

LABOUR MARKET REFORMS IN INDIA- SOME ISSUES

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Abstract

It is argued that but for restrictive labour laws that create inflexibility in the labour market, the Indian economy would have experienced a higher growth of employment. On the other hand, this view is vehemently contested by trade unions and many other economists. This paper shows that the Indian labour market is quite flexible despite so-called restrictive labour laws. However, at the same time, Indian labour laws are so numerous, complex and even ambiguous that they promote litigation rather than the resolution of problems related to industrial relations. A comprehensive view on labour market reforms is required, one that addresses the needs of both employers and workers. The author recommends simplifying and rationalizing the complex and ambiguous extant pieces of labour legislation into a simple code that allows for labour adjustment with adequate social and income security for the workers.

Introduction

The framework for producing labour market flexibility was designed to deregulate the labour market and remove or cut protective regulations [Standing 2002]. The Washington consensus was based on what Stiglitz (2002) called market fundamentalism. The basic idea behind this thesis was that free market outcomes are efficient and Pareto optimal. The free play of market forces results in employment of resource sat the market-clearing prices; this leads to both efficiency (as almost all resources are employed) and equity (all are rewarded according to their marginal contribution).

Several other economists [e g, Wilkinson 1992; Sengenberger and Campbell 1994], however, contest this view with their microeconomic and macroeconomic logic. Their argument runs as follows. Competing firms may compete either on the basis of reducing their unit costs by lowering wages and labour standards(“low road to growth”) or by pushing up productivity with innovation in technology, product design, and organisation (“highroad to growth”). As long as a firm can continue competing on the basis of low wages and bad working conditions, there is no motivation to innovate for improving productivity.

Only when the path to competition on the basis of low wages and bad working conditions is barred by providing a floor of labour standards, the firms can become

enterprising and invest in technological and organizational innovation, which, in turn, leads to better wages and working conditions. In fact, the absence of a minimum floor of labour standards would inevitably ensnare the industrial economy in the syndrome of low wage and low productivity. This is what leads to the “race to the bottom”, which is most authoritatively brought out in the study by Blanch flower and Oswald (1994).

The study showed that almost all over the world, higher wages are associated with higher employment; implying that unemployment could be the result of many factors except high wages. A recent ILO study, based on data collected from 162 countries, concludes that stronger trade union rights do not generally hinder trade competitiveness, including trade of labour intensive goods, and indeed countries with stronger trade union rights tend to do comparatively well [Kucera and Sarna 2004]. The fact that deregulation of the labour market, even in most of the advanced capitalist countries, has not been able to contain high unemployment even after decades of implementation, increases scepticism about deregulation and its supposed benefits.

Anyway, the rising tide of militant opposition to labour market deregulation (France is the most recent case) and reduction of labour standards in several parts of even the developed world puts a question mark on the rampant deregulation of the labour market.

Review of Literature

Anu V. Thomas 2, J. Sudhakumar (2013) Observations on daily productivity of subcontract labour and directly employed labour engaged in masonry works on a project were made to determine the variability in productivity among the labour force and the causes of the inefficiencies. Productivity plots and statistical tests revealed the productivity of the subcontract labour to be significantly higher than the productivity of the directly employed labour.

Dibyendu Maiti and Sugata Marjit (2011) while a large body of researches discusses the effects of international subcontracting on firm dynamics, the present work deals with the similar issues of a domestic firm who subcontracts to the informal sector in a typical developing world. Theoretically, we develop model that if the formal sector wage is higher than that of informal sector, the choice of informal sector subcontracting and in-house R&D investment appears to be alternative options to the firm to bypass expensive labour in the formal sector. We argue that the R&D and labour productivity in formal sector are highly influenced by the informal wage but not the formal sector one. Since the subcontracting can raise both supply and demand for informal workers due to a rise of formal sector wage, the movement of informal sector wage is uncertain and thereby, the formal sector R&D and labour-productivity are also ambiguous. Thus, countries with a vast segment of lowly-paid informal workers exhibit lowly-productive formal workers.

Sean Dougherty et al (2011) this study provides plant-level cross-state/time-series evidence of the impact of employment protection legislation (EPL) on total factor

productivity (TFP) and labour productivity in India. Identification of the effect of EPL follows from a difference-in-differences estimator inspired by Rajan and Zingales (1998) that takes advantage of the state-level variation in labour regulation and heterogeneous industry characteristics. The fundamental identification assumption is that EPL is more likely to restrict firms operating in industries with higher labour intensity and/or higher sales volatility. Our results show that firms in labour intensive or more volatile industries benefited the most from labour reforms in their states.

