

# Wage Disadvantage of Contract Workers in Indian Manufacturing Sector

**K.R. Shyam Sundar & Rahul Suresh Sapkal**

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*The rising wage inequality between regular and contract workers in the manufacturing sector in India is posing serious challenges to the government's reform agenda as it is externalizing the tremendous social and political costs for undertaking pro-market reforms. This paper seeks to analyze the trends in the wage inequality between regular and contract workers in the Indian manufacturing during 2000-2013. It was found that wage differentials are not only higher but widening over the years though slightly. Pro-worker regulatory climate in fact protects the interests of precarious workers like the contract workers. The government must focus on redesigning labor policies in conformity with ILO standards and decent work programs that will promote both efficiency and equity in labor market in India.*

**K. R. Shyam Sundar** is Professor, XLRI, Xavier School of Management, Email: krshyams@xlri.ac.in.  
**Rahul Suresh Sapkal** is Assistant Professor (Economics), Maharashtra National Law University, Mumbai, Email: rahul@mnlumumbai.edu.in.

## Introduction

Two types of labor market information have dominated both media coverage and academic debate on public policy, viz. proliferation of non-standard employment and rising wage and income inequalities. A standard employment is one which is open ended, full-time, with a direct relationship between employer and employee. A job is considered “non-standard” if its features differ from those of standard employment. On the other hand, inequalities especially concerning economic (wealth, income and wage) between several cohorts have dominated the attention of analysts. Both generate tremendous social and economic concern as they pose serious challenges for social and political cohesion and have significant costs for economic growth (The Hindu, 2017; Chakravarty, 2016; Ramaswamy, 2008). It is significant to note that the ILO has chosen to report on wage inequalities at the workplace in its Wage Report for 2016-17. According to this report, in India, the highest-paid top 10 per cent of income groups receive almost 43 per cent of total wages paid to all employees, whereas, the lowest-paid bottom 50 per cent of income

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groups receive only 17 per cent of total wages paid to all employees (see ILO 2016, Table 2:42, xvii). Moreover, the report also observes the following three important dimensions of growing wage inequalities in India: 1) the upper tail of wage distribution is highly concentrated in the hands of 1 per cent highest-paid income groups; 2) women workers earn 33 times less than the male workers; and 3) the persistence of wage inequality within the enterprise and industrial sector is driving total wage inequality (ILO 2016). The Wage Report on India by ILO attributes employment of flexi-category workers like contract labor as responsible for declining wage share in industries (ILO, 2018).

Different bases of inequities could be identified such as gender, skill-based, social and religious identities which have received some attention in the literature on inequities and discrimination (e.g. Karan, 2008; Ramaswamy, 2008; Madeshwaran&Attewell, 2007). Much of the analyses on wage inequality have used the National Sample Survey Organization's (NSSO) data and brought out wage inequalities by sector, gender, status (regular and casual) and space (rural-urban) (e.g. Karan, 2008; Das, 2012). However, wage inequalities between the

classes of workers within the organized manufacturing sector have not been studied. In the organized manufacturing sector two portals of employment at the firm level have come to prevail, i.e. directly-employed workers and workers employed through intermediaries. The latter category comprises the contract labor employment, i.e. workers supplied by labor supply contractors to the user enterprise (or the primary employer as is generally known in India). In the post-liberalization period the incidence of contract labor employment has risen significantly for various reasons.

We submit that we need to study wage inequalities between permanent and contract workers for several reasons. Two reasons are primary, viz. contract workers are becoming more numerous as years roll by and several severe industrial disputes even involving violence (e.g. Maruti Suzuki dispute and violence in 2012, Hero Honda in 2005, Toyoto Kirloskar strike in 2001-02) have occurred on the issues concerning employment of contract workers (AIOE, undated; Shyam Sundar,2010; 2015a). The labor regulation debate in India has attributed the rise in the incidence of flexible labor in general and contract labor in particular to rigidities inherent in labor laws and differential labor regulation regimes (flexible and rigid) have been used as explanatory factors for promoting adverse labor market outcomes in India. This article examines the trends in and size of rising wage inequality between the two categories of workforce in the organized manufacturing sector in general and also across different labor regulation regimes.

### **Contract Labor & Industrial Relations System (IRS)**

The Central Government enacted the Contract Labor (Regulation and Abolition) Act (the Contract Labor Act) in 1970. The Act seeks to regulate the employment of contract labor in certain establishments and to provide for its abolition in certain circumstances. It applies to establishments employing 20 or more contract workers and to contractors employing 20 or more workers. The appropriate government can decide on “prohibition” of employment of contract labor by not only considering the conditions of work and benefits for the contract labor in that establishment but also on other criteria: whether (a) the process or work is incidental or necessary for the industry, (b) it is of perennial nature, (c) if it is done ordinarily by regular workers, and (d) it is sufficient to employ considerable number of full-time workers (Section 10 of the Act). The principal employers (user establishments) should register their establishments and the contractors should obtain license to be eligible to execute work through contract labor. The contractor should pay wages to their workers on time and in the presence of the representatives of the principal employer. The liability in these matters ultimately falls on the principal employer.

