



Labour Reforms

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1 Labor Market: Current Scenario

- India's growth story has remained incomplete as it did not match with the required employment growth. During the period, 2000 to 2009 the Indian economy grew at an average rate of 8 per cent but employment growth was rather sluggish. Table provides ample evidence.
- At present, overwhelmingly large percentage of workers (about 92 per cent) is engaged in informal employment that has low earnings with limited or no social protection.
- The labour-force participation rate is comparatively low in India largely because lower female participation.

2 Regulation of Labor Market

- Currently, there are 44 labour laws under the purview of Central Government and more than 100 under State Governments, which deal with a host of labour issues.
- Unfortunately, these labour laws protect only 7-8 percent of the organised sector workers employed at the cost of 93 per cent unorganised sector workers.
- Following are some of the Central legislations passed under different articles of the Constitution:-
 - Minimum Wages Act, 1948.
 - Industries (Regulation and Development) Act of 1951.
 - Industrial Disputes Act, 1947.
 - Factories Act of 1948.
 - Contract labour Act 1970.
 - Trade Unions Act 1926.
- In addition multiplicity of statutes, there are concerns around the protection of the workforce and effective implementation of statutes.

Year	Annual GDP Growth Rate	Employment Growth Rate	Unemployment Rate
1999-00	8.00	1.25	7.31
2004-05	7.05	2.62	8.28
2009-10	8.59	0.92	6.53

3 Why Reforms are needed

Benefits limited to Organised Sector only

- These labour laws apply to organised sector which employs only 8 to 9 percent of workforce leaving vast majority of Indian workforce remain unregulated. The workers under unorganised sector have limited rights and are faced deplorable working conditions.

Multiplicity, Complexity and Rigidities

- The multiplicity of labour laws and difficulty in coping with them are the impediment to industrial development in India. Many of the laws are obsolete and are required to be reviewed to align them with current economic situation. Some of such laws and provisions are discussed below:
 - Industrial Disputes Act (IDA). This Act requires firms employing more than 100 workers to seek permission from their respective state governments to retrench or lay off workers. This permission is seldom granted.
 - Industrial Employment (Standing Orders) Act makes job description modifications and interplant transfers within a firm (with more than 100 workers in some states and more than 50 in others) very difficult and virtually impossible.
 - The Trade Union Act allows formation of trade union in firms having more than any seven workers provide right to strike. The multiplicity of unions becomes a potentially difficult situation for employers to manage.
 - Contract Labour Act regulates and restricts the use of contract labour. It is argued that it limits the substitutability between permanent and contract workers, and thereby restricts an important channel through which, the firms can reduce costs. For certain tasks, the use of contract labour is prohibited

Ease of Doing Business is affected

- Employers contend that labour laws in India are excessively pro-worker in the organized sector. There is too much of inspection, and industries are looked upon with suspicion when comes to enforcing labour laws.
- The legal provisions of job security and institutional factors like the pressure of trade unions make adjustment of the workforce of enterprises difficult, and discourage organised sector enterprises from expansion. The small size of labour-intensive firms prevents them from reaping economies of scale, thereby lowering India's comparative advantage in labour-intensive manufacturing.
- Studies show states with relatively easier labour regulations have experienced higher growth of labour intensive industries and their overall employment than have other states.

Jobless Growth

- Several economists, industry associations believe deceleration in employment growth in India is due to inflexibility in the labour market. The existing labour laws designed to protect employment and do not encourage employability. They are a major cause for greater acceptance of capital-intensive methods in the organized sector and affect the sector's long run demand for labour.

Skill Development

- The industries play crucial role in skill development. However, these laws discourage firms from employing a large number of permanent workers and steer them towards employing more casual or contract workers. In such temporary workers, firms show no inclination to invest for skill development and training. To encourage apprenticeship in India, labour market need to be reformed legally and institutionally both.

Global Competitiveness

- The Restrictive labour regulations prevent firms from making the required adjustments to their inputs in response to shocks to demand and technology. It makes them difficult to compete with firms in countries where labour market rigidity is not a problem.
- These regulations constrain the firms by curtailing their size and depriving them of significant potential economies of scale. Thus, Indian manufacturing firms, especially in labour-intensive industries such as textiles and apparel, are seriously disadvantaged relative to their counterparts in China, Bangladesh, and Vietnam etc. where labour markets are much more flexible.

