26. Reform 2.0 Labour Codes

By Gopal Krishna Agarwal,

After Atma Nirbhar Bharat stimulus package our government has embarked on two major reforms in agriculture and labour laws. These policy reforms are market orientated, bringing efficiency, transparency and easy of compliances in both the segments.

There is hue and cry about agriculture reforms in certain sections. But little is being discussed about labour laws reform, which are to be notified in April 2021. As these are also very important, a larger debate is welcome at this juncture.

India had 67 percent of population in the working age (15-64 years) in 2019 according to the World Bank. This high ratio of working to non-working age population, gives us an opportunity to reap the demographic dividend, if we are able to gainfully employ this population. The window is small and closing fast because of falling fertility rates in India. If we as a country miss this opportunity, we will be old before we get rich. With this and the fact that employment is poverty alleviating in mind, Modi government is in overdrive to set an enabling environment.

Indian labour laws are considered complex and restrictive. One of its defining characteristics is job security of workers covered under it. Complexity also implies huge compliance burden for the companies. As a consequence of this, the labour to capital ratio is low despite the fact that India is a labour abundant and capital scarce country. Rigidities in the labour market have also ensured that the employment elasticity of Indian economy has remained low. Therefore GDP growth does not lead to commensurate employment generation.

Unemployment problem is challenging in India because it emerges from structural rigidities of our labour market. Therefore, amending and consolidating 29 central labour laws into four codes figured prominently on the agenda. The four codes cover, *i.* wages, *ii.* industrial relations, *iii.* occupational safety, health and working conditions and *iv.* social security. The code on minimum wages was made into law in 2019 and the remaining three in September, 2020.

A disturbing feature of Indian labour sector is its very high degree of informality. 93 percent of India's labour force works informally. About 80 percent of it works in the unorganised sector and the remaining is employed informally in the organized sector of the economy. Therefore a lot of focus in these codes has been to promote formal employment. The definition of 'employees' in the code on social security has been expanded to include workers employed through contractors, self employed migrant workers, additional categories of platform workers etc. It also provides for a registration of unorganised workers, gig workers and platform workers and says that the Central government will set up a social security fund for such workers. These provisions together with measures like making appointment letters compulsory and allowing business enterprises to hire workers directly on contract are aimed at reducing informality.

One of the most significant changes brought through the new industrial relations code is the introduction of fixed term contracts. The first time fixed term contracts were introduced was in 2016 but it was only for the apparel industry. Though in 2018 it was allowed for other industries as well, the effect was limited because this new form of employment was introduced through changes in rules made under the Standing Orders Act which applies only to industrial establishments with 100 or more workers. In the absence of such an enabling provision, companies were forced to hire workers informally. Thus, this change is expected to boost employment in industries that experience seasonality in production. Workers will be eligible for all statutory benefits available to a permanent worker proportionately, according to the period of service rendered by them and the minimum qualifying period would not apply to them.

Focus of the current codes on self certification, reduced compliance and simplification will lead to a lower cost of doing business. Closure, lay-offs and retrenchment in factories employing up to 300 workers would now not need prior approval of the concerned Government. This, coupled with the fact that even the Standing Orders has been made applicable to establishments with over 300 workers means that smaller companies would not be hobbled by regulatory cholesterol. Not only this, the code on occupational safety, health and working conditions has increased the threshold of its applicability to 20 workers where the manufacturing process is carried out using power and 40 workers without using power. Government rightly believes that when enterprises grow up to a certain size only then they would be in a position to bear higher compliance burden. The biggest beneficiary of the new codes would be the Micro, Small and Medium Enterprise (MSME) Sector. This sector produces 40 percent of India's GDP and employs a higher number of people per unit of invested capital.

With other supportive measures like production linked incentives, globally competitive corporate tax rate and balanced free trade agreements, we can safely say that the Central government has almost solved the jigsaw puzzle that Indian manufacturing sector had become and with the coming Budget 2021 and the years that follow, would see exponential growth in manufacturing and employment.

Economic reforms require expending political capital by the governments, as the benefits of reforms are spread thin and apparent only with a time lag and seemingly adverse impact on certain stakeholder are felt immediately. Therefore, India has not seen many major reforms since 1991 and even then important areas like land, labour and agriculture were left out of agenda. The biggest take away from these codes and the recent reforms in the agricultural sector, is a confirmation that a reformist government is at the helm of affairs that will get Indian economy rid of its socialist vestiges. That, for me, is a very reassuring feeling.