Article 38(2) of the Constitution provides that: “The State shall, in particular, strive to minimize the inequalities in income, and endeavor to eliminate inequalities in status, facilities and opportunities, not only amongst individuals but also amongst groups of people residing in dif-

ferent areas or engaged in different vocations.” The Rules framed by the Central Government in furtherance of the act put in place two important conditions for renewal of license by the contractors, viz. the rate of wages paid to the workers should not be less than that determined by the appropriate government under the Minimum Wages Act, 1948 and the wage rates and terms of employment such as holidays, hours of work and so on should be the same as applicable to the workers directly employed by the principal employer (Central Rule 25(iv) and (v/a)).

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The most contentious provisions of the Contract Labor Act concern two aspects: abolition of contract labor system and the consequences thereon (whether the contract labour should be absorbed in the rolls of the principal employer or not as regular workers) and equal pay for equal work. Both have bearing on the wage inequalities that we discuss in this paper. Regularization of contract workers upon abolition which the current judicial position has not endorsed save in some conditions (e.g. sham contracts) could boost erstwhile contract workers’ wages. On the other hand, the principle of “equal pay for equal work”, if enacted as a law, could enhance contract workers’ wages. These issues have been points of contention between the employers and the trade unions (Shyam Sundar, 2011).

The Central Government in a bid to promote both economic growth and employment numbers has, under tremendous pressures from neo-liberal supporters (e.g. Majumdar, 2016; Debroy 2005) and industry federations (e.g. FICCI-AIOE, 2005; Team Lease, 2005), has sought to ensure “Ease of Doing Business” climate by providing for flexibility for employers. Apart from the measures proposed to be executed by the Central Government (Gopalakrishnan, 2016; Shyam Sundar, 2015b; 2018, for a good summary of them) state governments like Rajasthan, Madhya Pradesh and recently Maharashtra have liberalized the Contract Labor Act by raising the threshold for application of the law from 20 workers to 50 workers and thereby removing many primary employers and contractors out of the purview of the said law (Shyam Sundar, 2018 for details). It is expected that several other states would follow the suit and even the Central Government may enact the same at the national level. Further a host of complimentary flexibility measures are being attempted or have been implemented by both the Central Government and the state governments. It is in these contexts of rising flexible labor markets even in the so-called formal sector we need to review the wage inequities between contract workers and directly-employed workers.

### **Contract Workers in the Organized Factory Sector**

Before we investigate the wage differentials between the directly employed workers and the contract workers, we

should note some caveats with regard to the statistics released by the Annual Survey Industries (ASI) which we use in the paper. Firstly, the directly employed workers comprise permanent workers on the one hand and flexi-category workers like temporary workers, trainee workers (non-statutory), casual workers, fixed-term workers. Hence, directly employed workers cannot be equated with permanent workers. The umbrella flexi-category workers’ share in the total directly employed workers could be significant as the firms have been noted for aggressively pursuing both internal and external numerical flexibility (Deshpande, Deshpande & Standing, 1998; 2004; Shrouti & Nandkumar, 1995; Shyam Sundar, 2011). So the exercise of comparing wages in this paper of directly employed and contract workers cannot be seen as wage inequity exercise between permanent and contract workers. Table 1 shows that the compound average rate of growth (CARG) of directly employed workers lagged much behind those of contract workers during the post-reform period. The absolute number of directly employed workers followed a downward trend from 2000-01 through 2004-05 and from 2010-11 through 2015-16, while the contractual employment grew at a sharp rate. Further contract workers were always higher than that of the directly employed workers.

The share of contract workers in total workers in the organized factory sector has increased from 12.26 percent in 1990-91 to 42.27 percent in 2013-14 (Fig. 1). As is widely known

**Table 1 CARG of Regular & Contract Workers in the Organized Manufacturing Sector in India, 1990-91 to 2015-16 (%)**

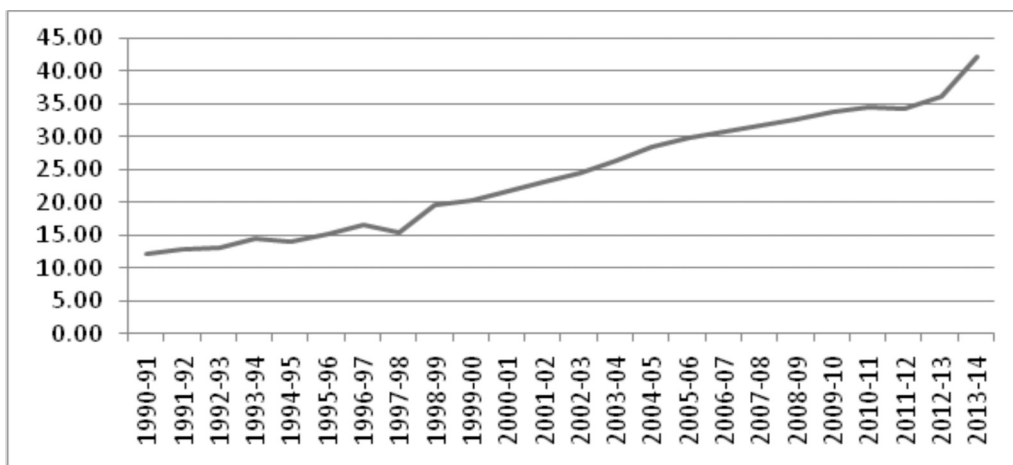
Period	Total Number of Workers	Number of Contract Workers	Directly Employed Workers
1990-91-1994-95	2.53	6.13	2.00
1995-96-1999-2000	-4.76	2.38	-6.23
2000-01-2004-05	1.84	8.96	-0.44
2005-06-2009-10	6.43	9.77	4.90
2010-11-2015-16	1.86	9.62	-3.48
<b>Longer Time Blocks</b>			
1990-91-1999-2000	-0.05	5.79	-1.13
2000-01 to 2015-16	4.73	10.12	1.19
1990-91 to 2015-16	3.14	8.11	1.06

