

Labour Market Flexibility in India: What do the Existing Literature Reveal?

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Abstract. The new policy regime has created several new opportunities of growth and development for the firms, industries and workers; albeit with increased challenges not only to remain in business but also to grow and develop. Labour market rigidities in India are considered by several scholars as a serious impediment to increase the level of output and employment particularly in Indian manufacturing industry. On the other hand, there is another section of scholars who argue that the reasons for the slow growth of output and employment needs to be explored differently, as employers in India have been resorting to various means of labour use flexibility. So, a fair degree of flexibility already exists in the Indian labour market. In this paper an attempt has been made to put together and analyse the existing literature related to flexibility in the Indian labour market.

1 Introduction

In the era of new policy regime which is widely prevalent all over the world the process of liberalization of trade and industry, privatization of public sector undertakings and globalization of the whole economy is being accelerated all the economies of the world and India is not and cannot remain an exception to these developments. The new policy regime has created several new opportunities of growth and development for the firms, industries and workers; albeit with increased challenges not only to remain in business but also to grow and develop. In order to maintain competitive edge over their rivals and to survive and grow, the firms are trying to use several cost cutting devices in both explicit as well as implicit forms. In an endeavour to minimise the impact of business shocks and reduce the labour costs, mainly related to regular and permanent workers, the employers have been constantly demanding changes in the labour laws. Such changes are expected to bring fair amount of flexibility in the tenure and use of the labour force.

The protagonists of the labour market reforms who believe in neo-classical labour theories, argue that labour market rigidities not only reduce output and employment potential of industries but

also affect the process of adjustment during shock. These rigidities often render firms sick (Fallon and Lucas, 1991; Seth and Aggarwal, 2004). They regard labour market flexibility as a panacea to cure unemployment, both in developed and developing world (Sen and Dasgupta, 2009).

The principal measures proposed to be taken to reform labour laws, relate to the following

- i. To dilute the provisions under Chapter V.B of the Industrial Disputes Act (IDA), 1947 to give greater freedom to the employer to hire and fire (to retrench or lay-off permanent worker).
- ii. To amend the Contract Labour (Regulation and Abolition) Act, 1970 so that larger number of contractual or casual laborers may be employed in greater number of jobs and industries¹.

On the other hand antagonists of the labour market reforms argue that it is not correct to say that Indian labour market is totally rigid and this rigidity is responsible for low level of output and employment in the Indian industries particularly in the organized manufacturing sector. At this juncture of transition it is interesting to through some light on the existing literature on the subject of labour market flexibility in India.

2. Literature Review and Discussion

Mukhopadhyay (1992) has conducted a brief study of structure of employment in terms of its three broad status categories viz. casual workers, self employed workers and regular wage/salaried workers for both male and female as well as rural and urban segment of the workforce in India. This has been done for the period 1972-73 to 1987-88, covering the 27th, 32nd, 38th and 43rd round of NSS quinquennial survey. The study finds that during the period 1972-73 to 1987-88 incidence of casualisation increased among male as well as female workers, in both urban and rural areas of the country until the early eighties. Thereafter, there has been a fall in such incidence in the urban areas though the process went unabated in the rural areas. Even among the regular segment of the workforce, a sizeable part is on temporary, ad hoc or similar non- permanent contracts which may or may not be legally enforceable.

¹ This Act applies to any establishment or contractor employing 20 or more workmen on any day preceding 12 months as contract labour. Section 10 of the Act empowers the appropriate government to prohibit the employment of contract labour through notifications under certain specific conditions.

Another important study on labour market flexibility was conducted by **Deshpande, Sharma, Karan and Sarkar (2004)** on the basis of a comprehensive survey of about 1300 manufacturing firms across nine industry groups both in public and private sectors scattered in ten states. The period of their study was between 1991 and 1998. The main objective of the study was to find out the extent of flexibility enjoyed by employers in adjusting employment and labour processes within an establishment to external changes. It further ascertained whether the presence of unions, collective bargaining and laws especially the provisions of IDA, 1947 as amended during 1976 and 1982 regarding retrenchment and closure, deter employment. The study also assessed if the extent of labour flexibility differed with the ideology and administrative efficiency of states.

The study found that employers have frequently been adjusting their labour force and this process accelerated during the post liberalisation period. Such adjustment of manpower has been more pronounced in the cotton textile and garment sectors. Over one million jobs were reported to be lost in the organised manufacturing sector during later half of 1990s. Although voluntary retirement scheme is the main instrument to reduce workforce, large scale closure adopting informal routes (non-payment of electricity bills etc.) have also been used (Sharma, 2006: 2083). The firms have also restructured their manpower by reducing the number of permanent workers and increasing the number of non-permanent ones. They have also achieved flexibility with respect to wages. The real wages of *workers* in the later half of 1990s decreased while those of *other than workers* increased significantly. This happened along with reduction in employment and increase in output. All this happened without much resistance from trade unions because there was a general decline in the strength of the trade unions. The researchers concluded by stating that the argument of the presence of rigid labour market being responsible for slow growth of employment and output is not entirely correct.

