

**Trade Associations in Kerala:  
Their functioning and implications**

**Discussion Paper No. 89**

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**Kerala Research Programme on Local Level Development  
Centre for Development Studies  
Thiruvananthapuram**

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# **Trade Associations in Kerala: Their functioning and implications**

S. Muraleedharan

## **1. Introduction**

Kerala is generally considered a fertile ground for trade union movement and labour militancy. No doubt, the strong labour unions rooted in the State raised wages of workers in the organised as well as unorganised sectors. As a counter reaction to this, employers also have started organising themselves, which resulted in the formation of traders' associations. Traders like the workers are now strongly unionised in Kerala to reap benefits in their favour through collective action.

### **Statement of the problem**

Trade Associations (TAs) have emerged mainly as a counter action to labour unions. There are other reasons as well. The adamant bureaucracy, public policy, and unhealthy stand taken by the producers are examples. The struggle of traders in Thrissur market in the early 1980s was against organised labour union. Preliminary interactions with the leaders of the TAs showed that traders objected to the introduction of turnover tax in the late 1980s and resisted the official raids by sales tax officers in the 1990s. The unhealthy stand taken by the manufacturers is resisted by them as is evident from the newspaper reports that TAs are not reluctant to demonstrate against multinational companies like Hindustan Lever Limited (HLL). In short, Trade Associations have emerged out of the necessity to protect the interests of traders (Murthy, 1998). This is pictured as a form of cartelisation of traders in the debate on the "Kerala model" of development (George, 1998). Their present range of activities touches product market, labour market, and various institutions like government.

How have these trade associations evolved out in its present form? What methods have been employed by them to achieve strong (or militant) position? Do the organisational structure and the nature of leadership responsible for it? Is social and political background of the leaders of the trade associations a major factor for its process? Are there any urban-rural differences in the functioning of trade associations? Is the role of trade associations one of a pressure lobby, which seems to be an important means to acquire concessions from the government and to tap positives from the loopholes of the legal system, for realisation of their benefits? These are the crucial questions at this juncture. A scientific investigation is needed to help find answers to these questions. In fact, no effort has been made to that so far. The present study is an attempt towards that direction by exploring the role and implications of trade associations in Kerala.

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## **Objectives**

The study is deemed to meet the following objectives:

1. To analyse the evolution of trade associations in Kerala.
2. To analyse the present range of activities in product and labour markets and to see the methods adopted for resisting bureaucratic interferences and unfavourable government policies
3. To see the relation between the nature of leadership and the activities carried out by trade associations, by looking into the socio-political background of the leaders.
4. To know the role of trade associations as a pressure lobby.

## **Data and methodology**

There were two stages of the study. In the first phase, facts were collected through panel discussion, direct personal interview, and focus group discussion. This method was followed to unearth research issues in the absence of proper studies relating to TAs. The details of the same are summarised in the following methodology chart. In addition, files and published materials of TAs were made use of. Primary data were collected in the second phase of the study. As this study is exploratory and qualitative in nature, descriptive method and percentages are used to analyse the collected facts.

It is understood that the nerve centre of the action-oriented movement of traders in Kerala was Thrissur in the early Eighties. Hence Thrissur is selected for detailed analysis. The list of the traders is obtained from the Chamber of Commerce, Thrissur. The size of the sample is 75, which is about 10 percent of the traders listed in the office of Chamber of Commerce. The traders are categorised on the basis of trading activity like rice merchants, hardware dealers, textiles, etc. The traders from each stratum consist of both wholesalers and retailers. Besides, 25 more wholesale traders from Ernakulam are included in the sample size so as to look into the location difference. The selected wholesalers are affiliated to Ernakulam Merchant Union (EMU).

## **Scheme of the work**

The present work is divided into six sections. The introductory part in Section 1, is followed by the conceptual and theoretical antecedents of the study in Section 2. The evolution, functions, and different phases of traders' associations in Kerala are pictured in the two ensuing sections, 3 and 4. The fifth one contains an analysis of the determinants of its section 6 gives a socio-political background of the leaders of TA. Section 7 gets into the internal contradiction of the TAs. The emerging conclusions and policy suggestions are presented in the final section 8.

## **2. Theoretical Antecedents**

The operation of the trade associations represents the interests of a particular group. The discussions of interest group may be well found in the theory of New Political Economy (NPE) and hence the role of a TA could be related to it. The base of the NPE is rooted on rationality behaviour, which implies the self-interest of an individual as postulated by Hayek (Das Gupta, 1998). The notion of self-interest could be extended to every institution run by human beings (Down, 1957). When a general interest is not in conflict with individual interest, there is a transition from individual self-interest to group interest (Olson, 1982). Formulation of a common interest becomes easier when the group is small. That is why cartelisation of oligopolies becomes common in the absence of any legal barrier. In other words, the larger the number involved, the more the heterogeneity of interests is. One way out of this impasse is to form coalition of different interest groups on specific issues. The structure of TAs looks like the strategy of distribution coalition. Hence, the analysis of Trade Associations may largely be fit under political market.

### **Political market**

Like the market for a commodity, political economy postulates the existence of a political market in a democratic society (Sodersten and Reed, 1994). There are demand and supply sides of policy formulation. The demand for policy comes from members of society as individuals or organised groups. Associations or collections of individuals like traders and farmers try to influence the law making or policy formulation so as to reap advantages to the individuals of the group (Ekelumd and Tollison, 1991). For instance, trade unions, traders' association, and farmers' union will demand a rise in minimum wage, a cut in taxes, and an increase in the support price of crops respectively. Traders in Kerala are to co-operate with other groups to achieve a common objective. To illustrate, TAs at Mattancherry (in Kochi) were in hand in gloves with passengers' association and political parties (common front) to reduce toll rate at the new Mattancherry Bridge in 2003.

Groups act as pressure lobbies to formulate policies and rules in their favour. Their continuous pressure tactics lead to the modification and amendments of laws in their favour. This process culminates in monopoly practices and exploitation of the public interests. The ultimate result is that interest groups get more share of the national cake, which, in turn, results in less national welfare (Olson, 1982; Das Gupta, 1988; Mechenzie and Tullock, 1978; Takata; Grindle and Thomas, 1991).

As regards the supply of policy, it is provided by the legislators, heads of state, bureaucrats, etc. The desire to be elected or re-elected, promotion, slack earnings, etc., influence the suppliers.

The behaviour of policy makers depends on the voting pattern in a democratic society. There are four circumstances, which influence the policy formulation. They are the median voter model, lobbying, campaigning, and vote trading.

## **Median Voter model**

Mechenzie and Tullock (1978) mainly developed the median voter model in the context of a two-party system in USA. When political parties take a middle path, the decision of floating voters (those who are not clearly committed to any political party) are critical. Political parties may not get the clear feedback regarding the mindset of voters. Asymmetry of information to parties leads to confusion relating to how voters are distributed along any political continuum. The decision of floating voters is crucial in this case as well.

## **Lobbying and campaigning**

Lobbying and campaigning are two methods used by interest groups to influence policy makers before and after elections. There are specialised people who involve in lobbying. There is high cost of acquiring and processing information by an individual except politician, journalist, social scientist, etc (Sodersteinn and Reed, 1994). Lobbyist may bring information in summary form. In other words, he provides necessary knowledge in simple form. Interest groups will capitalise such information in their favour. This capitalisation will lead to diversion of manpower and resources from more productive activities to less productive activities (Krueger, 1974; Varian, 1998). This is technically known as rent seeking which is, in fact, a dead weight loss. Buchanan (1980) tries to distinguish between rent seeking and rent creation. While the rent seeking results in wasteful diversion of resources, lobbying for patent protection could promote inventions. Wherever a surplus is associated with positive additions to the social welfare, it is termed as rent creation. Tullock (1980) suggests a method to overcome the problems of rent seeking behaviour. He argues that political allocation must be made through lottery or auction. The former method is adopted in allotting house loan to poor in certain local bodies in Kerala. The latter is practised to develop transparent procedure in the disinvestment process of public sector undertakings.

Bhagavati (1991), meanwhile, refers to a broader concept, which is named as directly unproductive profit seeking (DUP). There are three kinds of DUP – policy-triggered, policy evading, and policy influencing. Import licensing system promoted rent seeking behaviour in India (Krueger, 1974) and it comes in the policy-triggered category. There is also a tendency to evade policy objectives so as to reap surplus. Smuggling and ‘tube money’ come in this category. While the policy-triggered and policy evading profit seeking activities are reactions to the existing policy, the third one is a kind of lobbying intending to formulate policies in favour of an interest group. The introduction of tariff and fixing standards on imported car in India is the result of the successful lobbying of car manufacturers in the country.

