Labour Reforms in India

1) Introduction
- Labour is a subject in the concurrent list of the Indian Constitution, labour matters are in the jurisdiction of both central and state governments.
- Both central and state governments have enacted laws on labour relations and employment issues.

2) Need for labour reforms
- Labour reforms enhance ease of doing business in the country.
- With the employment in the formal sector down in the low single digits we need proactive labour market reforms.
- Flexibility in the labour market has the potential to boost employment levels.
- Labour reforms are "very important" to boost the country's manufacturing sector.
- Companies are under pressure to innovate, redesign and technologically upgrade the products to suit consumers' choices which is not possible without restructuring and rightsizing.
- Labour Laws need to be reoriented to address the emerging needs of the service sector and the new technology intensive manufacturing sector.
- Laws need to be reviewed with the changing needs of the economy, such as higher levels of productivity, competitiveness and investment promotion.
- Giving workers greater protection helps increase productivity by giving workers more incentives to invest in firm-specific skills.
- Worker protection leads to more egalitarian outcomes in society.

3) Concerns and challenges
- Increase in the daily minimum wage for unskilled workers and growing casualisation of labour.
- Privatisation and FDI are other areas of concern for organised labour.
- Several economists say that rigid labour laws are the reason India has not generated enough jobs in the formal sector.
- Only about 10 per cent of jobs are in the organised sector and the remaining 90 per cent in the unorganised sector.
- Economic survey says the rigid regulations are the reason behind increase in contract labours. Hence the need of labour reforms.
- At present, there are about half a dozen definitions of wages in various acts across Centre and states which employers have to grapple with.
• The performance of garments and the textile sector too has gone down. Bangladesh, which is half the size of West Bengal, now exports twice as much garments as India does

• The outdated and inflexible nature of labour laws protects a handful of say 6-7 percent of the workforce, seriously hampering employment generation capacity of the organised sector

• Multiplicity of labour laws – 40 central and about 150 state laws – present operational problems in implementation and compliances that need to be looked into.

• To circumvent the rigorous labour policies, companies are either shifting their manufacturing bases to foreign countries or turning capital intensive, reducing their manpower needs.

• Issue of dwindling women participation in the total workforce, the gap is big in India with around 40% viz-a-viz global average of 25%.

• Rigid labour laws are also associated with increased urban poverty.

• India has surplus labour and a large number of unemployed youth and mostly exports capital-intensive goods such as petroleum products, gems and jewellery, transport equipment, machinery and instruments, and pharmaceutical products.

• The major challenges include providing decent quality jobs, moving towards formalization and extending adequate social security protection to all.

• Contract labour is a serious assault on workers’ rights. The Economic Survey (2015-16) believes that contract labour is merely a corporate response to “regulatory cholesterol”.

• Moves have also been initiated to merge PSBs. Unions see these moves as impacting jobs in the formal sector adversely.

• In a situation where domestic firms have weakened by inadequate growth, FDI is seen as displacing jobs in domestic firms.

• Job creation in the private sector is depressed by the low rate of investment.

• World Economic Outlook (April 2016) studies have shown that weakening dismissal conditions under adverse economic conditions tends to reduce employment.

• The IMF says if changes to labour laws are to be carried out, there must be offsetting fiscal expansion that helps raise demand for labour. India is in no position to meet this condition as we are still in the process of fiscal consolidation.

4) **Need of the hour**

• We need to incentivise more formal sector employment

• Matching governmental contribution to employee provident and pension funds normal in the organised sector needs to be extended to informal sector by leveraging IT and Aadhaar card system
• country needs to keep on updating skills of its workforce and keep them in tune with the changing scenario

• **Labour to be shifted to ‘State List’**
  a) Labour being in the concurrent list of the constitution
  b) State Governments have limited space to enact labour laws to address their own requirements - promoting investment and employment generation.
  c) To give more economic independence to the State Governments and promote federalism, FICCI strongly pleads for shifting labour to the State list

• **Multiplicity of Labour Laws**
  a) Currently, there are labour laws under the purview of Central Government and under State Governments, which deal with a host of labour issues.
  b) The entire gamut of the labour laws should therefore be simplified, clubbed together wherever possible and made less cumbersome
  
• MSME enterprises should be subjected to few simple and less cumbersome labour laws which make compliance easier.

• Success of India's growth story will lie in the government’s ability to move towards formalisation of its workforce and providing universal social security to all.

• Labour reforms must be linked to the ease of doing business, creating a habitat where jobs can be fostered.

• The labour law must be rationalised by defining minimum wages and linking them to inflation.

• Minimum wages ought to be revised annually, with penalties for their violation dramatically raised.

• we must extend worker protection and benefits to contract labour

5) **Government's initiatives**

• The government is pursuing labour reforms vigorously, which is part of the larger goal to link key flagship programmes such as Skill India, Make in India and Start-up India

• Government has attempted to amend the Apprentice Act (1961), making it more responsive to industry and youth, and substituting complex inspection regimes with technology friendly portals.

• ShramSuvidha, a unified labour portal scheme, has been launched to provide timely redress of grievances and facilitate self-certification by industry.

• A focus on cutting down red tape, by amending nearly 40 Central and 150 State labour laws, has been launched, with significant consequences on hiring and firing.

• Proposals for exempting small-scale industries, employing up to 40 workers, from 14 basic laws, including the Factories Act, the Industrial Disputes Act and the Maternity Benefits Act, are being considered.