A study which was conducted in the year 2003 by **Das and Pandey (2004)** focused on economic and social issues relating to contract workers engaged in some organised manufacturing industries producing steel, cement and white goods² in Eastern, Southern and North/Western India. The study covered a sample of 600 contract workers – 300 workers in steel

² White goods are household items of two distinctly different groups. Household linens are most commonly referred to as white goods, but the term can also refer to major household appliances, such as the stove and refrigerator which are often factory-finished in white enamel. Therefore, these goods are often referred to as *white goods*.

sector, 200 workers in cement units and remaining 100 workers in white goods industries in both public and private sectors. The researchers found that all the contract workers were paid not only the minimum statutory wages but in certain instances some of the skilled contract workers were paid wages even higher than the state stipulated minimum. Further, wherever contract workers were unionised and had collective bargaining strength, they got a better deal. However, despite a favourable wage payment structure, these workers did not enjoy other benefits and social security as available to regular workers of the industries. The seasonal nature of their employment creates a situation of income insecurity which is an important factor in increasing social stress.

Another important work has been done by **Bhandari and Heshmati (2006)** which focuses on the issue of wage inequality between permanent and contract workers. The study has used data from a primary survey conducted by Indo-Dutch Programme for Alternatives in Development (IDPAD) – a sponsored research project on “Political economy of labour in a globalised economy.” The uniqueness of the survey is that it contains information on wage distribution of permanent and contract workers separately and on their characteristics.

This survey which was conducted during 2004-05 in some selected industrial areas of West Bengal, Uttar Pradesh, Haryana and Delhi, included a total of 551 workers of different factories in the organised manufacturing sector. Out of 551 workers surveyed, 312 workers belonged to eastern region and 239 workers belonged to the northern region of the country. Further, 271 workers were permanent and 280 were contract workers in the sample. It was found in the study that casual/contractual workers are discriminated vis-a-vis the permanent workers. A substantial wage gap exists between permanent and contract workers where contract workers earn 45.5 per cent less than their counterpart. The lower wage paid to contract workers has been attributed largely to cost cutting strategy by the firms, rather than differences in productivity of the two categories of labour. By using the strategy of casualisation/contractualisation of workforce, the firms achieve both employment flexibility and cost adjustment goals. The factors affecting job security are divided as productivity related attributes like level of education, skill etc. and institutional attributes such as labour market rules and regulations, union membership etc. Educated and skilled workers were relatively more concerned about their job security. Contrary to the general expectation, the study found that permanent workers are more concerned

about job insecurity than the contract workers. Union membership, relation with supervisor etc. provide relief as far as job insecurity is concerned.

Yet another study by **Sen and Dasgupta (2008)** dwells on the issues of employment, wages and other benefits to labour in the organised manufacturing industries in some states of India. The study is based on a primary survey undertaken in selected pockets of West Bengal, Delhi, Haryana, Gujarat and Maharashtra over a period of 14 months during 2004-06. The study showed that out of a total of 615 workers interviewed, 271 were permanent workers with tenured job contracts with fixed age of retirement. Remaining 344 workers were casual or contractual on a short-term basis with temporary attachment to current jobs.

The study found a sharp difference between the wage of permanent and casual workers. The average hourly wage of permanent and casual workers was Rs. 18.77 and 11.07 respectively. While 40 per cent of total workers surveyed were members of union of which 51 per cent enjoyed permanent status. The scholars found that the workers with job skills as well as those who are young as compared to other workers seem to be subject to changed work atmosphere of contractual and casualised recruitment, which offers very little of the non-wage benefits (P.F., gratuity and bonuses etc.) or opportunities to participate in union activities. Workers with a migratory and/or casual status (which often go together) are subject to worse prospects due to uncertain job situation.

Another empirical study based on data on Annual Survey of Industries (ASI) manufacturing sector has been attempted by **Neethi (2008)** in which she has examined the implications of labour market flexibility on quantity and quality of employment. She has covered the period from 1980-81 to 2002-03 to study changes in the number of employees, workers, factories; amount of capital and output; while data regarding contractual and directly employed workers have been analysed from 1995-96 to 2003-04. The contract work intensity and its coefficient of variation have been studied across industries and states. The contract work intensity has been defined as a proportion of contractual workers to total workers.

The researcher has observed that the annual growth rate of total workers during the period 1995-96 to 2003-04 was -1.91 per cent, while that of direct workers was -3.54 per cent. The percentage increase in contractual workers over the same period was 7.01 per cent. In fact, contractual worker was the only component which has shown a consistent and positive growth.