Certain governments encourage lobbying or campaigning to make a background for a policy change (Soderstein and Reed, 1994). Bus owner’s association in Kerala used to conduct public campaigning to facilitate an environment for hike in bus fare. In fact, lobbying is an economic activity (Frey, 1985). If the lobbying group is well organised, ‘start-up’ and ‘operational costs’ are low, the benefits from lobbying will be more; otherwise it will be low. Lobbying reaches optimum where marginal costs of lobbying equals its marginal benefits.

### **Vote trading (Logrolling)**

There are certain situations in which representatives of different parties co-operate to vote for specific interests. This is known as vote trading or logrolling. Whenever corruption charges arise against the existing ruling party and, if the ruling party is able to raise counter charges against the opposition relating to a previous case, both ruling and opposition parties keep silent. The concerned lobbying groups will make necessary ground works to make political parties silent.

### **Conceptual frame for the study**

The foregoing conceptual discussions show that the new political economy, which is rooted in group interest theory, is an acceptable theoretical framework for the present study. The international scenario supports this. Business community, in general, has many internal contradictions like large vs. small, manufacturing vs. service, and commerce (Alt and Chrystal, 1983). Distributional coalition is a pertinent strategy to overcome many of the internal contradictions (Olson, 1982). Co-operation between small and large business occurred in Japan, while smaller business protest led to anti-trust law in the USA (Alt and Chrystal, 1983). However, many countrywide business organisations have coalitions with small trade associations in the USA.

In a democratic society like Kerala the concept of political market is very crucial. Most often TAs seem to apply pressure on State government to achieve their objectives. It may consist of lobbying and campaigning and other methods for getting the desired results. Pressure tactics have stimulating effects in the context of a two-fronts (party) system as in Kerala where the median voter model has some relevance.

### 3. Evolution of TAs in Kerala

Kerala *Vyapari Vyavasai Ekopana Samithi* (Kerala Trader-Industrialist Co-ordination Committee) is claimed to be the leading TA in Kerala. It is an action-oriented traders' association (TA) and is an offshoot of various local chambers of commerce across Kerala. One of the first chambers of commerce was the Calicut Chamber of Commerce (CCC), which came into being in the first quarter of the Twentieth century. The British and German business houses promoted it. This in turn, raised the patriotic feelings of the native business people, who promoted the Malabar Chamber of Commerce (MCC) in 1929. It was incorporated in 1931 under the Indian companies Act 1913. In due course CCC merged with MCC, which operated like the first phase of Indian National Congress in the struggle for freedom. MCC commented on contemporary politics, made requests, appeals and lobbying for the cause of businessmen (Koya, 1978). MCC also actively participated in social welfare programmes.

As MCC pursued conventional passive strategies to achieve its objectives, certain traders in Calicut felt that a separate organisation was required to adopt dynamic policies. The native traders lamented about the exploitive nature of foreign companies against domestic traders and illiterate Indian farmers. MCC was not able to follow a forward policy due to the presence of foreign businessmen in the organisation. As Calicut had been a trading centre for spices from time immemorial, the initiative to form an action-oriented traders' association came from the traders of hill produce. This culminated in the formation of Malabar Produce Merchants Association (MPMA) in 1939. Formation of MPMA was an inspiration to traders in other parts of Kerala. As a result, many native traders' associations were evolved across the State.

Trade unions (TUs) were not strong in the trading centres at that time. The leaders of MPMA claim that native traders were more acceptable to workers than, as the foreign companies exploited native traders, workers and farmers. The schism between TAs and TUs became strong only after the independence of the country. TUs started to place their demand with each trader. As a result, dispute was a regular phenomenon in the bazaar of Calicut. MPMA intervened on behalf of the traders and made general agreement with TUs. This reduced the number of disputes and strikes in the Calicut market. The agreement was generally applicable to all traders, especially to hill produce traders. It also facilitated to avoid interim disputes as one agreement had duration of two or three years.

In one angle, MPMA is a specialised organisation as it mainly represents the hill produce traders. Fundamentally, traders are heterogeneous in nature. This requires a transition from homogeneous group to coalition group. It took another three decades to evolve a coalition group like Ernakulam Merchants Union (EMU) in 1973. It consists of more than 15 homogeneous groups<sup>1</sup> and is more representative than MPMA. EMU may be considered as the first crude coalition of traders in Kerala. It was a spontaneous reaction to the organised movement of the trade unions and the harassment of the bureaucrats (Sections 4 and 5). Due to these two factors, other locally-centred TAs was formed all over Kerala in the 1970s.

The setting up of KVVES was the outcome of a long strike in Thrissur for two months in

1980-'81. The strike in the Thrissur market was the immediate cause of the formation of KVVES in the backdrop of locally centred TAs like MPMA and EMU. This was a transition from homogeneous to coalition grouping. In fact, the growth of TAs like KVVES has been crucially related to its various operations. This is treated in the ensuing section.

#### 4. Trade Associations (TAs) in Kerala: Phases and issues

As noted earlier, TAs in Kerala emerged out of various local chambers of commerce (CC). There are number of congruent and diverging characteristics of TAs and CC in the State. They are schematically presented in Table 4.1.

**Table 4.1 Similarities and Dissimilarities between TAs and CC in Kerala**

Similarities	Dissimilarities
1.Promote the welfare and friendly feelings of traders and other business people.	1. CC is a formal body as per section 25 of Companies Act while TAs are registered like a TU under Charitable Societies Act.
2.Exert pressure on govt. and bureaucrats to solve the problems of trade and industry.	2.CC follows lobbying and similar pressure tactics; TAs are action-oriented organisations like TUs
3. Undertake social functions relating to govt. hospitals, health campaign, and relief measures. <sup>2</sup>	3. TAs struggle against foreign merchants, TUs and bureaucrats.
4.Sensitive to the changes in economic and other policies.	4. TAs generated class-consciousness among the traders.
5. Conduct seminars and issue bulletins to educate traders and other business people.	

Source: Koya (1978), Moorthy (1999)

There are three important functional phases of TAs in the state. During the first phase TAs (eg. MPMA in Calicut) struggled against business people of England and Germany (Koya, 1978). The resistance of trade unions towards traders virtually started after the independence. The organised movement of the TUs on one side and single-handed trader on the other placed traders on the loser's end. The process of collective bargaining on either side led to mutual agreement on labour relations. As the bargaining continued, MPMA conducted its maiden agitated-procession in 1973. The agreement has been reviewed every two or three years except in certain sporadic incidents. For instance, in the early 1970s both groups took a tough stand on a particular issue. This led to the maiden agitated procession by a traders' association in Kerala in 1973. Thus, MPMA shifted its strategy from negotiation to encountering. This marked the second phase of the evolution of traders' association in the Kerala.

Similar trends took place in Ernakulam in the early Seventies. It was a reaction to the collective bargaining of the trade unions. Workers in Ernakulam market were unorganised till the early 1960s. Most of the workers (less than 100) were migrants from different parts of the State. They used to sleep on shop fronts in the night due to paucity of low rent housing facilities. The police used to nab them as lawbreakers. In order to save them from this harassment,

workers united themselves in collaboration with CITU, a Left-oriented national trade union. As workers were migrants and disunited earlier, many traders in the market exploited them. This acted as another stimulant to form a workers' organisation. This phenomenon reversed with the advent of labour organisation.

Individual traders found it difficult to withstand the collective bargaining power of the trade unions. A trade union normally relies on the cost of living index to demand a hike in wage or other benefits. In fact, there was no uniformity in demands due to certain reasons<sup>3</sup>. Firstly, certain wholesalers may be ready to pay more wages to load or unload more trucks per day. However, others may not be able to pay higher rates. Secondly, trade union rivalry leads to demand for higher wages. In order to draw members to a particular union, every union, especially a union with less members, tries to place demands at a higher rate. Sometimes, it may be for better working conditions. Anyhow, this environment exerted much pressure on traders in the Ernakulam market. Certain members of the trade union even disturbed farmers or consumers who used to arrive at Ernakulam market.