Research Methodology

The data was collected from secondary sources, previous researches and analyses of scholars, magazines, as well as National and International journal articles that are related to the subject, as the study involved an extensive literature review which critically analyzed.

Objectives

- (i) To examine the Organized Versus Unorganized Sector Employment
- (ii) To analyse the Employment Growth and Labour Flexibility in India

Organized Versus Unorganized Sector Employment

Organized or formal sector is defined to consist of the entire public sector and the private sector enterprises employing 10 or more workers. It accounted for only about 14 per cent of total employment in 1999-2000 as also in 2004-05. The proportion is found to have slightly increased to 16 per cent in 2009-10. Still that leaves 84 per cent of workers in the 'unorganized' or 'informal' sector, with no job security or social security. Even in the formal sector, over half the workers are in 'informal' category, with no secured tenure of employment, nor any protection against the contingent risks during or after employment. What is further distressing to note is that their proportion has been rising: 'informally' employed workers constituted 42 per cent of those employed in the formal sector in 1999-2000, the figure increased to 47 per cent in 2004-05 and stood at 51 per cent in 2009-10. A small proportion (about half a per cent) of those employed in the informal sector enjoyed a measure of job security and social security. Thus of all the workers in the formal and informal sectors together, 92 per cent were in 'informal' employment. Only 8 per cent were in employment with secured job tenure and with social security against contingent risks of work and life. Their proportion has remained more or less constant during the decade 1999-2000/2009-10. (Table 1).

Table-1. Percentage Distribution of Workers in Formal/Informal Sectors/Employment

Year	Informal Workers		
	Informal Sector	Formal Sector	Total
1	2	3	4
1999-00	93.6	6.4	100

2004-05	93.1	6.9	100
2009-10	91.2	8.8	100
Formal Workers			
1999-00	5.3	94.7	100
2004-05	4.1	95.9	100
2009-10	4.5	95.5	100
Informal Workers			
1999-00	86.2	13.8	100
2004-05	86.3	13.7	100
2009-10	84.2	15.8	100

Source: National Commission for Enterprises in the Unorganized Sector.

A near constant share of the informal/unorganized sector in total employment is obviously due to the lack of a faster growth of employment in the informal than in the formal sector. In fact, the organized sector employment saw a continuous decline for a number of years since mid-1990s. After continuously increasing and reaching the highest figure of 283 lakhs in 1997, it recorded a continuous decline since then till 2005, but has shown some increase since 2005. It stood at 275 lakhs in the year 2008 the latest year for which data are available (Table 2). It should be noted that the earlier decline has been mainly in public sector employment which has continued to decline even in post-2004 period. So far as private sector is concerned it showed a small decline during 2001-2004, but has increased to an all time high at 98.75 lakhs in 2008, leading to an increase of about 11 lakhs in total organized sector employment despite a decline in public sector employment, during 2004-2008. And decline in public sector employment has been in all division of activity namely, manufacturing, construction, transport as well as community, social and personal services (Table 3), as a part of the policy to downsize the government, reduction in overstaffing of public enterprises and withdrawal from commercial activities. Mining is the only sector where some increase has taken place in public sector employment in recent years.

Table 2 Employment in Organized Sector

(Lakh Persons as on March-31)

Year	Public Sector	Private Sector	Total
1	2	3	4
1981	154.84	65.00	219.84
1991	190.58	76.77	267.35
1997	195.59	87.48	283.07
2000	193.14	86.46	279.60
2005	180.07	84.52	264.59
2006	181.88	88.05	269.93
2007	180.02	92.40	272.42
2008	176.74	98.38	275.12

Source: Economic Survey, various years.

Table 3. Employment Organized Public Sector

(Lakh Persons as on March-31)

	1981	1991	1997	2000	2004	2008
1	2	3	4	5	6	7
Agriculture	4.63	5.56	5.33	5.14	4.93	4.71
Mining	8.18	9.99	9.78	9.24	10.30	11.21
Manufacturing	15.02	18.52	16.61	15.31	11.09	10.44
Electricity, Gas & Water	6.83	9.05	9.56	9.46	8.74	7.96
Construction	10.89	11.49	11.34	10.92	9.32	8.52
Trade	1.17	1.50	1.64	1.63	1.81	1.65
Transport	27.09	30.26	30.92	30.77	28.15	26.34
Finance, Insurance & Real Estate	7.48	11.94	12.94	19.95	14.08	13.47
Community, Social & Personal Services	73.55	92.27	97.87	97.71	92.76	88.54
Total	154.84	190.58	195.59	193.14	181.97	172.84

Source: Economic Survey, various years.