4 What Reforms are needed?

Eighty per cent of Indian manufacturing output comes from enterprises in the formal sector while a similar proportion of manufacturing employment is generated by enterprises in the informal sector.

This is a fundamental disconnect: one set of enterprises accounts for most of the output while another set of enterprises accounts for most of the employment. It has also created a labor aristocracy that seeks to protect its privileges but in effect keeps the majority of industrial workers trapped in informal enterprises.

Following reforms are essential for the efficient labor markets in India:-

- **Labor to be shifted to 'State List'**:- Labor being in the concurrent list of the constitution, both central and state government legislate on it. But the State Governments have limited space to enact labor laws to address their own requirements - promoting investment and employment generation. It is in best interest of all to shift labor in State list.
- **Simplification of archaic laws**:- We must create single window system under the common headlines/sets. Initially we can start with reducing these to four sets of labor laws as following-
 - Laws governing terms and conditions of employment.
 - Laws governing wages.
 - Laws governing welfare.
 - Laws governing social security.

- A uniform definition of terms like 'industry' and 'worker' is necessary across statutes. For better interpretation and understanding, industry should be termed as 'enterprise' and workman should be termed as 'employee'.
- A **separate set of simple labor laws** should apply to enterprises employing **less than 50 employees to promote micro and small enterprises** with a self-contained code covering laws on employment relations, wages and social security. These enterprises termed as 'smaller enterprises' should be exempted from the application of the Industrial Disputes Act, 1947 and the Industrial Employment (Standing Orders) Act, 1946 as recommended by the 2nd National Commission on Labor.
- The penal provisions in all labor laws need to be revisited and the penalty of imprisonment, wherever it appears, should be converted into pecuniary fines. It will reduce the compliance cost and fear in the employers.
- **Separate independent judicial system:** Due to already overburdening of judicial system, a separate independent judicial system for labor issues may be created. It should be entrusted with interpretation of all the labor laws and regulations.
- **Inter State Council:** Many labors migrate from one State to another but no record is maintained anywhere. An Inter State Council should be setup to look into their issues.
- **Improving Enforcement of Labor Laws:**
 - Strengthening of enforcement machinery: Increased manpower, improved infrastructure is essential for effective implementation of labor laws.
 - All India Service for labor administration must be formed that will provide professional experts in the field of labor administration.
 - Dispute resolution: Regular Lok Adalats could enable faster disposal of cases.
- **Digitization** of the Employment Exchanges, digital sharing of data on registered job seekers should be made mandatory for all Employment Exchanges.
- **Insurance mechanism:** An insurance scheme should be started for the retrenched workers from the time the industry commenced operations, so that workers were not put to hardship later.

5 Recent Steps taken by Government

Central Government

- **Dedicated Shram Suvidha Portal:** That would allot Labor Identification Number (LIN) to units and allow them to file online compliance for 16 out of 44 labor laws.
- **Random Inspection Scheme:** To eliminate human discretion in selection of units for Inspection, and uploading of Inspection Reports within 72 hours of inspection mandatory.
- **Universal Account Number:** Enables 4.17 crore employees to have their Provident Fund account portable, hassle-free and universally accessible.
- **Apprentice Protsahan Yojana:** Government will support manufacturing units mainly and other establishments by reimbursing 50% of the stipend paid to apprentices during first two years of their training.
- **Revamped Rashtriya Swasthya Bima Yojana:** Introducing a Smart Card for the workers in the unorganized sector seeded with details of two more social security schemes.
- The **National Career Service** is being implemented as a mission mode project to provide various job-related services information on skills development courses, internships etc.

State Government

- Madhya Pradesh, Gujarat, Maharashtra and Rajasthan have taken positive steps towards reforming labour laws.
- For instance, Madhya Pradesh has expedited the process for registration and grant of licences under several legislations by introducing a maximum time period of 30 days within which, if an application is not rejected, it will be deemed to be registered.

- Rajasthan Government initiated reforms in labor statutes. Companies can retrench up to 300 employees, up from 100 without seeking government permission. Now, it requires membership of 30 per cent of the total workforce for a union to obtain recognition in Rajasthan.

6 Conclusion

For decades, labor has been a key competitive advantage for India. The need of the hour is to preserve and enhance such competitive advantage by promoting ease of doing business in the country through simplification and consolidation of labor laws at both federal and state levels. The call for greater action to spur economic growth assumes major reforms in labour market governance—something earlier governments promised, but failed to deliver. There may not be more opportune time for that than now, given the political will and a bipartisan consensus.

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