In order to resist the bargaining pressure of the trade unions, traders in Ernakulam market decided to form a traders' association. It came into being in 1973 in the name, Ernakulam Merchants Union (EMU), which still keeps its identity without merging with KVVES. EMU has two important claims (Ramamoorthy, 1999). Firstly, this is the pioneer action-oriented traders' association in Kerala. It was instrumental for the emergence of KVVES at state level. Secondly, EMU generated class-consciousness among the traders. Though the second claim could be accepted without much dispute, the first one deserves certain comments. MPMA in Calicut was already in picture to resist either the foreign businessmen or trade union. However, EMU has a coalition nature as it consists of more than 15 sub-categories of trade associations. In fact, the emergence of both MPMA and EMU could eliminate the multiple agreement system and alternatively, could introduce bilateral agreements.

Whenever traders and workers are organised, settlement of disputes is institutionalised. The trade unions place periodical demands before traders. Once the traders' association was evolved, the TA used to interfere in the issues of dispute. The TA found that most of the issues were common and hence, shielded the individual traders from the encroachment of TUs. The leaders of TUs also found that they are busy with dispute settlement throughout the year. Thus, there evolved the system of presenting demands to TAs rather than to individual traders and reach a balanced position.

The initial orientation of TAs in Kerala was to handle labour disputes, which represent an inter-group rivalry between traders and workers. This is not a primary concern of NPE. The Marxian connotation of NPE explains this kind of inter-group dispute between the two in the markets. Meanwhile, the group rivalry in the market has a dimension of game theory as discussed by neo-classicists. Thus the relationship between TAs and TUs could be viewed as a mixture of Marxian and neo-classicist perspectives. The wage settlement issue, which is a major concern of both TAs and TUs, may be judged in this dimension.

As noted above, wage settlement is a game plan for TA and TU<sup>4</sup>. CITU is the major player of the game in the urban markets. As noted earlier, CITU does not want to lose the grip over the

work force. It may demand hike in wages and other benefits based on cost of living index and potential demands by other TUs. Further, higher demands, which are probably more than the expected level, are an integral part of any negotiating or bargaining strategy. For instance, if a settlement is expected at a margin of 15 percent, the initial demand may be at the range of 30 to 50 percent. The TA may initially reject the demands. The TU(s) may adopt militant strategies to achieve their demands. This eventually leads to negotiations or bargaining for several rounds. Just like the forces of supply (TU) and demand (TA), final settlement may be made at a medium level. Finally, both groups reach a saddle point. This is shown in the following virtual negotiation matrix.

### Negotiation Matrix

TA	TU	TA	TU
0	50	5	30
10	20	15	15

Though TUs consider the cost of living index as the base for demanding a wage hike, they also take into account potential union rivalry and a margin for negotiation. The opponent TUs like INTUC, AITUC, and BMS seek chances to penetrate to the strong holds of CITU. Consequently, there is a potential danger to vie workers by offering higher wage demands. Hence, all TUs will demand a higher wage consisting of three factors, the actual expected hike in wage ( $w_e$ ), strategic wage demand to maintain or attract workers ( $W_m$ ), and margin for negotiation ( $W_n$ ). Schematically, the demand for wage hike ( $W_d$ ) is

$$W_d = f(W_e, W_m, W_n)$$

The expected hike in wage corresponds to the adaptive expectations hypothesis as postulated by Friedman and Phelps (Levassic and Rebbman, 1982). This hypothesis takes into account the actual rise in price level in the past. Such a rise is represented by cost of living index. The second component emanates from trade union rivalry. This implies that TUs also shows features of distributive coalition sometimes.

If the trade union competition is weak,  $W_m$  tends to zero otherwise, it increases to 10 to 25 percent.  $W_n$  can be normally taken as 10 percent and negatively related to the bargaining power of the traders' association<sup>5</sup>. If the cost of living index is at the range of 10 to 15 on average,  $W_m$  and  $W_n$  are higher. TUs in major markets in Kerala may demand 50 percent hike in wage. If the traders were organised, they would presume an extreme strategy of 'no hike in wage' (NHW). The initial demand positions of TU and TA are shown in the left top cell of the negotiation matrix. The NHW strategy leads to no supply of labour (NSL), which is technically attributed to 'labour strike'. In the absence of TAs, NSL strategy of the TUs was favourable to the labour force. It persisted till the 1950s, 1960s, and 1970s in Calicut, Ernakulam, and Thrissur respectively. Though the respective chamber of commerce acted as the proxy TAs in the initial stages, their negotiation skill was limited to the extent of 'gentleman's procedure'. In others words, leaders of chamber of commerce were not forward looking or aggressive in their strategies. They lobbied with political leaders, bureaucrats and leaders of TUs and rulers to settle their issues. This was sufficient in the initial phase of the evolution of TAs. The traders exploited workers in the forms of ill-paid wages, keeping

workers till late-nights, forcing workers to carry groceries to the shop owner's house, absence of fringe benefits, carrying of heavy bags (100 to 150 kg), working in filthy-dark godowns, etc<sup>6</sup>. In this backdrop, a higher marginal hike in wage was not a burning issue to traders initially. In the event of annual demand for wage hike and the adoption of extreme strategies like NSL, 'gherao' (traders are encircled by workers for hours together to make their demand acceptable) and 'attimari' (literally, turning the bagful materials from one position to another). At one stage, *attimari* wage became a right, even for those workers who were simply watching the process of loading and unloading bagful materials. Traders named the whole process as 'labour militancy', a comprehensive term to encompass NSL, *gherao*, and *attimari*.

Based on the experiences in Calicut and Ernakulam, the reactionary resistance of traders became State-wide with the Thrissur episode. (It facilitated a springboard to the formation of a State-wide TA<sup>7</sup>). The dispute in Thrissur started from a demand of TUs that daily workers for a shop would be allotted by them. Traders treated this as an infringement on their rights to choose preferred workers. In September 1980, traders closed down all the shops in the main market of Thrissur. This got a state-wide support. Thus, traders adopted an encountering strategy. They lobbied with the traders of Tamil Nadu (TN), as most of the haggled trucks in Thrissur belonged to TN. As a consequence, trucks from Kerala were stopped at Coimbatore in TN. This necessitated the interference of both the state governments of Kerala and TN. The agitation of traders became very sensitive after the emergence of a group of youth traders into the arena<sup>8</sup>.

According to M.K. Kannan, the dispute at the rice shop was a part of traders' hidden agenda to sabotage the public distribution system (PDS) of Left Democratic Front Government<sup>9</sup>. Traders started *Vamanan* shops against the government sponsored *Maveli* shops. In fact, the dispute could have been avoided, had leaders interfered at the right time. Meanwhile, the strike ended with the victory of both traders and workers. That is, traders could recruit preferred workers from a pool allotted by the TUs. As shown in the negotiation matrix earlier, both TA and TU initially start from extreme positions and reach a saddle point later (right bottom cell). As the two sides are organised, neither TA nor TU is victorious or vanquished. The traders feel that they could establish their right to recruit preferred casual workers. TUs consider that they are successful as pooling of workers is being done by the TUs.

Like the approach of TUs, local leaders of TAs like EMU and MPMA visited Thrissur to empathise and to show their solidarity with the agitated traders. The resultant assembling of traders culminated in the formation of a State-wide traders' association. An all-Kerala committee of traders headed by C. M. George<sup>10</sup> was constituted to confront with TUs on one side and the government and the bureaucracy on the other. The interaction of traders with government occurs at two levels, which is depicted in the Figure 3. Policy decisions come from top-level government and the bureaucrats do implementation. Meanwhile, the two layers of government have to face the reactions of traders. If the reaction of the latter is not favourable to government, TAs adopt different methods of resistance. Government normally exercises its powers if no changes are made to the policy. These two directional interactions are applicable in the relation between TAs and TUs as well.

The traders identified four major areas where they experienced harassment from the bureaucracy i.e., laws relating to (1) sales tax, (2) adulteration, (3) labour, and (4) licensing. In order to meet the challenges from TUs and bureaucracy, they planned to convene a formal meeting at State level. The meeting ended with the formalisation of KVVES at Ernakulam on 14 May 1981. In due course of time, KVVES became the formal voice for the causes of traders in Kerala.

The strike in 1980 was a shock to TUs as it was the first organised resistance from traders for three weeks. Hence TUs waited for the first opportunity to strike back for partial failure in 1980. As usual, TUs raised the issue of wage hike on the eve of *Onam* in 1981. The usual practice took place as shown in the negotiation matrix. The strike prolonged for 57 days, which necessitated the interference of district collector, district labour officer, police officials, labour minister, cultural leaders, etc. The interference was the result of the lobbying made by both TA and TUs.