Employment in organized private sector saw an increase till 1997 and after hovering around the figure of 87 lakhs for some years, saw a decline during 2000-2004. It has registered a significant increase since then reaching a figure of 98 lakhs in 2008, about 13 per cent higher than in 1997 (Table 4). Manufacturing is the main activity accounting for over half the total organized private sector employment. It has seen a decline of about 8 per cent over the period 1997-2008. The next most important activity, namely, community, social and personal services, has registered a continuous increase in employment. Financial services have shown a much faster increase, of about three and half times in its employment during 1997-2008. All other activities have also shown an increase in employment during this period.

Table 4 Employment in organized Private Sector

(Lakh Persons as on March-31)

Industry	1991	1997	2000	2004	2008
1	2	3	4	5	6
Agriculture	8.91	9.12	9.04	9.17	9.92
Mining	1.00	0.92	0.81	0.65	1.11
Manufacturing	44.80	53.89	50.85	44.89	49.70
Electricity Gas & Water	0.40	0.41	0.41	40.47	0.51
Construction	0.73	0.54	0.57	0.45	0.69
Trade	3.00	3.17	3.30	3.51	2.72
Transport	0.53	0.63	0.70	0.81	1.04
Finance, Insurance & Real Estate	2.54	3.22	3.58	4.58	10.96
Community, Social & Personal Services	14.8	16.44	17.23	17.92	21.73
Total	76.77	86.86	86.46	82.46	98.38

Source: Economic Survey, various years.

Employment Growth and Labour Flexibility in India

After liberalization, the rate of growth of the gross domestic product (GDP) of India has increased significantly (it was estimated to be around 8 per cent during 2005-06), presently making the country one of the fastest growing economies of the world. Although this growth has been led by services, there has been considerable improvement in industrial activity and international competitiveness is seen in some Indian industries (eg, automobiles and pharmaceuticals), in terms of both cost and quality.

However, notwithstanding the high growth rate of GDP, there has been a steady slowdown in the growth of employment in recent years. Employment, as a whole, which had experienced steady growth of around 2 per cent from 1961 to 1990 (when the growth of GDP was only around 3.5 per cent), declined sharply to 1.5 per cent during 1990-92 and further to around 1 per cent during 1993-2000. The deceleration in employment growth during the 1990s took place along with acceleration in the GDP growth rate.

Thus, the employment content of growth deteriorated, as reflected in the substantial decline in employment elasticity from 0.41 during 1983-94 to 0.15 during 1999-2000. The reasons for deceleration in employment include both policy level and technological changes in the production process over the last several years. Consequently, a significant component of GDP growth came from productivity growth and increasing capital-intensity of the economy.

The deceleration in employment growth has been accompanied by increasing informalisation of the workforce. Over the years, organized sector employment has grown more slowly than total employment. Organized sector employment grew at 1.20 per cent per annum during 1983-94 but this rate fell to 0.53 per cent between 1994 and 2000. Consequently, the proportion of unorganized sector employment has considerably increased in construction, transport, storage and communications, and financial services.

Apart from new jobs largely being created in the unorganized sector, a large number of retrenched workers have found refuge in the unorganized sector. Several economists, industry associations and mainstream media have attributed the deceleration in employment growth in India, particularly in the organized industrial sector, to inflexibility in the labour market, which is believed to have increased the labour costs for enterprises, thereby hindering investment (including foreign investment) and growth. Employment protection laws are also believed to be inefficient and inequitable, leading to slowdown in growth, and dividing workers into protected and unprotected categories.

Social security, of a limited kind, is enjoyed by only 8 to 9 per cent of the workforce. Over-protection of a small section of workers is not only ostensibly inimical to the growth of employment, but also goes against social justice as more and more workers are faced with deplorable working conditions. A recent study on the pattern of manufacturing growth during 1958-1992 concludes thus: "States which amended the Industrial Disputes Act in a pro-worker direction experienced lowered output, employment

and investment in registered formal manufacturing. In contrast, output in unregistered or informal manufacturing increased. Legislating in a pro-worker direction was also associated with increase in urban poverty.