**Note:** Unless otherwise mentioned, the following will be the source for tables and figures:

**Source:** Based on the Report of Annual Survey of Industries Vol. 1 & 2 (various years), Central Statistical Organization, Government of India

and evidenced by press reports that in some industries especially in medium and large scale industries the share of contract labor could be much higher than the official figures (Baggonkar, 2016).

**Fig. 1 Percent Share of Contract Workers in Total Workers in the Organized Factory Sector, 1990-91 to 2013-14**



**Wage Differentials**

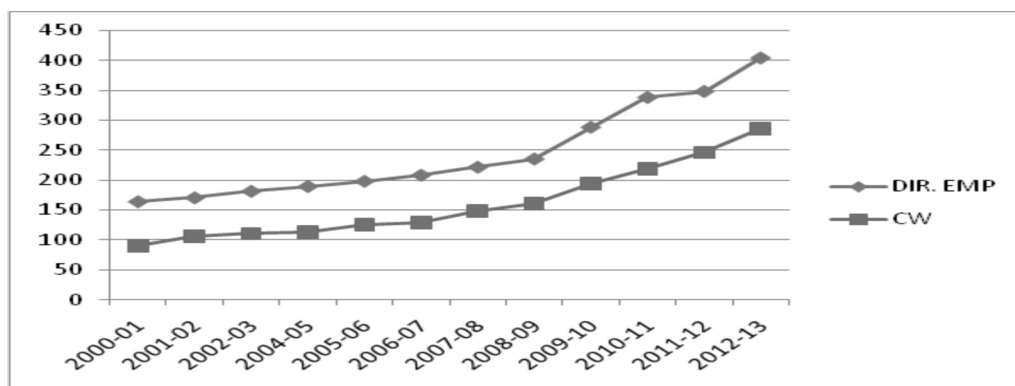
Theoretically, one would expect that as wages of contract workers increase relative to those of regular workers, the share of contract workers in the total workforce would decline. But, when the

wages of regular workers are determined by a bargaining process, wherein their bargaining power is curbed due to the presence of contract workers, firms have an additional incentive to hire these workers. By hiring more contract workers, the bargaining power of regular

workers is reduced and consequently the wage differential between the two could be reduced. On the other hand, non-organization of contract workers or non-inclusion of contract workers in the trade unions of regular workers' in an enterprise or industry could push down the wages of the contract workers. So,

both compression and expansion of wage differential between the two are possible. We provide nominal wages per manday (we use the official sexist term with apology) worked for directly employed workers and the contract workers for the period 2000-01 to 2012-13 in Fig. 2.

**Fig. 2. Wages per Manay (sic) Worked for Directly Employed and Contract Workers, 2001-02 to 2012-13**



Note: DIR.EMP – workers directly employed

#### CW – Contract Workers.

Contract workers' wages as a proportion to that of directly employed workers ranged from a low of 55 percent to 71 percent during the period 2000-01 to 2012-13. In general we note that the differentials are widening slightly over the years. For the entire period, the average wage of contract workers was two-thirds of that for the directly employed workers.

The wage differential at the disaggregated level (two-digit) within the manufacturing sector for the period 2001-02 to 2013-14 (Table 2) shows that in the traditional and often labour-intensive industries like textiles, food, wear-

ing apparel, leather goods industries wage differential between the directly employed workers and the contract workers is small and in fact in wearing apparels and leather goods industries contract workers have been paid wages slightly higher than that for the directly employed workers. On the other hand, in general wage differential between the two said categories of workers was relatively higher, though slightly decreasing. This could be attributed to rising levels of organization of contract workers and inclusion of contract workers' issues in the struggle and bargaining agenda by the mainstream trade unions (Shyam Sundar 2011, 2015a, for the dynamics underlying these developments especially post-2005 period).