As the official level efforts did not bring the desired results, TA and TUs lobbied for the interference of the cultural leaders. In this context, Bishops Joseph Kundukulam, Mar Aprem, and Mar Paulose issued a statement demanding for a settlement between KVVES and TUs. As a liberal theologian Bishop Mar Paulose was acceptable to both sides. There was uninterrupted discussion for two days. The process is shown in the negotiation matrix as a movement from left top to right top, to left bottom and finally to right bottom. TAs and TUs mixed encountering and lobbying (encobby) strategies to trace a ray of light in the darkness. Finally, the two organisations reached the right bottom cell (saddle point) by following encobby strategy and negotiation. Thus wage settlement started from a position of class struggle and ended in an equilibrium point of game theory. The position continues till a factor distorts the equilibrium level (saddle point). This seems to be appropriate for the interest of the two groups (TAs and TUs).

### **TAs and government policy**

After the formation of KVVES, traders were mainly confronting with bureaucracy and government policy. The organisation submitted a 17-points charter of demand, which was market-friendly in nature<sup>11</sup>. In that, KVVES requested the government that lightning strike and *gherao* of the TUs should be abolished. They also demanded for the reduction of the size of the public sector and the number of licenses. Though global factors facilitated the shrinking process of the public sector, KVVES believe that their philosophy is practised nowadays. Replacement of multi-level licensing by single point licensing was another issue in the charter of demand. A shopkeeper had to obtain 20 to 30 licenses. Renewal of each license is an annual ritual. One has to travel 3 to 4 times to obtain each license. It involves travel cost, loss due to abstention from the shop, real cost resulting from the harassing attitude of the officers and the extra money to please the team of officers. Technically, it may be put under Transaction Costs (TCs).

An attempt was made to unearth the size of transaction costs in connection with issuing of licenses and tax collection. Traders were generally not ready to reveal the details of TCs. Eighty percent of the traders in the sample agreed the existence of TCs while dealing

with government offices. Ten percent of them agreed the actual amount transacted, which is reported in Table 4.2.

**Table 4.2 Transaction Costs Involved in Issuing Licenses and Tax Remission through Government offices**

Type of units	No.	Amount in Rs.
Pharmaceuticals	1	1,000
Autospares	1	2,000
Price	3	4,000
Refrigeration	1	1,250
Sanitary	1	2,500
Jewellery	1	1,500
Total	10	12,250
Average		1,225

Source: Survey data

The above Table shows that the average cost of transaction is Rs 1225, which is about 2.5 times of the minimum amount (Rs 500) of TCs, as noted by a leader of TAs. Three institutions were asked to take savings certificates and others told that their auditors used to deal with such cases.

The number of licenses has come down recently as a result of the repeal of Essential Commodities Act by the Government of India. It could reduce, as argued by the leaders, the direct transaction costs between Rs 5000 to Rs 10000 for a busy trader.

Transactions costs were involved in the context of packaged commodities. The companies used to print maximum retail price (MRP) without local taxes. Sales tax officers took this opportunity to conduct periodical inspections even in the small shops. This added to the direct and indirect TCs of the traders. The actions of legal metrology added more fuel to the issue. Hence KVVES appealed for strike (encountering) and successfully lobbied on the central government (encobby) via the state government. The Packaged Commodities Act was amended to incorporate local taxes in MRP. A similar occasion occurred in 1992. The manufacturers of cigarette adjusted the length of cigarettes in such a way that they can opt for lower rate of excise duty<sup>12</sup>. Actually, the length was higher than the claimed one. The officers tried to harass the retail shopkeepers. KVVES could bring this discrepancy to the notice of the central government and it was duly rectified later. However, TAs is not successful in diluting the Food Adulteration Act. As in the case of packaged commodities, adulteration has its origin at the stage of manufacturing.

### **Diverging views of traders and bureaucracy**

A major diverging issue between traders and bureaucrats is the discrepancy between actual stock and documented stock. This leads to widespread inspection in the 1980s. It is admitted

in the interactions with the existing and retired officers that there were widespread inspections in the 1980s. The justification for inspection is the discrepancy between actual stock and stock register. Bureaucracy explains this as a case of tax evasion. The concerned officers will use the ‘best of judgement’ clause so that the discrepancy may be inflated by 10 to 100 percent. The inflated figure creates ‘panic’ in the mind of the trader, who is cornered to the negotiation table. The figure will be deflated if the trader is ready to offer illegal offers. The offers would range between Rs 500 to Rs 5 lakh and more, which depends on the discrepancy. It is understood that the officers succumb to 50 percent of one half as gift, and the other half will be remitted to the treasury. This implies that the magnitude of tax evasion is 25 percent of the potential tax liability. Thus, tax evasion and the surplus sharing between certain traders and officers mark the case of DUP as enunciated by Bhagawati (1991). DUP is extensive at the entry points and it is the result of inefficient administration. It is understood by cross checking, the TAs would not interfere in the individual cases relating to raids. However, the organisation is very vigilant if a particular trader is unnecessarily and regularly harassed.

**Table 4.3 Divergent Views of Traders and Bureaucrats on Discrepancy in Stock**

<b>Views of traders</b>	<b>Views of Bureaucrats</b>
1. Part-time accountants update register only periodically. Small traders cannot appoint regular accountants.	1. There is a triangular nexus between traders, officers and politicians so that DUP benefits will be shared. This behaviour is seen in a section of each group.
2. Certain samples taken by the customers may be returned to the seller. These transactions cannot be properly recorded during busy hours.	2. Competition among traders lead to price war and discount offers. Non-billing is a short cut to sustain these offers.
3. Divergence in stock occurs due to the human handling and mechanical fault in the case of unpackaged commodities.	3. Non-billing by customers (in the case of high value added items) is an added factor.
4. Improper billing is a reason for divergence in stocks. This can be avoided, traders argue, if administration is efficient at check posts, state level wholesale distribution and imports.	4. Non-billing transactions take place in three ways: non-check posts, railways and fake packing. This is more in border districts <sup>12</sup> .
5. Educated traders are not interested in unethical trades.	5. The discrepancy in stock ranges from 30 to 40 per cent.
6. Even if traders are law abiding, bureaucrats make them otherwise.	
7. Divergence in stock is normally less than 10 percent. This can be exonerated as human error.	

Note: Both groups failed to supply data to support their arguments.

Traders and officers point out diverging factors summarised in Table 4.3 for the discrepancy in stock.

Notwithstanding the arguments for divergence in stock, extensive raids were conducted in 1995-'96 and 1997-'98. The officers argue that divergence in stock would be at 30 to 40 percent of the recorded stock of the traders. On the other hand, traders, considering their arguments made above, point out that it is only less than 10 percent. The attempt to obtain the facts relating to raid was in vain. If we apply the crude logic of averaging, one may expect a minimum 20 percent divergence in stock. Due to the non-availability of such primary facts, one could look into the annual growth of sales tax in Kerala. The purpose is whether there is any significant growth in the collection of sales tax during the years when raids were conducted. The compound growth rates in trade, hotel, and restaurants (TH&R) and in sales tax collection in Kerala are given in Table 4.4.

**Table 4.4 Compound Growth Rates of Trade, Hotel, and Restaurants (TH&R) and Sales Tax (ST) in Kerala during 1980-2000**

Period	Compound growth percent per annum		Growth Gap 4=2-3
	TH&R	ST	
(1)	(2)	(3)	(4)
1980s	10.03	16.15	-6.12
1990s	24.4	15.19	9.12
1991-95	28	20.06	7.94
1996-2000	-	13.92	1.71
1995-2000	15.63	-	-

Source: Compiled from Various Issues of Economic Review, Planning Board, and Kerala

\*Note: Growth rates are based on current values in rupees. The value of TH&R represents its share in the state domestic product.

Table 4.4 shows that the growth in ST was only around 60 percent of the growth in TH&R in the Nineties, contrary to the experience in the Eighties. This is further revealed by the growth gap between ST and TH&R in the Nineties. The difference is expected to be appropriated by the traders. This shows that raids did not make any significant impact on the collection of sales tax due to the presence of TAs in the State. This is a case of dead weight loss to the State economy.

The sharpness of the bureaucratic sword further blunted due to the encobby strategy by TAs. The overall resistance of the traders on the street and lobbying at higher political circles helped to apply clause 28.2 instead 28.3. The officers have to acquire solid proof that a particular trader follows fake billing or malpractices. Otherwise, it is difficult to get permission from superior officers. It may be noted that superior officers are more answerable to the political leadership (ruling). The magnitude of DUP is less in the case of clause 28.2. Thus KVVES and other TAs are successful in applying pressure tactics through encobby.

