

Vol III Issue IX June 2014

ISSN No : 2249-894X

*Monthly Multidisciplinary
Research Journal*

*Review Of
Research Journal*

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RNI MAHMUL/2011/38595

ISSN No.2249-894X

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A HISTORICAL ANALYSIS OF INDENTURE LABOUR SYSTEM IN THE RUBBER INDUSTRY FROM 1860-1960

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Abstract:

This research article attempts to give an insight on the various labour contracts that were used in the rubber industry from 1860-1960 which also included the indenture contract. It analyses both the European and Chinese rubber industry and give a detailed account of why the indenture system came into existence and what all factors led to its decline. It shows how laws like 'Coolie Ordinance' 1880 were used for exploitation of the labourers and how did it finally get abolished.

KEYWORDS:

Indenture Labour, Rubber industry Kangany system.

INTRODUCTION

The rubber industry from 1860-1960 saw many variations in the factor input markets (capital and labour) not only overtime but also across the two groups of the local entrepreneurs and the

Europeans. The Chinese entrepreneurs used pineapple as the catch crop for meeting capital requirements and the Europeans used stock market for the same. The Chinese entrepreneurs used the share-cropping whereas the Europeans used the wage labour (different forms of it like indenture and kangany system). This article attempts to compare these different systems existing in the rubber industry.

OBJECTIVE OF THE STUDY

1. Give a historical overview of the rubber industry in South-East Asia.
2. To do a detailed analysis of the factors that led to the rise and fall of the indenture labour system in the Rubber industry.

RESEARCH METHODOLOGY

This study only uses secondary data. An extensive review of historical literature through various journals, books, and articles has also been done.

REVIEW OF LITERATURE

Rubber Industry

Natural rubber was first spotted by Columbus in the West Indies in the 1490s, where it was used for play balls. It was also made into bags for carrying liquids by moulding flexible sheet into the desired shape.

Title: "A HISTORICAL ANALYSIS OF INDENTURE LABOUR SYSTEM IN THE RUBBER INDUSTRY FROM 1860-1960", Source: Review of Research [2249-894X] Krittika Tiwari¹, Sarvesh Bandhu¹ and Roopshika Bandhu² yr:2014 | vol:3 | iss:9

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The material was made by simply drying out the sap of a native tree, *Hevea Brasiliensis*. But even after its discovery it did not find widespread application because of its deterioration with time, degrading in air to a sticky unmanageable mess. That was to change dramatically with the invention of "vulcanization", when, in 1834, Goodyear found that cooking the material with raw sulphur stabilized it, and also stiffened products manufactured from the substance.

After the vulcanized rubber came into existence the demand for rubber increased and so, rubber plantations came into existence in 1860 in the colonial south-east Asian region. The two principal rubber growing areas were very close together one in Malaya and the other in Sumatra, facing each other across the Strait of Melaka. As Malaya was a British colony so the British people undertook the rubber production. Apart from them there was a small group of local entrepreneurs also growing rubber.

However, rubber has a special characteristic which makes it more difficult to grow as compared to the other plantation crops. It takes a six years maturation period before any returns can be availed from it. This meant that the estates would have required a substantial capital investment of roughly \$600 (£70) an acre with wage labor and no catch crop to bring a rubber estate into bearing. And just like other plantation crops it also suffers from the risk of crop failure and price fluctuations. Once the annual average value of Singapore's (in British Malaya) rubber exports reached a coefficient of variation of 66.1% during the interwar period, which was the extreme for any primary commodity.

Another problem with the planters was Singapore's weak and fragmented capital market. There was no local stock exchange, and the only significant European institutional source of finance was the banking system. However, even European banks, due to the six year maturity period of rubber did not want to lock up their funds in rubber and so they did not finance rubber estate development, either European or Chinese, or even advance against crops.

DIFFERENCES IN EUROPEAN AND CHINESE TECHNIQUES

a) Capital procurement techniques

Despite all these problems associated with rubber plantations when prices rose in 1900 there was a boom in the rubber production. Both the local entrepreneurs and the Europeans took different measures to overcome the problems of capital and risk in developing rubber estates. Borrowing from shopkeepers and merchants had financed much of late nineteenth-century Malayan development. But this had required relatively small sums advanced over the short term as trade credits. This would not have worked for the rubber plantations which required huge sums for longer time duration. So the Europeans transformed the merchant houses into the managing agency house, to float rubber companies on the London stock market and to raise the long-term finance unobtainable in Singapore. The limited liability and public status for rubber companies allowed the agency houses to shift most of the financial risk of rubber estate development onto the numerous overseas shareholders, as capitalists. Along with this the provision of professional management was the agency house system's distinctive characteristic. The agency house took responsibility for an estate's productive efficiency, appointing a works manager to supervise the daily running of the estate. The assurance, guaranteed by the reputation of the agency house, of responsible supervision gave overseas investors the confidence to put their money into a rubber company being floated on the London stock market. This was the method adopted by the Europeans.

