

I. INTRODUCTION

It is a widespread characteristic of the production process around the world that many firms participate in making any single product. One producer does not usually grow rice, mill it, and then make it into noodles; each of these steps is generally undertaken by separate firms, linked together through the market. Those market links might be impersonal, as when a producer buys rice of a certain standard from a large merchant; or they might be highly personalized, based on continuing understandings or contractual arrangements between individual buyers and sellers.

Such contractual arrangements can take a variety of forms. In some cases, these may involve an agreement to buy parts or semi-finished products, with the product specification, price, and delivery schedule all agreed upon ahead of time. The buyer may then assemble or further process these purchased inputs for sale either to final consumers, to merchants, or to other producers. This type of arrangement, which is often referred to as subcontracting, has been widely practiced in a variety of industries and countries, but is most fully developed in Japan; as much as one third of the Japanese manufacturing labor force may have been employed by subcontractors in the mid-1960s.¹

The focus of this study is somewhat narrower. It concerns an arrangement whereby a producer undertakes to have certain steps in the production process done by individuals working in their own homes. The producer in the parent

¹S. Watanbe, "Subcontracting, Industrialization and Employment Creation," International Labor Review, Vol. 104, No. 1-2 (July-August, 1971), pp. 52-53. Watanbe has written extensively in this area; these papers are being revised and expanded for publication in a book, Technology, Marketing and Industrialization: Linkages Between Large and Small Enterprises (New Delhi: MacMillan, forthcoming).

firm provides the raw materials and sometimes the necessary tools and equipment, paying on a per-piece basis for work completed. This pattern was widely practiced in Europe and North America during the early years of the industrial revolution; it is usually referred to as the "putting-out system."

This system is widely used in rural Thailand today. In a recent study of patterns of industrialization in rural areas of Northern and North-Eastern Thailand, subcontracting arrangements were extensively found in the production of ready-made garments, silk, woodcarving, furniture, fish nets, knitting, lacquerware, and metal bowls.

This paper provides a brief description of how this system operates in each of four different industries; presents some survey data on people engaged in subcontracting work; then seeks to evaluate this subcontracting system, to determine its advantages and disadvantages, potential abuses and possible measures to improve its operation.

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