The above survey on the evolution and functions of TAs in Kerala helps us to bring out the major determinants of the formation of such organisations in the State. The determinants as revealed by the field study, are presented in Section 5.

## 5. Determinants of the formation of TAs in Kerala

Field enquiries were made to trace the factors that necessitated the formation of TAs in the state. Traders were asked to respond to factors like harassment by bureaucracy, labour militancy, government policies, attitude of the political parties' collection of funds, etc.

**Table 5.1 Factors for the Formation of TAs**

	No. of Traders						
	Harassment by bureaucracy	Labour militancy	Govt. policies	Unfavourable attitudes of political parties	Collection of Funds, Donations	Others	Don't know
<b>1982</b>	<b>11</b>	<b>77</b>	<b>15</b>	<b>2</b>		<b>1</b>	
<b>2003</b>	<b>10</b>	<b>15</b>	<b>10</b>				<b>36</b>

Source: Survey data

The responses show that labour militancy is the major cause for the formation of the TAs in Kerala (Table 5.1). This is quite natural as workers and traders have opposing interests. One can argue that inter-rivalry between the two groups and organisational power of the workers mainly led to the formation of TAs in Kerala. In addition, harassment by bureaucracy and government policies are responsible for the formation of TAs. However, the relative importance of these factors has changed over time. In the early 1980s, three fourth of the traders consider that labour militancy was the major determinant for such a strategy (encountering). Government policy (14 percent) and harassment by bureaucrats (10 percent) stood second and third in order but had only less influence. As seen in the case of game policy of TAs and TUs earlier, both of them reached a saddle point now. Only a marginal group thinks that labour militancy is a major determinant for the sustenance of TAs in Kerala. There are only a small percentage (six percent) of traders who experience poor relations with TUs. This implies that the inter-group rivalry has come down as far as the trading is concerned. Together with the strengthening of the bargaining power of traders on one side, there is a decline in the bargaining power of the workers on the other side. The latter phenomenon is mainly due to the high degree of de-unionisation in the trading establishments. Actual enrolment to unions is only six percent of the sample. Casualisation (Muraleedharan, 2003) and feminisation (Patrick, 1991) may be other two reasons for the de-unionisation of the trading sector. Many traders believe that they will be taking serious risk while appointing a union member. Casualisation and feminisation are found to be low in the study. Perhaps casualisation is low

due to the supply of daily workers by TUs or workers welfare board. Feminisation is poor because of the nature of the sample as it consists of units like rice, hardware shops, etc. Patrick (1991) pointed out such a possibility. Pooling of the traders' power also leads to the dilution of the negative influence of the government policy. In fact, the impact of bureaucratic harassment continued to be the same during the past two decades.

Most of the Acts, which deal with traders, are troublesome to them. Traders consider that the Acts of Minimum Wages, Food Adulteration, and Income Tax, and bodies like Municipal Corporation also create difficulties to them. As seen above, Sales Tax Act is the most trouble making one in the State. It is followed by the Head Load Workers Act (Table 5.2). However, a few of traders consider that Head Load Workers (Amendment) Act is the helpful to them.

The departments, which implement these Acts, are troublesome to the traders. The latter feel that major victimisation takes place from the tax departments (Sales Tax and Income Tax). Such incidents are more in the case of sales tax than income tax (Table 5.3). Labour department and local body disturb traders but at a less degree than the department of Sales Tax. Its magnitude is relatively low in the cases of Legal Metrology, Electricity, and Food Adulteration.

**Table 5.2 Number of Trouble/Help Provided by Various Laws to Traders**

Name of the Laws	Extent of Trouble			Extent of Help		
	Troublesome	Most troublesome	No trouble	Helpful	Most helpful	Not helpful
Sales Tax Act	25	19	2			9
Commodities Package Act	2	2	8			6
Minimum Wages Act	10	1	11	1		9
Food Adulteration Act	9		8			7
Shops & Establishments Act	3	1	11			8
Income Tax Act	12	3	9			7
Headload Workers(Amendment Act)	14	17	3	4	1	8
Municipal/Corporation Act	10	7	7			8

Source: Survey data

The beauty of the other side of the picture is about the helpful nature of the government departments. Though sales tax department offers the highest absolute level of help, the percentage of help (H) to harassment (T) is 30 compared to 75 percent each in the cases of labour and legal metrology departments respectively (Table 9). Almost 60 percent of traders believe that none of the government departments are helpful. About 30 percent of traders in the sample have neutral position (neither helpful nor troublesome) to various departments, while 13 percent considers that the government departments are helpful. Thus, majority of

the traders have ill feeling about the various government departments.

**Table 5.3 Distribution of traders by hurdles from various departments**

Major Depts.	No. of traders who were victimised (T)	No. of traders who find them helpful(H)
Income tax	10	2
Labour	12	9
Legal Metrology	4	3
Local Body	9	1
Electricity	5	
Sales Tax	38	11
Food & Adulteration	5	
Health	2	1
Civil Supplies	1	
Others		

T: Troublesome H: Helpful

Source: Survey data

The discussion made so far was pertaining to inter-group rivalry (between traders and workers) and interaction with government institutions. They are identified as the major determinant of the formation of TAs in Kerala. Let us now examine how traders view TAs in fulfilling their aspirations.

### **Traders' Perception and TAs**

Majority of the traders (77 percent) believe that the TAs enthused the power of collective bargaining among traders. The traders were asked to respond to eight factors, which were seemed to be important in the formation of TAs. They identified four factors, which affected the trade environment in Kerala. They are (1) sales tax raids, (2) labour militancy and disputes, (3) ability to influence policies of government and TUs, and (4) the ability to bring trade environment under the control of the traders themselves. There was explicit reduction in the case of the first two factors, in which the decline in raids and bureaucratic harassments were more than the second one (labour militancy and disputes; Table 5.4). These are two clear cases for the justification of the formation of the TAs. All the traders expressed the view that the phenomena like threatening, haughty and harassment by political organisations and bureaucracy have been almost eliminated after the formation of TAs. The third and the fourth factors help TAs to become pressure groups in the policy formulations of both government and TUs.

The deliberations with former finance ministers of Kerala and certain officers with the Department of Commercial Taxes show that forward policy (encountering) and lobbying by TAs have considerably reduced the unanticipated and improper raids and inspection by the officers. Thus TAs successfully pursues the encobby strategy. These are the direct manifestations of the first two factors. The TAs promotes and smoothens trading in the state but traders attach less weight to these two factors than the first four factors mentioned above.

**Table 5.4 Collective bargaining of the TAs positively affected the traders and industry**

<b>Reasons</b>	<b>No. of traders</b>
Reduction in Sales tax raids & bureaucratic harassments	34
Reduction in workers' militancy & disputes	26
Ability to influence the policies of the Govt. and the TUs	23
United strength/ability to make things come in their way	12
Smooth functioning of trade	5
Promotion of trade	2
Benefits from the banks	1
Others	6

Source: Survey data

### **Suggestions for change in govt. policies**

The demand for official policy changes by TAs was verified during the interactions with traders. Their suggestions for policy change, which represent the feelings of both TAs and traders, are examined now.

Traders want to protect the interests of local industries, which face competition from national and international markets. They suggest providing subsidy to the state based industries. Government may fix priorities to State entrepreneurs while new development projects are executed. Unified inter-State tax could also promote trade and industry in the State.

Apart from the unification of taxes, traders demand more reforms in the tax structure; they demand urgent steps to minimise the tax rate and licenses. Their arguments go in the following form. There are a lot of complications in issuing licenses and tax collection procedures. The complication is more in the case of sales tax department. There are loopholes in the office procedure, which, in turn breed corruption in government institutions. They suggest that a simplification or liberalisation of controls is necessary to eliminate corruption in public officers. There is a general demand for removal of tax on food grains and other food items. Ministers in charge of trade related issues must be able to understand the environment.

Traders still have the psychic cost of labour problems. They consider that labour unions have influence in the administration of the business. They expect that government will take steps to eliminate the existing labour problems. A few even suggest that workers should contribute to the capital requirement of the business. It seems that traders are happy with prosperous agriculture. It may be due to two reasons. Firstly, agri-products are required to foster trade. Secondly, surplus in agriculture enhances the purchasing power of farmers. This would indirectly promote trade from the demand side. Hence, traders demand incentives to farmers including subsidies.

