

General Studies-2: Topic: Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

Labour Reforms

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.

Status of Manufacturing Sector

- Since 1991, manufacturing has been losing its share in GDP – from 16.6 per cent in 1990 to 13.7 per cent in 2019, except for two years (2009-10).
- It has failed to function efficiently in a competitive market system.
- **Over-regulation and rigid labour laws** are widely regarded as major impediments to their growth and competitiveness.
- Team Lease study has brought out, India has a complex legal regime, governing labour-capital relations with 463 Acts, 3,2542 compliances and 3,048 filings.
- **Multiplicity of complex labour regulations** and the cumbersome nature of compliances act as a barrier to the sector's growth.
- A rigid regime constrains the manufacturing sector and adds to high transaction costs.

Need for Labour Reforms

- India is projected to have the largest working population in the world between 2022 and 2034, with 10 million youth entering the workforce every year.
- Unleashing the true potential of such a strong workforce demands employment capacity of the industry.
- Therefore, **rigidities and administrative burden in the labour regime are required to be addressed** through substantive reforms.
- Existing labour laws were found to be out of sync with the evolving business regulatory environment and India's growth aspirations.
- India's labour laws were applicable to around 80 million workers in the formal sector, leaving the rest of the 500 million-strong workforce out of these benefits.
- **Laws need to be reviewed with the changing needs of the economy**, such as higher levels of productivity, competitiveness and investment promotion.
- Companies are under pressure to innovate, redesign and technologically upgrade the products to suit consumers' choices which is not possible without restructuring and rightsizing.
- Economic survey says the rigid regulations are the reason behind increase in contract labours. Hence the need of labour reforms.

Concerns / Challenges

- The share of labour compensation in the national income in India has been declining from 38.5 per cent in 1981 to 35.4 per cent in 2013.
- Automation and the greater use of technology in manufacturing have impacted labour demand.
- **Indian manufacturing sector has many challenges including those related to land, capital and technology.**
- Firms are unable to respond to product market competition, resulting in high transaction costs that adversely impact productivity as well as employment.
- **Multiplicity, overlap and unclear definitions of terms** such as establishment, industry, wages and workers create unnecessary confusion and prolong litigations.

- Several economists say that rigid labour laws are the reason India has not generated enough jobs in the formal sector.

Recent Labour Reforms

- To promote a transparent and simplified system to suit the contemporary business environment and facilitate ease of doing businesses without compromising labour welfare, the **Centre has brought in a series of labour law reforms.**
- Based on the recommendations of the Second Labour Commission (1999), 29 labour laws have been consolidated into four codes.
- These are
 - **Wage Code dealing with fixation of the minimum wage;**
 - Many unorganised workers such as agricultural workers, painters, etc., who were out of the ambit of the earlier Minimum Wages Act, are afforded legislative protection under it.
 - Many changes have been introduced in the inspection rules.
 - **Social Security Code setting thresholds for social security schemes;**
 - The Code on Social Security replaces nine laws dealing with the issue.
 - **Industrial Relations Code dealing with industrial workers.**
 - The introduction of Fixed Term Employment and change in the threshold limit for retrenchment will boost generation of new employment, particularly for larger firms.
 - The Code provides for speedier adjudication of disputes.
 - **Code on Occupational Safety, Health and Working conditions.**
- The introduction of these labour reforms is welcomed by the industry.
- The labour reforms will boost entrepreneurship and investments, and are an important step for reviving India's economy.

Way Forward

- The four Codes have prepared the groundwork for future reforms; it is up to states to make India future-ready.
- The onus is now on states to use this opportunity and thoroughly review the rules and reduce duplication, overlaps and redundancy thereby reducing the regulatory burden.