However, the local Chinese entrepreneurs could not have used these techniques as their companies were unknown on the London stock exchange. With the absence of Singapore stock exchange, and the fear of the dilution of the ownership the Chinese entrepreneurs could not separate ownership from capital. The Chinese entrepreneur had to find some innovative methods of finding solutions to the problem of opening of the rubber estates as he had to use his own capital. So, the Chinese entrepreneur used the catch crop cultivation of pineapples for about a quarter of the investment per acre necessary for European estates to meet the capital requirements of developing estates. Revenue from sales of the pineapple fruit were used toward labor costs, the main investment expenditure in estate development. If the bulk of his outlay of circulating capital along with avoidable fixed capital expenditure like stumping, soil conservation, and some infrastructure is omitted, and assuming that income from pineapples covered interest charges on borrowed money, a Chinese rubber estate could be developed for roughly \$150 per acre instead of \$600 which were earlier required. Thus, the local Chinese entrepreneur was also able to find a lesser costly measure of growing rubber.

b) Labour procurement techniques

The methods of securing labour were also different for both the Europeans and the Chinese. On

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one hand where the Chinese entrepreneurs in pineapple-rubber estates in Johore, used the squatter system and a contract combining share and wage elements predominated, the Europeans used the wage labour more importantly the indenture labour.

In the Chinese system central to the arrangement was that each sharecropper became "definitely and absolutely responsible for a portion of the estate" during the development period, when the rubber crop was maturing. During that time it was essential to have a full complement of workers, who could keep the estate free of insect and animal pests, disease, and the encroaching jungle, to look after the growing trees, and to cultivate and harvest the pineapples. The labor of a man and his wife was judged sufficient to work 10 or 15 acres, and reliance on family labor increased during the 1920s.

The share wage contract which was used, generally had a formal agreement, covering a period of six to eight years (time required by the rubber to mature), which stipulated that the sharecropper would have to be responsible for planting, weeding, and tending the rubber trees along with the cultivation of pineapples. The agreement covered a period of six to eight years, which is the time required by the rubber to mature and also when pineapples can be done away with. 50% of the net revenue from the sale of the pineapples was given to the sharecroppers along with a fixed payment per acre of \$1 per month. Apart from this, he also received a bonus of \$8 per acre for cleaning the land and for burning the pineapple plants at the end of the agreement. In a pure wage contract, workers were given \$7 per acre for planting and then \$2.50 per acre per month as wages which were not very high compared to the fixed payments, or wage components, of the share-wage contract.

This method although costlier, was the best means available to the entrepreneur to shift risk. It was an institutional substitute for the Europeans' use of the agency house system and London stock market. Sharecropping had the distinct advantage of being only a temporary arrangement. As the Chinese entrepreneurs wanted to shift the risk but without diluting subsequent ownership, sharecropping made them accomplish the desired combination of two. Thus, sharecropping helped the local entrepreneurs achieve their specific goals.

RISE OF THE INDENTURE LABOUR CONTRACT

Europeans however, with no risk of capital involved used the wage labour. As the working conditions on the plantations are very harsh and as the locals preferred working on the Chinese estates (maybe due to language problem, lower wages or the racial discrimination) it was not easy to get the wage labour at the wages which the planters offered. The wages offered by the planters were not able to cover the opportunity cost of the local labourers and so the planters had to devise new methods to acquire labour. So, they used their colonial powers to make colonial laws to solve this problem. They brought in laws which suited them the best. The colonial laws were different from the general contract laws as in case of a general contract the legal subjects who are free and equal voluntarily agree on the terms of exchange. Here Law and state have no concern with the substantive fairness of exchange. Legal rules provide a generalised frame in which the individuals are free to create relations with each other which the state will enforce. Therefore, Law becomes the expression of the 'power' or 'will' of the legislator or the legal subject.

