Labor Law Reforms

Law is an instrument to control, manage and direct the conduct & activities of industries and their groups in a society. Law is a dynamic concept and changes with the mounting needs of the society. Progressions in the field of technology, economy and other aspects influence the society. Law is also a universal phenomenon, having presence in all the societies of the world. No walk of life particularly business and industry can manage without law. Law is unavoidable and its significance can be felt by every individual of the society (Singh, 2007a).

Law creates not only rights and privileges but also imposes responsibilities, duties and restrictions. Laws are straightforward tools which can be utilized to achieve just society. Law requires revamping frequently and at regular intervals. This can be reflected in the various new enactments, orders of High Courts and the Supreme Court and is based on the demands of the altering circumstances (Singh, 2007b).

Labor laws must be inspected by keeping in mind the target we want to reach. Relations between employers and employees must become supportive, not fierce. Together, enlightened employers and responsible unions must establish processes that will build trust inside the organization. They can determine what amendments in labor laws are required. Industrial relations will get to be fierce if Government compels any adjustments in labor laws that are not founded on an understanding between unions and employers about what changes are required to guarantee fairness to employees and enable quicker learning and improvement of competitiveness in enterprises. It is not practically possible for Government to alter the laws without the support of both unions and employers (Maira, 2014).

Numerous observers believe that Indian labor law is increasingly obsolete, complicated and burdensome and poses a structural hindrance to sustained economic growth (Venkataratnam, 2004; Hill, 2009; Saini, 2009; Krueger, 2013). India has a highly complex, technical and protective regime of labor law (Debroy & Kaushek, 2005; Venkataratnam & Verma, 2010).

At the beginning, it must be acknowledged that adjustment in Indian labor laws is overdue. Many are extremely old and need refurbishing to suit the requirements of today’s environment. There are too many laws and regulations contradicting each other. The laws are not
executed properly, perhaps because many cannot be implemented in practice, or because the government machinery to implement them is inadequate. Not only are employers demanding improvements in labor laws, unions are too. India ranks towards the bottom of the World Bank’s rankings of countries for ease of doing business and its position has been slipping (Maira, 2014).

**Labor Market Reforms: A Debate**

The Prime Minister Narasimha Rao, along with his Finance Minister Manmohan Singh, initiated economic liberalization of 1991. The reforms did away with the License Raj, reduced tariffs & interest rates and finished many public monopolies, permitting automatic approval of Foreign Direct Investment (FDI) in many sectors. Since then, overall thrust of liberalization has remained the same, although no government has yet solved a politically difficult issue of liberalizing labor laws (“Economic Liberalization in India”, 2015). This forces businesses to remain small, and in turn operate in the informal sector. About 450 million informal employees who make up 93 percent of the total workforce stand to benefit from reforms to labor laws and improve business productivity (Shah, 2014).

Indian labor legislation is complicated, outdated and prohibitive in nature. About 50 Central laws overlap with 150 State regulations. The clauses of the Industrial Disputes Act (IDA) of 1947, one of the imperative regulations, were conceived under the British Raj. In 1976, the introduction of Chapter V-B to IDA declared that firms employing 300+ people should ask for government consent to effect lay-offs, retrenchments and closures. This was further limited to firms with 100+ workers in 1982, making hiring or firing new workers extremely cumbersome even if they are incompetent (Sharma, 2006).

The IDA also prohibits strikes only by public utility services without notification, however such restrictions should also be extended to other industrial establishments to discourage “wildcat strikes.” And perhaps the most crucial reform of all is to Chapter V-B that restricts laying-off workers in a factory with 100 or more workers (Bhagwati & Panagariya, as cited in Shah, 2014). Other than India, Pakistan and Sri Lanka are the only countries that require approval by public administration before undertaking any dismissal (Iyer & Vijay, 2013). The Contract Labour Act and Factories Act also need to relax their caps on restrictions (Shah, 2014).
The 1970 Contract Labor Act permits firms to employ contract labor for tasks of permanent nature however the law allows the government to ban contract use if similar establishments use regular workers for that same task (Bhagwati & Panagariya, as cited in Shah, 2014). The 1948 Factories Act limits the maximum hours of work per week to 48, requires paid holiday for each 20 days of work and prohibit the employment of women for more than nine hours a day. (Bhagwati & Panagariya, as cited in Shah, 2014).

Rigid labor regulations affect industrial development and curb economic growth of the country. Firms are restrained from expanding and harnessing the economies of scale and forced to remain informal (Shah, 2014).

The debate around labor law reforms in India became prominent once again with the election of Bhartiya Janta Party (BJP) government. In India, a noteworthy demand of those advocating for greater labor flexibility is to ask the government to spell out an “exit” policy that would make it simpler for employers to terminate workers who are no more required as a result of changes in technology or in its budgetary capacity to maintain a workforce. By itself this is not an unnecessary demand (Verma & Gomes, 2014).

The targets are three labor legislations which have been the central points in the labor market flexibility debate – The Industrial Disputes Act (1947), Contract Labor (Regulation & Abolition) Act, 1970 and the Factories Act (1948). Trade unions have their own stand on the reforms debate as reflected in statements by their leaders. In the words of General Secretary of the Centre of Indian Trade Unions, “The labor force is the real contributor to the value-added society so they should be treated as human beings and not as a commodity” (Joseph, 2014).

References


