



Labour Rigidity: A Hurdle to India's Development

REEMA JAIN
(M.A. Economics J.M.I.)
Delhi (India)

Abstract:

Labour is an important ingredient for the capitalist sector in their cost benefit analysis and for other decision-making. Recent studies indicate that labour cost contributes to 80% share in the total cost of any project for the capitalist sector. This makes the labour sector most important factor for the capital formation and for the growth of the entire economy. In the last 67 years Government of India undertook many product reforms but the factor market reforms are left untouched for example IDA 1947 is 67 year old act which is completely out of tune to the present requirement of the economy. This paper discusses the fallacies of the present labour laws and tries to suggest some measures to overcome labour rigidities.

Keyword: Labour market, Lewis model, Rigid labour laws, Trade union, Urbanization

1. Introduction

Development requires transfer from agrarian to industries together with the transfer from informal sector to formal. Such a development gives rise to a flourishing urbanization which has been considered as a symbol for modern development. However stagnancy in labor laws reforms has retarded the process of development in India. This paper is an attempt to seek redressal to such rigidities.

Even after 67 years of independence the share of employment in agriculture sector remained high with its low share in the total output. The number of workers in private sector with 10 or more worker rose from 7.7 million in 1990-91 to just 9.8 million in 2007-08. Employment in private manufacturing of 10 or more has risen from 4.5 million to 5 million over the same period.

Following are the key factors behind this dismal picture.

- A. At the outset recall that a common feature of the fast growing low income countries has been the rapid expansion of manufacturing pulling unskilled worker from agriculture into gainful employment. Recall that this pattern characterized the rapid growth in Taiwan and South Korea in 1960s and 1970s and in China more recently. However this pattern has failed to converge in India despite rapid growth. The share of manufacturing actually fell from 16.8% in 1981-82 to 15.8% in 2008-2009.
- B. Poor performance of labor-intensive manufacturing. In recent study by Das, Wadhwa and Kalita (2009) analyze using output and input wage data on 96 four digit organized manufacturing industries from 1990-91 to 2003-04. They identified as labour intensive 31 of these 4 digit industries such as food, apparel, textiles and furniture.

2. Increasing Capital Intensity of Production

Hasan, Mitra and Sundaram (2010) shows that labour-capital ratios in the vast majority of manufacturing industries in India are lower than in other countries at a similar level of development and with similar factor endowments.

3. De-Emphasis on Labour Reforms

Why have the reforms not done more to produce medium and large scale firms in the labour-intensive sector and hence create many more well paid jobs?

The most plausible answer is that reforms have been confined to product market and ignored factor market like labour and land.

4. Labour Laws in India

4.1 Trade Union Act 1926

According to it firms should allow formation of trade union if they have 7 or more number of workers as long as they represents 10% of workers. This has led to tiny firms with 6 or less worker in apparel sector to provide more flexibility to firms.

4.2 Industrial Dispute Act 1947

It covers all disputes regardless firm size between employers and workman.

The act provides institutional infrastructure for resolution of disputes.

IDA confers power to the labour department in states with jurisdiction over the firms.

IDA defines an industrial dispute as any dismissal, discharge termination or retrenchment of any firm size. At first reconciliation is done, than dispute goes to labour courts who often favour labour.

4.3 IDA Section 9A

It requires that employer gives three weeks notice to the worker of any change in their working condition.

4.4 IDA Chapter 5B

It requires firms with more than or equal to 100 workers cant retrench without taking permission from labour department.

4.5 Factories Act 1948

It applies to manufacturing units with 10 workers using power and 20 workers even without power.

5. Ill Effects of the Distorting Labour Laws

5.1 Low Productivity of Labour

India's rigid labour laws leads to the horizontal expansion of small size firms. Such firms have lower labour productivity which is the root cause of lower real wages. The productivity of the labour rises only when the firm size rises. Also costs saving through large size become sufficiently large enough to outweigh cost imposed by various laws only at a very large scale.

5.2 Casualization of Labour

Many firms tend to use contract labour to get a task done or to become free of burden imposed various labour laws.

5.3 The Way Forward

Definition of retrenchment under IDA needs to be tightened.

IDA leads to all disputes to go to labour courts. This needs to be replaced by independent authority for speedy verdict.

Section 9a of IDA imposes burden on employers wishing to reassign a worker to an alternative task due to change in technology. This should be replaced with greater flexibility.

Chapter 5b of IDA 1947 which makes impossible for a factory with 100 or more workers to lay off needs to be repealed.

Trade union act 1926 led to proliferation of trade unions in larger firms especially. Trade union should minimally include 10 percent of workforce or 100 workers.

6. Conclusion

The future development and inclusive growth of India would largely depend upon the appropriate reforms in labour laws. Recently government brought some changes to the factories act 1948 regarding women worker. It also amended the trade union act 1926. But the urgent need is to amend IDA 1947 which has become the biggest hurdle to India's development.

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