**Table 2 Wage Differential across 2-digit Industry Divisions (NIC-2008)(%)**

2 digit Industry Divisions (NIC 2008)	Wage Differential	
	2001-02	2013-14
Food products (10)	0.62	0.87
Beverages (11)	0.18	0.70
Tobacco products (12)	0.09	0.96
Textile (13)	0.37	0.90
Wearing apparel (14)	0.80	1.09
Leather and related products(15)	0.12	0.95
Wood, and products of wood and cork(16)	0.19	1.01
Paper and Paper products (17)	0.11	0.77
Printing and reproduction of recorded media (18)	0.29	0.76
Petroleum products (19)	0.14	0.23
Chemical and chemical products (20)	0.33	0.60
Pharmaceuticals, medicinal chemical and botanical products (21)	0.49	0.65
Rubber and Plastic products (22)	0.63	0.76
Non-metallic mineral products(23)	0.15	0.64
Basic metals (24)	0.17	0.48
Fabricated metal products(25)	0.87	0.71
Computer electronic and optical products(26)	0.48	0.54
Electrical equipment's(27)	0.41	0.61
Machinery and equipment's(28)	0.35	0.65
Motor vehicle, trailers and semi-trailers(29)	0.20	0.53
Other transport equipment(30)	0.76	0.64

But the micro-level studies and anecdotes offer a more radical and even worrying picture of wage inequalities between the contract and regular workers. The advantage of micro-level studies over the quantitative studies using secondary data is that vital information on the terms and conditions of employment faced by contract workers are directly secured and there is no need to make convenient assumptions as in the case of quantitative studies (e.g. Sen, Saha & Maiti, 2010) find

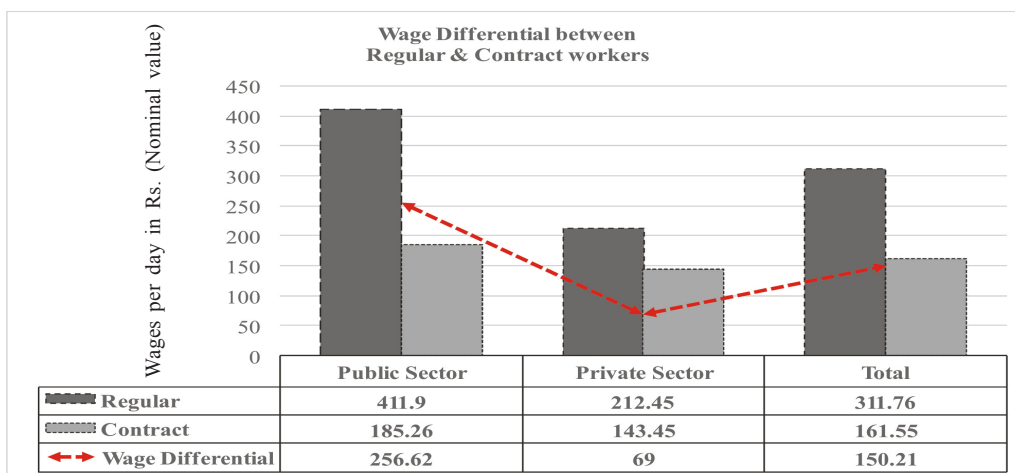
**Contract workers at best are paid just the minimum wages while the regular workers are more likely to be paid collective bargaining wages.**

a high correlation between minimum wages issued by the states and the wages of contract workers. This shows that contract workers at best are paid just the minimum wages while the regular workers are more likely to be paid collective bargaining wages. Trade union leaders claim that organization of and negotiation for contract workers are even required to ensure labor law compliances including payment of minimum wages. Larger sized companies are more likely to pay a slight to larger premium over the minimum wages to contract workers as a result of union wage and firm reputation effects. Rajeev (2006) finds in her survey of contract workers in Karnataka that a majority of contract workers earn less than INR 2,000 and some less than INR 1,000 (less

than the minimum wages) while the regular workers earn at least INR 6,000. Bhandari (2006:15) uses data collected from 551 individuals working in the organized manufacturing sector in West Bengal, Uttar Pradesh, Haryana and Delhi during 2004-05 and found “a substantial wage gap” between permanent and con-

tract workers as contract worker earned 45.5 percent less than their counterparts. V.V. Giri National Labor Institute conducted a survey and collected wage information for regular and contract workers performing same work and wage differentials for public and private sectors are given in fig. 3.

**Fig. 3 Wage Differential between Regular & Contract workers in 2011**



**Note:** Regular – Wages of regular workers; Contract – Wages of contract workers; Differential – proportion of contract workers’ wages in wages of regular workers