The viewpoints of traders on labour issues have an internal contradiction. On the one side, it is stated that labour disputes are minimised after amassing the bargaining power of the traders (viz. TAs). On the other side, many traders have the sense of insecurity about labour disputes. In fact, the field data show that the intensity of labour disputes has been lessened in the market. However, a few traders perceive that the intensity has not been reduced. Meanwhile, there is a demand for workers' contribution to capital that required for business. This demand is probably from those traders, who consider that labour relations have improved.

TAs have a strong feeling that government does not consult them while formulating business policies. They point out that the preference goes to chamber of commerce and TAs are sidelined. Really, government would be able to avoid many problems if traders are consulted in advance.

### **TAs and small traders**

While TAs complain against labour militancy and bureaucracy, their critics point to the bias to the wholesalers or rich traders. KVVES argues that it is baseless on the basis of three issues. They are multipoint tax, value added tax (VAT), and the struggle against Hindustan Lever Limited (HLL). Before 1990-'91, the sales tax officers used to assess small traders periodically. Through a series of campaign, lobbying and strikes, KVVES persuaded government to implement single point tax system except for wood and gold in 1990-'91. Now sales tax assessment is easier. In the budget for 2002-'03, government raised the limit to Rs 40 lakh. Traders (small traders) below this limit can normally escape from raids unless it is proved that the returns were fraud. Thus, the wholesalers became the major source of sale tax collection in Kerala.

The move of the State government to implement VAT enabled KVVES once again to lure small traders. VAT system wants traders to keep all documents relating to their transactions. It helps the traders to deduct the already paid tax. KVVES considers that there are two disadvantages to traders that emanate from VAT system. Firstly, the different tax rates under VAT are a return to the abandoned multipoint sales tax. Secondly, it will once again open room for tax officers to harass small (all) traders. KVVES wants to avoid such a phenomenon.

HLL used to offer only three percent margin to retailers, which was very low at standard business practices. KVVES launched a campaign to boycott HLL products in Kerala as the company declined the demand to raise the margin to 10 percent. Traders faced resistance from HLL, government, and consumers. The company offered its products on credit through the outlets of Civil Supplies Corporation, Government of Kerala. This was a paradox as HLL offered products on credit for the first time in collaboration with LDF Government. KVVES used both campaigning and encountering strategy (encompaign) in this context. The organisation claims that margin was raised later and small and medium traders became the beneficiaries of the boycott movement. In fact, one cannot deny the adverse impact on the interests of consumers due to the rise in margin.

## 6. Socio-Political Background of Leaders of TAs

As TAs were evolved in the line as that of TUs, it is a natural question whether traders' associations also have any loyalty to political parties. George (1998) initiated the discussion that how the leaders of TAs could operate like the political leaders. Of the three TAs at the state level, 95 percent of the traders belong to KVVES and its affiliated coalition group. Hence our initial arguments will be built on the facts related to the leadership of KVVES.

The general trend is that most of the leaders are not evolved out of any political party. George (1998) initiated such a line of discussion. The leaders of the initial years belonged to chamber of commerce (Jayaprakash, 1995). A set of current leaders came from Malabar Produce Merchants Association (Hassan Koya and Nassarudhin). Another leading figure is the product of the youth wing of KVVES (Dr Jayaprakash). The youth wing during the Thrissur episode was consisted of members who were more involved in social and cultural activities than in politics. There are leaders who came from religious organisation [P. Unnikutty, Calicut and I.P. Pushpakumaran, secretary of MPMA (both from SNDP) and Abdulrehman Haji, Calicut (MES)]. Others had some kind of social activism. One leader in Kasargod (A.K. Moidu) changed from trade union activity to traders' organisation. Bobby (Palakkad), a former vice-president, is actively engaged in cultural and social activities. Meanwhile Janardhanan (Kannur) and Prasad (Alappuzha) engaged in active student politics (They were former vice-presidents for KVVES). About 15 percent of the interviewed leaders had active involvement in political parties. Once they become an office-bearer of KVVES they withdraw from active politics. This is a well-accepted practice across the State. Thus the leaders of the KVVES emerged from the following major fields:

1. Chamber of commerce and scattered local units of traders' association;
2. second line-up (youth wing) of the early TA's and KVVES;
3. religious and educational organisations;
4. social and cultural organisations;
5. political parties and trade unions;
6. the frontline leaders of TA belong to the minority communities in Kerala; and
7. experience acquired from colleges relating to cultural activities and student politics.

The above findings are cross-examined with the field data. Fifteen percent of the traders in the sample have some kind of link with leadership either in the past or at present. They do not have an active involvement in politics at any time. It is fascinating to note that 80 percent of the traders in the sample belong to the minority community (Table 6.1). There is no representation of the Dalit community.

This makes to form a primary hypothesis that the composition of the traders might have reflected in the frontline leadership of TAs in the state. However, 80 percent representation of the minority community in the sample need not be the state average as the majority of the inhabitants at Thrissur and Ernakulam belong to minority community. Further, non-political factors like education (Table 6.2) and cultural linkages are the major determinants of leadership background of the office-bearers of TAs in Kerala.

**Table 6.1 Religion and Caste of the Traders**

<b>Religion &amp; Caste</b>		<b>No. of Traders</b>
Christian	RC	52
	LC	2
	Others	4
Muslim		22
Hindu	Forward Caste	13
	Backward Caste	7

Source: Survey Data

Education is a major strength for traders, especially to leaders. The leaders expressed the view that education is an important factor to reduce the bureaucratic harassment emanating from asymmetry of information. One of the present secretaries possess a doctorate degree (Dr Jayaprakash). Most of the leaders possess a bachelor degree or a postgraduate degree. The list of office-bearers of the Malabar Produce Merchant's Association shows that none of them possessed a degree till 1970 (MPMA Souvenir, 2001). Majority of the office-bearers of MPMA had degrees after that. Law graduates of MPMA are capable of handling bureaucrats. Officers agree that education of traders is a strong factor in developing resistance against raids and other official interventions. Certain officers (tax, labour, metrology, food, etc.) harassed traders in the past due to legal ignorance of the latter. It is difficult nowadays. Education is important to conduct strategic negotiations with bureaucrats and political leaders. The demand of KVVES to change many laws relating to food adulteration, labour, tax, etc. emanates mainly from the better educational background of the traders (Hassan Koya, 2001). His (Koya) educational background helped him to become a good organiser of traders. As pointed out earlier, the success of ASDA was mainly due to education. A group of new traders who are educated fought against both spurious products and high rate of taxes. On the one side they lobbied in government circles to reduce taxes so as to mobilise more resources from the sale of spare parts; on the other side, they organised themselves to encourage trading of genuine parts. The association claims that net proceeds from the sales of spare parts increased as the rate of sales tax was reduced to six percent.

**Table 6.2 Educational Qualification of Traders**

<b>Level of Schooling</b>	<b>No. of Traders</b>
Below VIII	5
Below SSLC	13
SSLC & + 2	40
Graduation	25
PG or Professional	13
Diploma	4

Source: Survey Data

Like the leadership, traders also have a sound base in education. The study throws light on the educational background of the traders; the sample reveals that 80 percent of the traders have schooling at either SSLC or above that level. Moreover, 42 percent of them are graduates, and, professional degree and diploma holders (Table 6.2). As stated above, this seems to be strength of TAs in the State.

### **Politics of TAs**

The official stand of TAs is that it is a-political. This is a strategic stand. A section of the leaders points out that KVVES gets ‘kisses and kicks’ from both United Democratic Front (UDF) and Left Democratic Front (LDF). They argue that both types of government imposed turnover tax (in 1987 and 2002). They also helped to dilute its imposition at a later stage. However, government led by LDF initially introduced turn over tax. It is argued that both the Governments issued orders to dilute the conditions for raids in shops. As noted earlier, raids are possible only after getting a sound document relating to transactions. Further, such a raid could be conducted only after getting prior permission from the superior officer. Thus KVVES is able to influence the government in taxation policy. This is a clear case of pressure tactics of interest groups.

The official stand of KVVES as a political body can only be accepted with reservations. The official stand is necessary because KVVES consists of members of all political parties. In addition, in a two-front (party) system as in Kerala, each front comes to power after every quinquennial term. It will be suicidal to align on a particular side in a dynamic environment. In fact, KVVES plays a knife-edge process drama so as to reap benefits in its favour. This may be illustrated with a few examples. The KVVES campaigned indirectly in favour of the UDF in the election in 2001 to protest against widespread raids during 1996-‘97 by LDF Government. The raids are practically nil now days. This may be a direct benefit for the strategic role of the KVVES in the last state election. The Gold Merchants’ Association bagged benefits of compounding the sales tax from the UDF Government in 1992. The Automobile Spare Parts Dealers Association (ASDA) also enjoyed favours from the UDF Government in the early 1990s. The association demanded to rationalise the tax structure (reduction of rates and points of tax) so that the tax department can ascertain more revenue. As a result of lobbying government reduced the tax rate to six percent from 17 percent and ASDA claims that the tax collection from spare parts started to rise. However, ASDA and the department could not supply any evidence for this. Interactions with former finance ministers of Kerala show that tax collection increased after cut in tax rates for selected items like automobiles, spare parts etc. Anyhow, either KVVES or its coalition groups are able to influence the government’s policy (like cut in tax rates, control of inspection, etc). That is, KVVES has a politics of its own.