The contract work intensity has increased from 14 per cent (1995-96) to 25 per cent (2003-04) and the ratio of contract workers to the directly employed workers also increased from 15 per cent to 33 per cent.

However, the trend is not uniform across all industries, rather it is highly skewed. Of all the industries, the highest intensity was in tobacco products (21 per cent) followed by food products and beverages (18.42 per cent). More than 70 per cent of these workers were concentrated in the six traditional industries of food and beverages, tobacco products, textiles, chemical and chemical products, other non-metallic mineral products and basic metals. Such workers were poorly distributed in the industries like machines, electrical and electronic goods, transport vehicles and parts and printing and publishing. The state level analysis also shows skewed distribution of the contractual workers.

The researcher concluded by stating that the employers increased the proportion of non-permanent workers in their establishments in order to escape from various provisions of the labour laws and that even in the absence of formal deregulation of the labour laws the employers are able to achieve significant degree of labour market flexibility.

Guha (2009) using ASI data at 3 digit level of NIC-1998 for the year 1994-95 to 2003-04 pertaining to 44 sectors has critically investigated the claims made in favour of introducing greater flexibility in the labour market. The scholar has examined the neo-liberal proposition that casualisation of labour leads to higher output and employment growth. To trace the relation of the growth in labour market flexibility with output growth rate at 1993-94 prices and employment growth, the correlation coefficients have been calculated and it was found that both the correlation coefficients were close to zero. The author therefore concluded that there is no relationship between increase in labour market flexibility and output growth and employment growth.

Further, it is proved from the regression analysis that increasing labour market flexibility (defined as an increase in the proportion of non-permanent/casual workers to total workers) has no positive impact on output and employment growth. The neo-liberal proposition that an increase in labour flexibility would lead to greater output and employment growth does not seem to be valid as far as Indian manufacturing industry is concerned.

Another study related to contractual workers has been done by **Rajeev (2006)**. The study is based on the primary survey of 200 contract employees working in 30 registered manufacturing units in the cities of Bangalore, Mangalore and Mysore employing such category of workers. As reported by the study, the use of contract labour varies widely across different enterprises, starting from about 6 per cent to as high as 80 per cent. These workers are often engaged in different types of jobs of which security guards, housekeepers and helpers are the most common categories. The researcher also observed that around 11 per cent of workers are engaged in technical jobs that usually involve actual production related work (perennial in nature). About 85 per cent of workers are the migratory workers from different parts of Karnataka and north-east India. Most of the workers in this category are paid less than the stipulated minimum wages and are also deprived of other job related and social security benefits. This kind of exploitation of contract workers is done by the collusive agreement between the contractors and the principal employers.

Rajeev (2009a) has accomplished another study on contractual workers employed across various industry groups in India. For this study registered manufacturing sector data of Annual Survey of Industries (ASI) for the period 1998-99 to 2000-01 has been used. Using a panel data model for a cross-section of 60 industry groups (classified according to the products) the study has tried to find the contributions to output of different sections of labour, viz. contract workers, regular production workers; and managers, supervisors and other officials for the period. The study found that the use of contract labour, as measured by the ratio of contract workers to total workers, varied widely across different industry groups. The percentage of contract workers to all workers has shown an increasing trend over the years, revealing the increasing popularity of this form of labour use in the Indian manufacturing sector. The average percentage of employment in this category of labour has increased from 14 (1998-99) to 20 (2000-01). Food products, beverages and tobacco products employ the highest proportion of contract workers followed by non-metallic mineral products and metal products. Wood and wood products and textiles employ relatively very less proportion of contract workers. Though contribution of this category of workers, in production is more significant than the regular and directly employed workers, yet they enjoy very less basic work facilities and other social security benefits. The researcher has further experienced through her studies that whatever little is provided by law is seldom provided in practice.

Singh (2012) in his doctoral thesis (unpublished) has widely discussed the concept of labour market flexibility with reference to employment of contract workers viz.-a-viz. the total workers or the directly employed workers in Indian organized manufacturing sector. For conducting this study the Annual Survey of Industry (ASI) data published by the Labour Bureau, Chandigarh/Shimla for the year 1984-85 to 2005-06 has been used. Using different statistical and econometric tools to process the collected data the scholar has observed that the contract intensity in Indian manufacturing sector has increased both within the industry and the same has also been redistributed between industries. The findings of the study do not support the arguments by the protagonists of the labour market reforms that the Indian labour market is quite rigid due to several provisions contained in *chapter V.B of the Industrial Disputes Act, 1947 and Contract Labour (Regulation and Abolition) Act, 1970*. On the other hand findings support the arguments of the antagonists of the labour market reforms that a significant degree of labour market flexibility has been introduced by the employers due to weak enforcement of various labour laws, specially, the contract labour laws which has resulted in an increasing presence of contract workers in regular works. Thus, a substantial degree of labour market flexibility has already been achieved by the employers without any formal deregulation of the labour market in India.

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