**Source:** Trade Union Record, All India Trade Union Congress (AITUC), December 2012

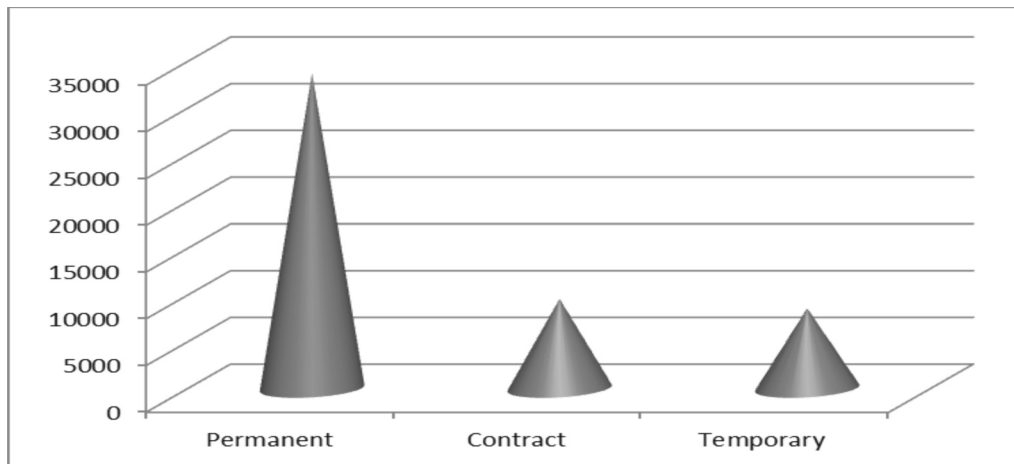
Though performing same work, in the private sector contract workers’ wage was about 68% of the wages of the regular workers while it was lower at about 45% in the public sector and overall we find that the contract workers earn just over half of the wages earned by regular workers. Arguably, pay differential in the public sector is higher because of highly bargained wages for regular workers and

exclusion of contract workers from wage bargaining – though in recent years the public sector trade unions have sought to include contract workers’ wage interests in the collective negotiations (Shyam Sundar, 2011).

The IndustriAll Report on Precarious Workers in India (2016) says that in garment and textile industry “In some workplaces permanent workers get paid double the amount that contract workers get paid, with the contract workers very often not even being paid the legal minimum wage. For doing the same jobs, con-

**The contract workers earn just over half of the wages earned by regular workers.**

Fig.4 Average Nominal Wages per Month of Categories of Workers (INR)



Note: Permanent = INR 33688; Contract = INR 9561; Temporary = INR 8545  
 Source: Data from IndustriAll (2016)

tract workers get paid approximately Rs150 (• 2.20) per day, while permanent workers receive Rs250-300 (•3.60 – 4.33) per day.” In the cement industry, “A permanent worker might get paid Rs 500-600 (•8) per day. A contract worker alongside him, performing the same tasks, might only get Rs 165 (•2.5).” A study headed by Tom Barnesin (2015) found that in the supply chain sample in the auto-clusters in three cities in India contract workers earned in the range of 41% (basic pay only) to 51% (basic, allowances, bonus, etc.) of regular workers’ wages “despite being engaged in the same work or occupational area” (reported in Barnes, 2017:46). The study of precarious workers in the automobile industry in Tamil Nadu by International Commission on Labor Rights reveals on the basis of interviews with workers that the ratio of wages of contract workers to permanent workers was in the range of 1:4.9 to

1:6.22 in Hyundai, 1:2.75 at a minimum in Renault-Nissan, in the range of 1:5.26 to 1:6.15 in Ford, in the range of 1:2.72 to 1:2.88 in the automobile component manufacturing factories in Tamil Nadu (calculated from the data provided by Gopalakrishnan and Mirer (2014), :32-33).

James Parry in his intensive field study of contract workers in the public sector Bhilai Steel Enterprise (BSE) observes that the contractor maximizes his earnings as labor supplier by paying workers at a rate far below the higher than minimum wages payment made by BSE and thus siphons off “more than half the sum that the worker should get” (Parry, 2013: 356). However, he found that highly skilled contract workers get wages higher than the minimum wages (see Parry, 2013 for the dynamics and politics surrounding contract labor). But the mainstream trade unions are taking

efforts to moderate the wage differentials between regular and contract workers – e.g. the unions in Coal India have demanded a better parity between the contract and the regular workers which will pre-empt labor problems in a company (Jibon Roy, joint secretary at All India Coal Workers Federation, quoted in Sengupta, 2011). The All India Organization of Employers (AIOE) has recommended that contract workers' minimum wages should be determined according to the skill levels and they should be paid a premium of 20 percent over the minimum wages (AIEO, undated).

The trade unions have adopted several strategies to effect some kind of parity in the wages of contract and permanent workers, viz. strikes, holding dialogue with principal employers, the contractors and the government agencies, approaching the judiciary for effecting some kind of parity between the wages of contract and regular workers (Shyam Sundar, 2011; 2016). With regard to the contract workers trade unions have made three broad demands, viz. employment security (regularization of contract workers upon abolition of contract labor system and continuation of contract laborers even if the contractor changes), equal pay for equal work by contract and regular workers and better terms and conditions of employment for contract workers. Some commentators have observed high correlation between the wages of contract workers and the state minimum wages (Sen, Saha & Maiti, 2010). Firstly, it is well known that minimum wages are not revised as per the legal requirement in most of the states and what is revised

is the special allowance every six months and hence they are likely to be lower. Secondly, the low wage differential that we note from the ASI data is in utter contrast to the anecdotes and field level stories that we hear and read and hence it is likely that contract workers' wage in the ASI data might be an over-estimation – this possibility has not occurred to us.