The facts in the preceding passage do not mean that KVVES has a very smooth link to UDF. The former resisted raids in 1995-1996 and turnover tax in 2002 when UDF was in power. The resistance also continues to stall the introduction of VAT. The KVVES campaigns against the proposed Rent Regulation Act, while they extend support to government in the case of Kerala Head Load Workers (Amendment) Welfare Act. The former goes against the interest of the traders. The latter Act prohibits the strategies of workers that arrest the smooth

functioning of trade. In short, the basic political strategy of KVVES is to protect their group interest rather than showing a committed loyalty to any political party. In other words, KVVES has better strategies to attract political parties, which are known for moulding strategies to enthrone voters. The principle of median voter and the role of interest groups are important in this context. As there is only narrow difference between the votes bagged by LDF and UDF in the successive elections pressure groups could exert timely influence on political parties. The differences in the canvassed votes between the two fronts were less than two percent in 1996 and 1998 (Yadav, 2004). It reached around five percent in 1991 (death of late Prime Minister Rajiv Gandhi) and 2001 (anti-incumbency factor).

As the difference of bagged votes between LDF and UDF is very small, each front tries to get the support of different groups especially a group like KVVES. It knows the trick of voting statistics. Hence, the traders use to campaign against or favour /neutral to a front. KVVES extended indirect support to UDF in the election to state assembly in 1982 (Jayaprakash, 1995). It took place under the shadow of strike at Thrissur market. KVVES made a symbolic participation in the State election in 1987. (Nasarudhin, the current president of KVVES was a candidate at Kozhikode in that election). That is, KVVES tried to keep a neutral stand then. Meanwhile, the organisation expressed support to UDF in 2001. The organisation had no hesitation to struggle against UDF Government in the cases related to re-imposition of turn over tax in 2001 and the introduction of VAT in 2003. In fact, KVVES manages the situation in such a way that traders get optimum benefit.

The above facts reveal that KVVES is not politically neutral but non-committed to any political party. Its philosophy is market friendly. It is ready to support any policy of the government that can strengthen a market economy. This is the common interest of the traders.

## 7. Internal Contradiction of TAs

As KVVES is a coalition group, one could expect internal conflict in the organisation. It owes to MPMA in developing a model for settling disputes among traders. The latter has a system of dispute settlement among the traders. If there is any dispute between two traders of MPMA, the concerned traders could bring the issue to the notice of the organisation. MPMA has a panel of local leaders for dispute settlement. The panel will make necessary conciliatory measures so that the concerned members will finally oblige to the recommendations of the panel. It will conduct prolonged discussion, if necessary, with the disputed traders. The panel also follows moral persuasion or suggests alternative ways of settling the issue. MPMA claims that the panel within the organisation successfully settles more than 90 percent of the disputes. This has become a model of dispute settlement for KVVES.

There was a dispute between C.M. George (first president) and M.O. John (first secretary) of KVVES (Jayaprakash, 1995). Government of Kerala invited leaders of KVVES to attend an official meeting relating to labour law. The president instructed the secretary to attend the meeting. As the information came just two days before the meeting, the secretary could not get a reserved railway ticket. In fact, KVVES could not officially attend the meeting. C.M. George showed his displeasure in the negligence of duty and it led to the verge of the resignation of the secretary. The issue was settled after the secretary agreed to his lapse of duty. Thus, schism developed in the leadership of KVVES in the 1980s on issues, but immediately settled through compromises. This is natural at the beginning stage of any organisation.

However, KVVES faces a different kind of leadership crisis at present. Certain TU leaders hold the view that the recent leadership crisis in KVVES is due to the greediness for power and wealth. They point out that KVVES has permanent buildings all over Kerala. It comes around 3000. There are also allegations relating to the fund raising (like Kargil fund) and to use the name of KVVES to obtain professional college. It is argued that the present president of KVVES tries to occupy the institution in his personal (family) name through unethical ways. One group of the leaders of KVVES considers that the reported leadership crisis has no base. They argue that there is a political conspiracy to split KVVES.

As this organisation is a coalition group, it consists of both large and small traders. The socialist parties in Kerala have an intention to win over small traders to their side. As noted earlier, KVVES did certain strategic moves like single point tax, MRP for packaged commodities, controlling of raids, etc., to hold small traders together. However, the activists of socialist parties formed a new traders' organisation by name Kerala *Vyapara Vyavasaya Samithi* (KVVS) to attract small traders. The official version of KVVES is that sponsors of KVVS want a vertical split in the former. That is, a loss in KVVES would be a gain to KVVS. The apparent a-political stand of KVVES is indented to hold the interest of small traders. They constitute about 25 percent of traders. Meanwhile, the so-called crisis in KVVES is temporarily vanished due to the move to introduce value added tax (VAT) in Kerala. Traders fear that VAT is the old multi point sales tax in a new form. It implies that tax officers will

start a series of raids including the shops of small traders. Hence, KVVES is against the introduction of VAT. The leaders of KVVES become successful in getting the support of small traders and a section of consumers. Small traders are afraid of the repetition of the practice of harassment in the Seventies and Eighties. As the new bill for VAT proposes enhanced rate for certain essential items, some consumers' associations are afraid of a potential rise in prices.

Thus, the present leadership of KVVES tactfully uses the issues of small traders and consumers to keep its unity. It is a tactful strategy equal to or better than the usual tactics of any political party. The tax department points out that an honest trader need not be afraid of VAT as proper documentation will enhance the credibility of traders in the society. The officers argue that the real cause for objection is the heavy dose of punishment against malpractices. If the official version is correct, the leaders of KVVES are successful in campaigning against VAT after getting support of small traders and a section of consumers and tax officers. KVVES conducted widespread campaign against the introduction of VAT at the State level. They were hand in glove with the all-India associations of businessmen for the same purpose. They conducted 'dharna' in front of government offices and 'hartal' for two days (31 March and 1 April 2003). In this context, KVVES followed a mixed strategy of campaigning and encountering (encomplain).

## 8. Conclusion

Traders' association like Kerala *Vyapari Vyavasai Ekopana Samithi* was an offshoot of various local Chambers of Commerce across Kerala. Unlike the latter, the traders' association is an action-oriented organisation similar to trade unions. The first such organisation was Malabar Produce Merchants Association (MPMA) at Calicut in 1939. It was formed out of patriotic feelings. It influenced the formation of many native traders' association throughout Kerala.

When TUs became strong after the independence, MPMA intervened to make general agreement on working conditions in Kozhikode market. MPMA is almost a homogenous group. The first coalition group of traders was formed at Ernakulam (Ernakulam Merchant Union; EMU) in 1973. While MPMA was a reaction against foreign businessmen, EMU was a spontaneous response to the organised movement to TUs and the harassment of bureaucrats. The setting up of KVVES, which is the leading TA in Kerala, was the outcome of two months strike in Thrissur market in 1980-'81.

Though TA has a distinctive entity, it has common areas of operation with Chambers of Commerce (CC). TAs promote the welfare of the businessmen and exert pressure on government relating to policies. Propagation is a means adopted by both to disseminate information among businessmen and industrialists. These two institutions also undertake social welfare measures.

There are certain features that make a TA different from CC. While the latter is a formal body under Companies Act, TA acts like a labour organisation. While CC is a lobbying institution, TA adopts both lobbying and encountering functions (encobby).

TAs in Kerala were evolved through three stages in their efforts to protect the group interests of traders. In the first stage, TA was like the first phase of Indian National Congress, which passed resolution and sent demands to government. Traders faced exploitation of foreign businessmen and TUs at this stage. Traders started to form local organisations to resist the organised move of the TUs and harassment of the bureaucrats. This marked the second stage. When workers were unorganised, traders exploited the former and *vice versa*. Once both are organised, there is tranquillity and equilibrium in the labour market. This shows a transition from two-sided class strategy to saddle point as normally referred to in game theory. That is, to say, settlement of disputes is institutionalised. This may be a novel practice in the modern world. In addition, traders association created class-consciousness among the traders. Apart from labour issues, the profoundly influenced factor for the evolution of TAs in the State was the intervention of public institutions like bureaucracy. Traders think that such interferences distort their group interests. Traders face more harassment from the sales tax department. They consider that central tax department is relatively better than the state sales tax department.