But in case of colonial law the legal subjects were not free and equal. The legal subjects were discriminated with respect to racial and social superiority. And the law was used as a part of the bigger 'civilizing mission' which would have to be used for governing the inferior and immoral people (non-white). The colonial Law was discriminating in many ways, one of the ways to discriminate was that in many cases the actual terms of the contract were written in a language which was foreign to the worker and even if the worker would have been literate in his own language, he/she would have still required an interpretation of the contract terms. Thus, the colonial law was clearly biased in the favor of the planters.

The Europeans used the indenture system which was almost another variant of the contract system. The only difference between the two was that in case of the contract system a breach of contract was considered to be a mild civil offence whereas in case of the indenture contract the breach of contract was treated as a criminal offence.

In 1880, the first Coolie Ordinance was put into operation. It included the penal sanction which said "Each voluntary breaking of the work contract will be punished, on the employer's side by a fine not exceeding ft 100; on the part of the employee by hard labour on public works without pay for a period not exceeding three months." Desertion and continued refusal to work was considered to be the conduct which was done towards breaking of the law. There was no provision made for a higher penalty for the employer. Therefore, the Ordinance was very biased towards the planters.

Abolishment of the indenture contract

Due to the harsh treatment given to the labourers with the help of this Ordinance it was protested in a report by Van Den Brand in 1902. And in Malaya it was abolished after fifty years of its usage as an instrument of controlling labour in 1910. But in Sumatra it continued till 1933 and so some improvement measures were taken in between till the time it was abolished. One improvement was made in 1911 when 'Ten Tweede' named alternative form of contract without penal sanction was made legal. As expected, the plantation owners did not favour it and even by 1923 only about 5 per cent of plantation workers in the east coast of Sumatra, were employed under it. After that a 'new' Coolie Ordinance of 1915 was introduced which very much repeated the restrictions contained in the 1889 version.

The abolishment of the penal system came due to two unrelated but synchronous events. Firstly, due to the Blaine amendment in 1929 to the United States Tariff Act, this prevented the USA from the importation of goods which were produced using the forced or slave labor like indenture labor. Secondly, due to the effect of Depression. This speeded up the abolition of indenture. The huge fall in rubber prices made the wage bill a too high cost for the plantation. As a result, the East Coast of Sumatra plantation workforce which was under indentured contract declined from 87 percent in 1929 to only 4 percent in 1934.

After the end of the penal system, some different systems came into being, one was the kangany system and the second was, the 'non-assisted labour migrant' system that appeared in the 1930s. The kangany and similar systems of recruiting and supervision worked in much the same way. Kangany system was not very different from the indenture system as the workers were still not free because the kanganies kept them indebted.

The kangany system which was the returnee recruitment system was used to meet the increasing demand arising from rubber. And also to reduce the costs arising from the middlemen or the recruiting agencies whose premium kept on increasing irrespective of the increase in wages of the workers.

In 1907 the Indian Immigration Committee started doing the kangany type recruitment. The state had to give an initial capital sum. And then each plantation on the basis of Indian workers already employed paid the Committee a small annual amount towards the cost and transport of immigrant workers. And now, the plantations did not have to recruit, pay advances for the individual workers. Then due to the pool of arrived 'assisted migrants' demand for new labour from the planters could almost always be met.

Later on, the contract also became one lesson the sides. And due to the inability of the Tamilian worker to speak a foreign language and his dependence on the planter for food and clothing did not let the worker abscond.

Therefore, despite the fact that the penal sanction was removed due to political pressures it ended only when it was in the interest of the planters.

CONCLUSION

After observing the factor input techniques by both the local entrepreneurs and the Europeans it can be seen that it was the profit maximization and the risk minimization which decided which system had to be used. In case of the local entrepreneurs the use of pineapples as the catch crop for capital purposes and the use of share-cropping to shift the risk onto the labourers were both decisions taken in this respect. In case of the European planters also the procurement of capital from the stock-market and the wage labour also reflect the same thing. In wage labour also the degree of ownership in labour was decided on the basis of the marginal benefit from ownership and the marginal cost from the ownership. The benefit from ownership here describes the ease of availability of labour when owned (this is specially true because in plantations although it was easy to bring labourers but it was not easy keep the labourers at the wages which were being offered) and the cost of ownership can be described by the cost of maintenance and reproduction of the labour. The whole process of the move away from slavery to indenture to the kangany system show the lowering of the degree of ownership in the labour as the benefit from ownership kept on reducing with increase in labour availability and the increase in labour cost because of increase in the number of middlemen in the system of recruitment.

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