**The Supreme Court has extended the benefit of “minimum of the regular pay-scale” along with dearness allowance, as revised from time to time, to temporary employees.**

The Supreme Court in a recent judgment in *State of Punjab vs. Jagjit Singh (State Of Punjab And Ors vs Jagjit Singh And Ors on 26 October, 2016, <https://indiankanoon.org/doc/106416990/>, accessed 13 July 2017)* has held that temporary employees would be entitled to draw wages at the minimum of the pay-scale (at the lowest grade, in the regular pay-scale), extended to regular employees, holding the same post. The Supreme Court has extended the benefit of “minimum of the regular pay-scale” along with dearness allowance, as revised from time to time, to temporary employees (engaged on daily-wage basis, as ad-hoc appointees, as employees engaged on casual basis, as contract appointees, in the government sector. The Court in another judgment observed that “It is to be kept in mind that the claim of equal pay for equal work is not a fundamental right vested in any employee though it is

a constitutional goal to be achieved by the Government.” In another case, the Court observed that “Undoubtedly, the doctrine of “equal pay for equal work” is not an abstract doctrine and is capable of being enforced in a court of law. But equal pay must be for equal work of equal value.” The Court also laid down the conditions to determine whether the two sets of workers perform equal work. Though this judgment pertains to the government sector it has ramifications for the private sector as well (Sampath, 2016).

The Supreme Court in several judgments has upheld the principle of same or similar work and same pay built in the Rule 25 (2) (b) of the Contract Labor Act – e.g. “Contract labor is entitled to the same wages, holidays, hours of work and conditions of service as are applicable to workmen directly employed by the principal employer of the establishment on the same or similar kind of work. They are entitled to recover their wages and their conditions of service in the same manner as workers employed by the principal employer under the appropriate industrial and labor laws.” (B.H.E.L. Workers Association, Hardwar and Others vs. Union of India and Others [(1985)] SCC 630). However, employers reject the principle of equal work equal pay for several reasons, the major being that the selection processes for regular and contract/temporary workers differ, training and experience differentials between the two and so on (Shyam Sundar, 2011; Majumdar, 2016) – e.g. “We employ people in ground-handling services according to our need. You can’t expect

pay parity between workers with experience of 12 years and those with one year,” says an executive with an airline company (quoted in Majumdar, 2016).

Contract workers suffer from other disabilities also. The fundamental disability is the lack of employment security. It may be argued that because contract workers are cheaper as compared to permanent workers and because they could be dispensed with easily, the demand for contract workers is high resulting in some employment as opposed to their unemployment. As a result of these two, their voice security has also been affected significantly. Historically, the hiatus between the permanent and contract and other flexi-forms of workers has existed which prevented the mainstream trade unions from organizing these workers or including them in the organizations of permanent workers (Roye, 2007). Over the post-reform period, as the employment security of the permanent workers began to be threatened, trade union commentators called for “solidarity” between the two segments of workers (Roye, 2007) and the mainstream trade unions have paid organizational attention over them (Shyam Sundar, 2011; 2015a). However, in most cases permanent workers’ unions do not admit contract workers into their trade unions though they mostly represent the demands of the contract workers (Shyam Sundar, 2011; Sampath, 2016; also see ex-High Court Judge, Hariparanthaman’s observations on this issue at <http://tnlabour.in/unorganised-sector/5104>, accessed 13 July 2017). Hence it becomes a kind of vicious cycle.

### **Incidence of Wage Inequality**

In Economic Survey 2005-06, the State has blamed stricter regulation of labor laws as a main factor causing low industrial performance and output, growing wage inequality, and informalization and more importantly, driving jobless growth in the economy. Several studies have been carried out to assess the performance of industrial sector using the state-level variations in labor regulations (Besley & Burgess, 2004; Ahsan & Page, 2009; Adhvaryu, Chari & Sharma, 2013). These studies have argued that strict labor regulations hurt economic growth and workers' interests, whereas flexible labor regulations promote economic growth and employment (Sapkal, 2016 for a summary of these studies). This provides economic rationale for enabling flexibility in labor markets by introducing market-led labor laws reforms. Then, it becomes important to investigate the influence of differing labor regulation regimes on wage differential between directly employed and contract workers, which we do below.

In Table 3, we turn our attention on wage inequality among different labor regulation regimes. Overall the ratio of wage differential between directly employed and contract workers is 0.52 and 0.71 percent points in flexible and average rigid states respectively. However, in the most rigid states the same ratio is 0.79 per cent. This shows that, the much publicized claim of rigid labor laws hurting the interests of precarious workers is not upheld at least in terms of wage differentials. In other words, at the time of heightened global com-

petition and race to the bottom of labor standards, contract workers in the pro-worker states are getting wages as nearer as possible vis-à-vis the so-called regular workers as compared to those in the flexible states. In other words, labor institutions could be said to be at work in ensuring that the gap in the wages between the contract and the directly employed workers is as low as possible.

Further, we observe that the gap between wage differential ratios of average and most rigid states relative to flexible states are increasing except in 2010-11. From 2011 onwards, the trend in wage differentials is exacerbating in flexible states with each step furtherance to market-led labor law reforms (Fig.4).