Wage settlement is a game plan for TA and TU. They take extreme stands initially and settlement is made after prolonged negotiations and if necessary, encountering style. TUs

demand for hike in wages based on cost of living index, union rivalry, and margin for negotiation. The former resembles the influence of adaptive expectation hypothesis.

The third stage of the evolution of TA occurred with a prolonged strike at Thrissur market in 1981-'82. The traders were really on a warpath with workers and settlement was made after the intervention of governments of Kerala and Tamil Nadu and religious leaders. In this backdrop, KVVES was formed to meet the twin objectives: (1) to resist labour militancy and (2) the harassment of bureaucrats. The traders faced harassment from the departments of sales tax, income tax, legal metrology, health, labour, and civil supplies. As TA and TUs are at a saddle point in the bazaars, the main objective of KVVES and TAs is to shield itself from the interference of bureaucrats. TAs adopt both encountering and lobbying strategies to meet both TUs and bureaucrats, including the top-level government. This strategy may be technically called *encobby*. The government departments have been both harassing and nursing of traders. The educational background of traders is very important to lessen the authoritarian character of the bureaucrats. The youth wing of the TA was very strong to pursue the encountering strategy. It also helps TAs to pursue the social welfare activities.

TAs stand for a market-friendly approach. The organisations claim that most of the industrial licensing and investment policies of the present government are in the line of their charter of demands. They are successful in achieving single point tax system, strict adhering of procedures related to raids in the shops, printing of maximum retail price on packaged commodities, reducing the number of licenses to be obtained from the Department of Civil Supplies. Due to the relaxations of controls, traders save a lot of transaction costs relating to the government offices. In fact, KVVES acts as a strong pressure lobby so that it can influence the government policy.

The political economy of TA hints at the biased nature of the KVVES to wholesalers or rich traders. The KVVES rules out the criticism on four grounds. Firstly, the struggle (*encobby*) of the organization to introduce single point sales tax instead of multipoint tax was more beneficial to the small traders than to the wholesalers. Subsequently, Government of Kerala decided to exempt small traders from regular assessment and checking. Secondly, KVVES demanded for stamping maximum retail price (MRP) on packaged commodities, which was inclusive of sales tax. Earlier, manufacturers printed the price plus local taxes. This gave much room for tax officers to harass traders, especially small traders. The organisation claimed that it influenced the Central government via the state government (*encobby* strategy). Thus stamping of MRP inclusive of local taxes came into being. Thirdly, traders in Kerala strongly protested against the introduction of Value Added Tax (VAT) at the State level. KVVES fears that the VAT may bring back the old multipoint sales tax system and the inevitable checks and raids even among small traders. Fourthly, the fight by the organisation against Hindustan Lever Limited was aimed at to protect the interests of the small traders.

Bureaucratic interactions create not only transaction costs, but directly unproductive profit (DUP) seeking activities. The DUP phenomenon is mainly noted in the context of raids and other official inspections. It also increases due to the nexus among a section of traders, officers, and politicians. However, the State-level data show that the growth of sales tax was

not in tune with the growth of the sector of trade, hotels, and restaurants, even if raids were conducted. It also implies that there is no corresponding rise in sales tax collection with growth in Trade, Hotels, and Restaurants.

There is a hypothesis that the leaders of KVVES might have come from some kind of political background. The present study shows that most of the leaders (past and present) evolved from Chamber of Commerce, localised TAs, cultural and educational institutions. The political background has only a low profile at this stage of analysis. Frontline leaders of KVVES belong to the minority religious groups in Kerala. The composition of the traders might have a major reason for such a phenomenon. Though TAs has no direct commitment to any political parties, it has a market-friendly political strategy. Whoever supports them, the organisation also sympathises with them. In this sense, TAs in Kerala mould strategies either of the same type or better than a political party. The role of an interest group like KVVES is crucial in the context of a 'medium voter model', in a two front system like Kerala. TAs is able to influence the government policy by mixing encountering lobbying and campaigning strategies (encobby and encompaign).

The organisation has a panel of traders to settle disputes among themselves. However, it has been recently affected due to the 'ulterior motives' of certain leaders and the exogenous pressure to organise small traders on routine political line.

TAs demand certain policy changes to foster trade in the State. They stand for the protection of local industries and the promotion of agriculture. In order to reduce the rampant corruption in the public offices, traders feel that tax rates and licenses need to be minimised. Though labour relations improved in the State, many traders are still bearing the 'psychic cost' of labour militancy. This feeling may be removed through appropriate policy environment.

### **Issues generated and themes for future research**

As noted earlier, the first phase of the study was conducted on the basis of direct interviews, focus group and panel discussion with traders, experts and leaders of the traders' associations. Secondary sources were used at that stage. The provincial findings at that stage help us to formulate the following hypotheses.

1. The domination of leaders from minority communities in TAs is due to the community composition of the traders.
2. TAs in Kerala act as a successful pressure group.
3. Kerala *Vyapari Vyavasai Ekopana Samithi* stands as the sole representative of traders in Kerala.

This is an exploratory study, which started from a hypothesis whether political-style function of leaders of TAs in Kerala has any link with their political background. The present study could not ratify that hypothesis after analysing the political background of more than 25 leaders. One has to verify the personal traits and other linkages to study the style of function of leadership of TAs in the State. Though there is a saddle-point in the labour market at

present, investigations are required to know its impact on consumers and non-union employees. The extent of union-rivalry and negotiation margin in the wage demand has to be verified empirically. An exclusive view of the small traders could provide fascinating ideas relating to TAs. One can introduce class concept within the traders in this context. One of the burning issues of traders is their interaction with various departments of government. It is understood that there is a lot of transaction costs for traders in dealing with tax collection and licenses. A detailed study is necessary to trace the magnitude of transaction costs. TAs in Kerala sometime support and resist to issues relating to business issues. They protested against Indian Tobacco Company in 1992 and Hindustan Lever Limited in 1998, while they tried to protect the interest of Coco Cola products in 2003. The issues behind the change in business strategies in these cases have to be analysed separately.

## End Notes

1. The major sub traders association of EMU are a. Kerala Steel Traders Association, b. Textile and Garments Dealers Association, c. Kerala Hotel and Restaurant Association, d. Pipe Dealers Association, e. All Kerala Distributors Association, f. Ernakulam Market Stall Owners Association, g. Hardware and paint dealers association, h. Gold Merchants association, i. Electric traders association.
2. Ernakulam Merchants Union claims that social commitment has always been its hallmark and it is actively participating in social welfare, development, and charitable activities. The union has been organizing cleaning campaigns, public health improvement programmes, eye donation and blood donation campaigns, sports and arts competitions etc. for the benefit of the public and making liberal donations to hospitals, poor homes, and other charitable institutions (Ramamoorthy, 2001). The documents of Malabar Chamber of Commerce and Malabar Products Merchants Association also show similar claims of EMU. The field data supported these claims.
3. This is based on a direct personal interview of trade union leaders in Ernakulam town.
4. The facts gathered from the TA and TU of major markets like Calicut, Ernakulam, and Thrissur.
5. The percentages of  $W_m$  and  $W_n$  are computed from the descriptive facts of actual negotiations in major markets in Kerala. The matter may be empirically tested later.
6. M. K. Kannan served this information that spearheaded the workers' agitation in 1981 and 1982 in Thrissur.
7. The experiences of Dr M. Jayaprakash and M. K. Kannan were helpful to narrate the evolution of TA's in Kerala.
8. The group was mainly consisted of Dr Jayaprakash, Varughese Ukken, C. F. John, N. F. Inassu and M. I. Paul. They are the products of St. Thomas College, Thrissur.
9. By legendry belief, *Vamanan* pushed down the popular rules *Maveli* to hell.
10. C.M. George and M.O. John were the president and secretary respectively of Thrissur Chamber of Commerce. K.C. Sasidharan and K.R. Menon were the leaders of merchants association at Thrissur.
11. The matter was cross-verified with a senior officer of the Central Excise Department and he confirmed the fact.
12. According to officers, traders adopt many tactics to evade tax: such as head loads through short cut routes, threatening less manned check posts in the night, use of power source etc.

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