

Abstract

There has been increasing 'flexibilisation', in the formal labour markets of both developed and developing countries. Labour institutions and globalisation are often taken to be causally related to this phenomenon, but the evidence remains inconclusive. In India, there has been an increasing use of temporary workers employed through contractors (contract workers), who are not represented by trade unions and who do not fall under the purview of the labour laws that are applicable to directly employed workers (formal workers) in formal labour markets. We develop a model of labour demand where firms choose a mix of contract workers and formal workers, rather than formal workers alone. Then we test the model using state-industry-year panel data for Indian manufacturing from 1998 to 2005. We find that both pro-worker labour institutions and increased import penetration lead to greater use of contract labour in Indian manufacturing.

Keywords: flexibilisation, informalisation, contract workers, trade, labour institutions, India

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