This suggests that attempts to redress the balance of power between capital and labour can end up hurting the poor” [Besley and Burgess 2004]. On the other hand, trade unions and certain economists claim that labour cannot be treated like any other commodity, and measures like minimum wages, job security, separation benefits, social security, trade union rights, etc, are socially and politically necessary even for sustaining the process of globalization, as they increase labour productivity.

The government is facing an acute dilemma over this issue and labour and managements are at loggerheads with each other, forcing the government to be circumspect in reforming the labour market. This dilemma is rooted in the philosophy of social and labour policy in the country. The essential ingredient of social policy concerning labour and employment in the country, particularly during the first three decades of planning, has been to treat labour not as a mere resource for development, but as a partner in and beneficiary of social and economic development. This philosophy of labour had its roots in the national movement and many legislative provisions for protecting labour were enacted before independence, which were strengthened later.

Accordingly, provisions of social security were made more comprehensive and expanded to include various kinds of risks. Further, detailed laws governing industrial relations were enacted, and a mechanism for fixing and implementing minimum wages was developed. The basic idea behind all these protective measures adopted for labour was that the workforce was a relatively weaker partner vis-à-vis capital in the production process and that in a poor country like India, it was desirable to safeguard workers to promote both social justice and an appropriate industrial and productive climate.

The debate has been intensifying over the years. In the earlier years of planning when the expectations of economic growth were higher and unemployment was not thought to be a serious problem, the issue did not draw much attention. However, with a significant slowdown in employment growth in the organized sector, the debate has taken centre stage in recent years. Faced with fierce resistance from trade unions, the government is hesitant to introduce drastic labour reforms especially that of providing employers the flexibility to hire and fire workers, but there is certainly serious thinking on labour reforms.

The economic survey 2005-06 says: “Indian Labour Laws are highly protective of labour, and labour markets are relatively inflexible. These laws apply only to the organized sector. Consequently, these laws have restricted labour mobility, have led to capital-intensive methods in the organized sector and adversely affected the sector’s long-run demand for labour” (p 209). In this context, very often the example of China is given, which has drastically changed its system of labour market from a rigid security of employment to one in which labour is extremely mobile.

It is said that it has greatly helped China in generating employment as well as successfully redeploying workers who were laid off in the process of restructuring of enterprises. It is argued that more than 100 developing countries have reformed their labour laws in response to competitiveness in the era of globalization, but India remains among a select few countries with a rigid system of labour protection. While there is an element of truth in this argument, often there is lack of objectivity in the debate. Also, the ground realities prevailing in the Indian labour market in terms of insecurity, dynamics of labour processes, extent of the implementation of labour laws and regulations, etc, are generally overlooked.

In the next section of this paper, we will discuss the quantitative and qualitative aspects of changes in employment and other aspects of the labour market in the manufacturing sector in India. This is followed by empirical findings of a survey in the manufacturing sector on flexibility of the Indian labour marketing the wake of globalization. Lastly, we assess how the finding scan help resolve the debate on labour reforms and point towards a possible direction of change required in the labour regulation regime.

Conclusion

The foregoing analysis shows that despite all the hue and cry about inflexibility in the labour market and stringent labour laws, the Indian industry has been adjusting its workforce, more so after liberalization. This is amply evident from the cotton textile and garment sectors wherein workers were retrenched on a massive scale during the 1980s and from the loss of more than one million jobs during the latter half of 1990s in the organized manufacturing sector.

The recent revolt of young workers in France should alert us to the possibility of such social unrest anywhere in the name of promoting labour flexibility if “free hire and fire” sanction is given to employers. This problem can only be tackled if the state intervenes to ensure the security of income to all workers. India is among those countries that spend least on social services and social security. China, whose example is often cited in the context of labour flexibility, adopted a wide range of security of workers before introducing reforms in the labour market. At the same time the Chinese economy was able to generate much more jobs than are being generated in India. Though the Chinese workers suffered, but state actively intervened.

The recently introduced national rural employment guarantee scheme in India is an important step, but a lot more needs to be done for social and economic security in the country. A country which is growing at 8 per cent cannot escape from such responsibility. labour market flexibility can be implemented only alongside economic and social security.

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