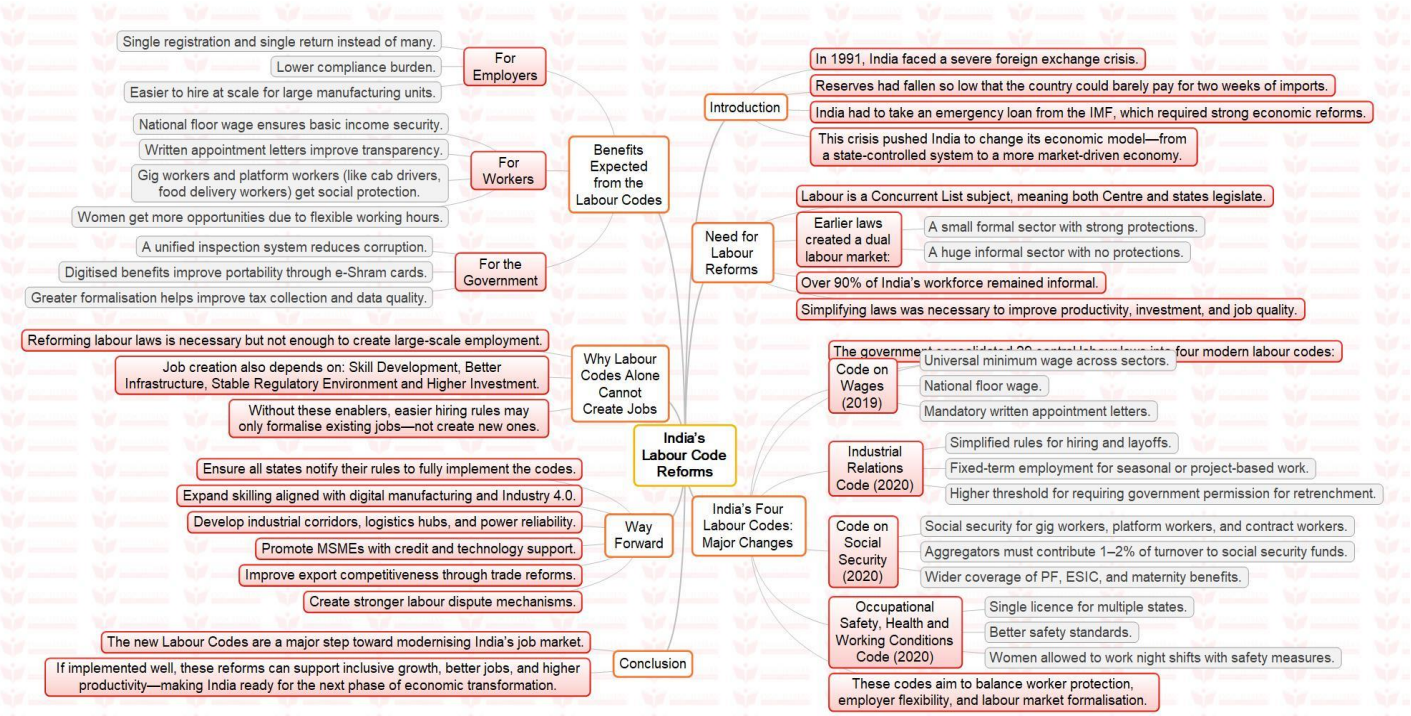

General Studies-3; Topic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

India's Labour Code Reforms

Introduction

- In 1991, India faced a severe **foreign exchange crisis**.
- Reserves had fallen so low that the country could barely pay for two weeks of imports.
- India had to take an **emergency loan from the IMF**, which required strong economic reforms.
- This crisis pushed India to change its economic model—from a **state-controlled system** to a more **market-driven economy**.

Need for Labour Reforms

- Labour is a **Concurrent List** subject, meaning both Centre and states legislate.
- Earlier laws created a **dual labour market**:
    - A small formal sector with strong protections.
    - A huge informal sector with no protections.
- Over 90% of India's workforce remained informal.
- Simplifying laws was necessary to improve productivity, investment, and job quality.

India's Four Labour Codes: Major Changes

The government consolidated **29 central labour laws** into **four modern labour codes**:

- **Code on Wages (2019)**
    - Universal minimum wage across sectors.
    - National floor wage.
    - Mandatory written appointment letters.
- **Industrial Relations Code (2020)**
    - Simplified rules for hiring and layoffs.
    - Fixed-term employment for seasonal or project-based work.
    - Higher threshold for requiring government permission for retrenchment.

- **Code on Social Security (2020)**
  - Social security for gig workers, platform workers, and contract workers.
  - Aggregators must contribute 1–2% of turnover to social security funds.
  - Wider coverage of PF, ESIC, and maternity benefits.
- **Occupational Safety, Health and Working Conditions Code (2020)**
  - Single licence for multiple states.
  - Better safety standards.
  - Women allowed to work night shifts with safety measures.
- These codes aim to balance **worker protection**, **employer flexibility**, and **labour market formalisation**.

Benefits Expected from the Labour Codes

- **For Employers**
  - Single registration and single return instead of many.
  - Lower compliance burden.
  - Easier to hire at scale for large manufacturing units.
- **For Workers**
  - National floor wage ensures basic income security.
  - Written appointment letters improve transparency.
  - Gig workers and platform workers (like cab drivers, food delivery workers) get social protection.
  - Women get more opportunities due to flexible working hours.
- **For the Government**
  - A unified inspection system reduces corruption.
  - Digitised benefits improve portability through e-Shram cards.
  - Greater formalisation helps improve tax collection and data quality.

Why Labour Codes Alone Cannot Create Jobs

- Reforming labour laws is necessary but **not enough** to create large-scale employment.
- Job creation also depends on: **Skill Development, Better Infrastructure, Stable Regulatory Environment and Higher Investment.**
- Without these enablers, easier hiring rules may only formalise existing jobs—not create new ones.

Way Forward

- Ensure all states notify their rules to fully implement the codes.
- Expand skilling aligned with digital manufacturing and Industry 4.0.
- Develop industrial corridors, logistics hubs, and power reliability.
- Promote MSMEs with credit and technology support.
- Improve export competitiveness through trade reforms.
- Create stronger labour dispute mechanisms.

Conclusion

- The new Labour Codes are a major step toward modernising India's job market.
- If implemented well, these reforms can support inclusive growth, better jobs, and higher productivity—making India ready for the next phase of economic transformation.

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