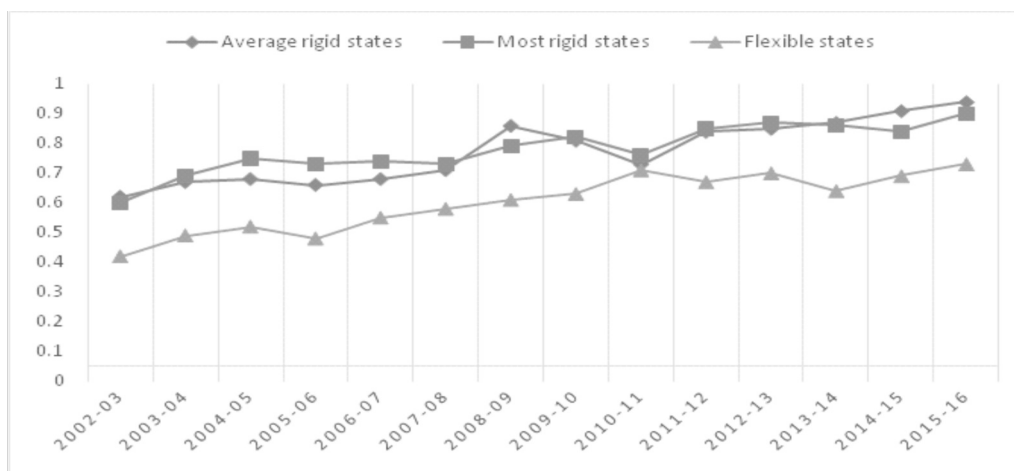
### **Drivers of Wage Differentials in the Manufacturing Sector**

Next, we examine factors driving the wage differentials in the organised manufacturing sectors. Using the Ordinary Least Squares (OLS) regression, we find that the growth in the size of contract workers in the manufacturing sector increases the wage differential ratios among contract and directly employed workers. Employers are more inclined to employ more contract workers as they are still relatively cheaper than that of the directly employed workers. Contract workers suffer from absence of employment security and constitute *de jure* face of labor laws owing to the deliberate ineffective (poor) enforcement machinery. Secondly, an increase in the value added by per worker is likely to increase the wage differential due to pro-

**Table 3 Wage Differential between Contract & Regular Workers**

Years	Average rigid states	Most rigid states	Flexible states
2002-03	0.62	0.60	0.42
2003-04	0.67	0.69	0.49
2004-05	0.68	0.75	0.52
2005-06	0.66	0.73	0.48
2006-07	0.68	0.74	0.55
2007-08	0.71	0.73	0.58
2008-09	0.86	0.79	0.61
2009-10	0.81	0.82	0.63
2010-11	0.73	0.76	0.71
2011-12	0.84	0.85	0.67
2012-13	0.85	0.87	0.70
2013-14	0.87	0.86	0.64
2014-15	0.91	0.84	0.69
2015-16	0.94	0.90	0.73
Overall (in %)	0.71	0.79	0.52

Note; Indian states have been classified based on the labor regulation index constructed by OECD (2007) and Besley and Burgess (2004). Average rigid states (Punjab, Haryana, Bihar, Assam, Madhya Pradesh, Gujarat, Kerala); Most rigid states (Orissa, Maharashtra, West Bengal); Flexible States (Rajasthan, Uttar Pradesh, Andhra Pradesh, Tamil Nadu and Karnataka).

**Fig. 4 Wage Differential Ratio across Different Labor Regulations.**

ductivity variance among both type of workers. Finally, an increase in the capital intensity is likely to exert a positive impact on the wage differentials, however the estimated coefficient is statistically insignificant (Table 4).

**The growth in the size of contract workers in the manufacturing sector increases the wage differential ratios among contract and directly employed workers.**

**Table 4 Empirical Analysis**

Dependent Variable :Ratio of Wage Differentials	Independent Variables					
	Proportion of contract wokers	Value added per worker	Fixed Capital per worker	Constant	Adjsted R <sup>2</sup>	Obs.
	-0.008***(0.002)	-0.142**(0.057)	0.001(0.028)	2.412(0.153)	0.18	44

\*\*\* 5 % and \*\* 10 % levels of significance. Robust standard errors are reported in the parenthesis. All variables are in natural logarithm.

### Why Wage Inequities?

Principal employers employ contract labor for three reasons, viz. easy dispensability subject to market conditions, relatively cheaper workforce, and low monitoring costs. Of the three, easy dispensability has not been a major virtue because in most of the tasks the principal employers either legally or illegally employ contract labor and hence the contract workers are continued in same tasks almost in same firms for longer tenures (as evidenced by anecdotal reports) (See also Shyam Sundar, 2011; 2013;2015b for some information on this) and the principal employers often participate in the monitoring of contract labor thanks to the interface of work done by the so-called contract workers and the regular workers. It appears that despite the transactional and commission cost inherent in employing workers through a third party, lower labor cost seems to be the real advantage for the principal employers. Cost arbitrage is the biggest incentive for rising and big employment of contract labor (Majumdar, 2016) and it makes eminent economic sense. This reasoning is further confirmed by the fact that contract workers are still least likely to be organized and their terms of employment hence are least likely subject

to collective negotiations, though there have been signs of some activity on these fronts (Bhandari, 2006; Shyam Sundar, 2011).

