis of wages and their share in the value added showed that Kerala’s industrial sector (SSI) is characterised by higher wage cost and lower labour productivity.

In a time series analysis, it was observed that while average wage per worker in the small scale sector is ahead of all India, the value added per worker in Kerala was behind the All India average throughout the period of analysis. An inter-state comparison of wages and value added per worker brought to light that Kerala occupied third place in industrial wages. The wages per worker was increasing at a greater speed than the value added in Kerala. Again, on the basis of inter-state comparison of the cost structure in the small scale sector, we have found that Kerala is a region which accounts for very high labour cost. The share of labor cost in Kerala’s industrial cost structure appears to be very high when compared to all other regions and also to many other neighbouring states.
Kerala has been showing an industrial deceleration since early seventies. It is often alleged that Kerala’s trade unionism and its way of functioning has a significant relationship with its slow industrial growth. It was in this context that we attempted this study which seeks to analyse the association between trade union activities and industrial growth of Kerala. The exercise has been done through the testing of wage-cost hypothesis and psychic cost hypothesis in the small scale industries sector in the State. The wage cost hypothesis was tested with the help of both industry-wise and firm wise data. An inter-state comparison of industry wise data relating to small scale industrial units helped us to show that there exists high wages in Kerala’s small scale sector. The State wise analysis of wages and their share in the value added showed that Kerala’s industrial sector (SSI) is characterised by higher wage cost and lower labour productivity.

In a time series analysis, it was observed that while average wage per worker in the small scale sector is ahead of all India, the value added per worker in Kerala was behind the All India average throughout the period of analysis. An inter-state comparison of wages and value added per worker brought to light that Kerala occupied third place in industrial wages. The wages per worker was increasing at a greater speed than the value added in Kerala. Again, on the basis of inter-state comparison of the cost structure in the small scale sector, we have seen that Kerala is a region which accounts for very high labour cost. The share of labour cost in Kerala’s industrial cost structure appears to be very high when compared to all India average and also to many other neighbouring states.
For locating the causative factors responsible for the existing high wages in Kerala, we have made use of a multiple regression model (time series). In the model, it is found that the trade union index and consumer price index are significantly related to money wage rate in the case of majority of small scale industry groups in the State. It seems that the general level of inflation existing, along with the strong trade union activities in the State are mainly causing a hike in money wages in the industrial sector of Kerala.

The firm-wise analysis based on our survey also support the high wage cost hypothesis for the small scale industrial sector of Kerala. The industrial wage in the state is seen to be higher by 50% than that in Tamil Nadu. The reasons for high wages in Kerala are noted to be the high cost of living and trade union pressures.

Among the reasons for low labour productivity in Kerala, restrictive labour practices and work to rule under the protection of trade unions are cited by maximum number of units surveyed. The main reasons for shifting the industrial units from Kerala to Tamil Nadu are found to be the high wages and the lack of peaceful industrial relations in Kerala.2

Wage increase is generally considered to be the most important target of every trade union. The labour disputes or struggles develop in an industrial concern mainly when the labour organisations clamour for a higher wage. It is true that disputes may also occur due to other reasons like retrenchment, personnel policy, etc. However, wage is considered as the prime issue around which struggles develop. Hence in the context of Kerala, it will not be wrong in arguing that
the peculiar nature of trade union activities in the State is the most important factor behind the industrial disputes which culminate into a hike in earnings.

We may now relate this argument to the industrial growth of the State. The entrepreneur, who is the king pin of every industrial activity, is usually very shrewd in taking his decisions. He has to take into account many factors like availability of raw materials, infra-structural facilities, availability of funds, etc. But one of the most relevant factors seems to be the availability of cheap and efficient labour. Based on this logic, the high wages present in the small scale industrial sector of Kerala, appear to be retarding the industrial development of the State.

The relationship between trade unionism and industrial development of Kerala is also brought out with the help of the second set of analysis. As we have explained in chapter III, Kerala is considered as a state having a strong trade union tradition. The intensity of unionism and the organisational consciousness of the working class in the state are quite high. Has the increase in number of trade unions and its membership in Kerala brought forth labour agitations? The answer is in the affirmative. The number of disputes and the mandays lost have been quite high in the state especially in the fifties, sixties and the seventies.

It seems that the bitter experience in the past with regard to the industrial disputes and the labour unrest in Kerala have shocked the entrepreneurs so that they exhibit a negative response to new investments. This has ultimately helped in generating a phobia among the entrepreneurs. The quantification of phobia with the help of scalogram analysis has helped us in developing a phobia...
index for the industrial sector of Kerala. It is established that this phobia of the entrepreneurs in making investment is still persisting with the industrial sector of the State. This ultimately add to what is called a ‘psychic cost’ incurred by the entrepreneurs.

The difference in entrepreneur’s psychic costs and incomes between regions are in the ultimate analysis dependent on their perception of a given region’s secure and steady environment for business. Even if the strict calculus of costs and returns may indicate a given region’s prospects for a high return due to cheap labour, availability of power, capital, etc., the entrepreneur’s perception of the labour force in the region as militant or trouble makers adds to their psychic cost and hence distorts locational decision.

To sum up, it may be said that the militancy of labour has turned to be a specific feature in state’s tradition of trade unionism and has resulted in pushing up of wages unmatched with productivity increase in Kerala. This together with a ‘phobia’ among entrepreneurs has acted as major causative factor responsible for Kerala’s industrial backwardness.

It should be emphasised here that what we have attempted is only a partial explanation for the stagnation in Kerala’s industrial sector. There are factors other than trade union pressures pushing up industrial wages in the state. The higher cost of living in the State explained partly by the fact that state depends on imports for meeting its daily necessities tends to push up the general wage level in the state. The industrial wages cannot be insulated from the
general price trend. Secondly, there are factors other than high wage cost and psychological costs that have stood in the way of industrial investment in the State. Some of these factors have been identified by contemporary studies. But among these, the high wage costs and the psychological fear (psychic cost) among entrepreneurs created by militant trade unions are considered to be the significant ones in retarding industrial investment especially in the small scale sector of the State.

It is true that the labour relations climate in Kerala is showing visible improvements recently. But labour unrest remains as a 'stigma' that makes the private investment shy away from the State. On this premise, it is only proper for the state to reformulate the labour policy that it is congenial to industrial development. Also, the visible improvements in the labour relations should reach the minds of the entrepreneurs inside and outside the State. Hence it is high time, especially in the present liberalisation context, that the government and the media of the State take initiative in publishing the improved state of affairs widely and more effectively.

Notes and References

2. Similar conclusion has been reached by Oommen M. A., 1981, 'Mobility of Small Scale Entrepreneurs- A Kerala Experience', *Indian Journal of Industrial Relations*, vol 17, July.


Blanch Flower, D, (1986), ‘What Effect Do Unions have on Relative Wages in Great Britain’, British Journal of Industrial Relations, vol. 24; No.2.


Irvind. B, (1954), 'Growth of American Unions', *Institute of Industrial Relations*, University of California, California, No.44.


Jose. A.V, (1977), 'Origin of Trade Unionism Among the Agricultural Labourers in Kerala', *Social Scientist*, vol. 5, No.12, July.