There is other side to this argument which posits that wages of contract workers in the formal sector will be better off than that prevalent in the informal job in the informal sector thanks to state regulations like minimum wages and some union effects. Further if the contract workers are more likely to be strike-substitutes during a longer industrial conflict and they perform probably more skilled work (to be effective strike-breakers) or even unskilled work, then it pays the firm to pay slightly higher wages to the contract workers than otherwise for retaining and pampering them. But these arguments fall on two grounds, viz. some studies show that minimum wages are generally violated in informal enterprises and informal sector of formal economy like garment industry; further it may not be economically rational for profit-maximizing employers to pay higher than minimum wages to train workers for an eventual conflict possibility in these times of withering away of strikes; and there is evidence of rising solidarity between regular and contract workers to

**There is evidence of rising solidarity between regular and contract workers to break employers' tactics.**

break employers' tactics (Roye, 2007; Shyam Sundar, 2011). Contract workers in medium and big establishments are more likely to be paid wages equivalent to or even higher than the minimum wages and in most other cases the contract workers according to trade unions do not receive even the minimum wages (IndustriAll, 2016). In fact, a study of conditions of workers in garment industry in Noida, Tiruppur, Gurgaon clusters concluded: "The presence of minimum wage violations, non-payment, underpayment and late payment of basic wages as well as illegal overtime wages, theft of social security benefits, threats to break union formation, and sexual harassment of female workers is clearly evident in the three aforementioned garment clusters in the country" (Ganguly, 2013).

The wage differential stories constructed here reveal some complexities which are compounded by data deficits. We need more robust and more detailed data (such as wages for regular workers and contract workers performing same work or otherwise) to be able to make definitive statements on the wage inequities. But based on both official data (with its limitations) and other studies and press reports we can safely say that while wage differentials between directly employed workers and contract workers though higher are

narrowing down over time at the macro level. Even this conservative wage differential seems to indicate only the tip of the iceberg. Based on the quantitative analysis, we infer that the growing share of contract work intensity and decrease in the value added per worker are likely to drive the total wage differential between the two types of workers. However, we do not find significant result on changes in the capital intensity and wage differential. Across varied labor regulation regimes, we find that the pro-employer states witness higher wage differential ratios than pro-workers states. This inevitably indicates that flexibility of labor markets actually hurts the workers interest. Employers' aggressive pursuit of numerical flexibility perhaps leads to inequitable wage outcomes and their belief that contract workers are more efficient than the complacent permanent workers is not likely to be true.

**Flexibility of labor markets actually hurts the workers interest.**

On the other hand, contract workers' employment conditions seem to be improving though they are still on the rough side in the labor market. This can be ascribed to four institutional features. There is a definite change in the stance of trade unions of permanent workers to move away from "isolate flexi-category workers and negotiate only for permanent workers" to "class solidarity" (organizational inclusion) vision (Roye, 2007) and as a result, the mainstream trade unions are increas-

ingly organizing and negotiating for contract workers ( e.g. Shyam Sundar, 2011; 2015a, 2015b; 2016). Two, several strikes have taken place seeking regularization of contract workers which sometimes result in regularization but more often they lead to wage revision as a trade off during negotiations. Simply put, permanent or contract workers strike demanding employment security as a deliberate ploy to secure wage increases in return as otherwise neither the principal employers nor the contract workers are keen to raise their wages (Shyam Sundar, 2009; 2011; 2016). Three, trade unions have been battling for significant rise in minimum wages and effective implementation of minimum wages which could have impacted the wages of contract workers more than that of the permanent workers. Four, the recent Supreme Court judgment [Bhilwara Dugdh Utpadak Sahakari Samiti Ltd v. Vinod Kumar Sharma (2011)] heavily criticized the practice of employers seeking to “subterfuge” labor laws covering contract labor employment by devious practice of using sham contracts. More significantly, recently Supreme Court in State of Punjab and Ors vs Jagjit Singh and Ors on 26 October, 2016 has ruled that temporary workers performing similar work as discharged by permanent workers are entitled to draw wages at par with similarly placed permanent workers. The principle of equal work equal pay must be applied in cases where the same work is being performed, irrespective of the class of employees.

### Concluding Remarks

The Central Government is gearing to introduce four Labor Codes (on industrial relations, working conditions, wages and social security) in an attempt to rationalize several central labor laws. This is a good time to set right the legal deficits which have contributed to mindless and even reckless flexibility in the system. Wage inequities and the larger income-wealth inequities could set the stage for more bloody and damning conflicts. India needs to reinvent its labor-centric policies. Central Government’s Rule 25 (v) (i) of the Contract Labor Act provides for equal pay for equal work and recently Supreme Court has endorsed this principle. As trade unions have long demanded the government should insert this provision in the Contract Labor Act in its forthcoming labor law reform exercises. Further, minimum wage law is a welfare legislation of far-reaching benevolent labor market outcomes and this could be a great socio-economic instrument to ensure efficiency and equity in the labor market. Freedom of association and collective bargaining rights and employment security along with equitable economic and labor market outcomes will go a long way to achieve the Decent Work goals.

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