

# New Labor Codes: What to Expect in Organized Manufacturing?

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*The recent labor reforms in India have generated the hope that it will empower its workers. This article examines the possible implications of the new labor legislation on supposedly protected workers in organized manufacturing. The market-driven labor reforms remain a mirage for the workers in organized manufacturing, suggesting India has a long way to go to protect its vulnerable workers.*

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## The Labor Cods Bill

The Government of India has recently passed four labor code bills- the Wage Code Bill 2019; the Social Security Code Bill 2020; the Occupational, Safety, Health, and Working Condition (OSHWC) Code Bill 2020; and the Industrial Relations Code Bill 2020. The pre-existing 29 labor laws which were entangled in a web of multiple labor legislations have been simplified by codifying them and combining them into four Acts. This reform in the Indian labor market has been branded as a significant milestone that will help employers and workers reduce complexities and bring transparency and accountability. The reforms also aim to provide an overarching economic, social, and legal security framework to the workers in both the organized and unorganized sectors. Apart from the loopholes of new labor codes discussed in the previous literature (Sundar, 2020; Goswami and Paul, 2021; Jain, 2022), we examine how far these new labor codes will secure workers, particularly in organized manufacturing. It is believed that the workers in organized manufacturing in India are considerably protected. How-

ever, with increasing informalization, defeminization, and skill-wage disparity in organized manufacturing (Kujur & Goswami, 2021), it is crucial to understand the possible implications of the new labor codes on the otherwise supposedly protected workers. In this spirit of investigation, this note evaluates the new labor codes in the context of organized manufacturing and outlines forecasts of the success or otherwise of its purported objectives. What additional economic, social, and legal support do the new codes offer to 'secure' workers?

### **Wage Disparity**

The Wage Code 2019 that provides the right to minimum wages amalgamated four previously existing labor laws: the Payment of Wages Act 1936, the Minimum Wages Act 1948, the Payment of Bonus Act 1965, and the Equal Remuneration Act 1976. The combined Wage Code notifies the revision of minimum wage every five years, besides guaranteeing equal and timely remuneration to all, irrespective of gender and regional disparities. However, in the same breath, the new Code postulates that the minimum wage is based on skill level and regional variation (Goswami and Kujur, 2021). In the first place, this is an obvious contradiction. In addition, it is doubtful that the minimum wage based on skill will really solve the predominant skill-wage gap in organized manufacturing. Existing studies have defined skilled and unskilled workers based on the classification of production and non-production workers. Production workers are low-skilled workers primarily involved in the production process of

converting raw materials into a finished product. In comparison, the non-production workers are high-skilled workers associated with technical and managerial activities (Bhattacharya et al., 2020). In this context, as provided in the Annual Survey of Industries (ASI) data, we define supervisory and managerial staff as high-skilled workers. Supervisory and managerial staff include all persons holding positions of supervision or management. Similarly, we define low-skilled workers as those employed directly, informally, formally, or through a contractor on wages or salaries and engaged in any manufacturing process or ancillary activities, such as cleaning machinery and manufacturing premises.

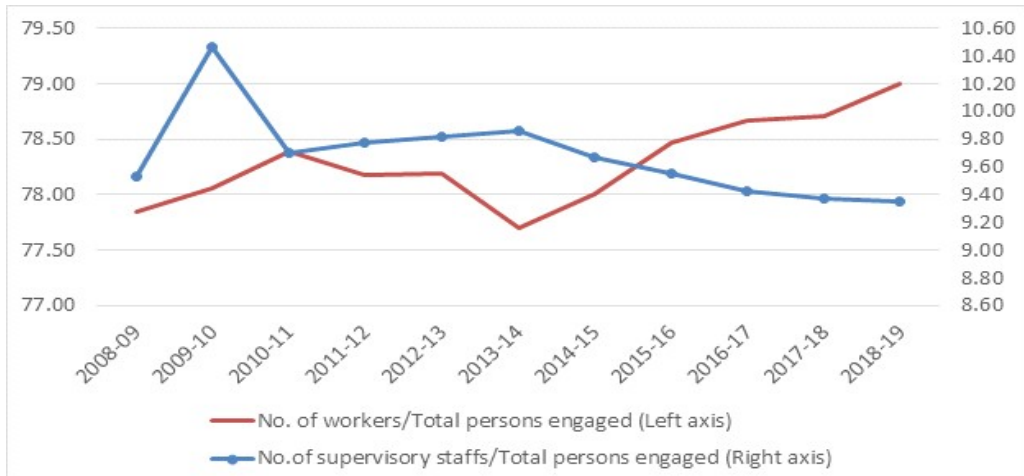
**The widening wage disparity between low- and high-skilled workers indicates the ever-increasing vulnerability of low-skilled workers within organized manufacturing.**

The percentage share of these low-skilled workers in India's organized manufacturing has demonstrated a persistent escalation (Fig. 1). It increased by 1.14 percentage points from around 77.85% in 2008-09 to 78.99% in 2018-19. On the contrary, the percentage share of high-skilled workers has shrunk by 1.12 percentage points from 10.47% in 2009-10 to 9.35% in 2018-19. However, astonishingly, the wage share of the low-skilled workers has declined by 1.17 percentage points from 49.82% in 2009-10 to 48.65% in 2018-19, while the wage share of the high-skilled workers has increased from 35.06% to 36.91% by around 1.85 per-

centage points. The widening wage disparity between low- and high-skilled workers indicates the ever-increasing vulnerability of low-skilled workers within organized manufacturing. Under such circumstances, if the new wage code is determined by the level of skill and regional

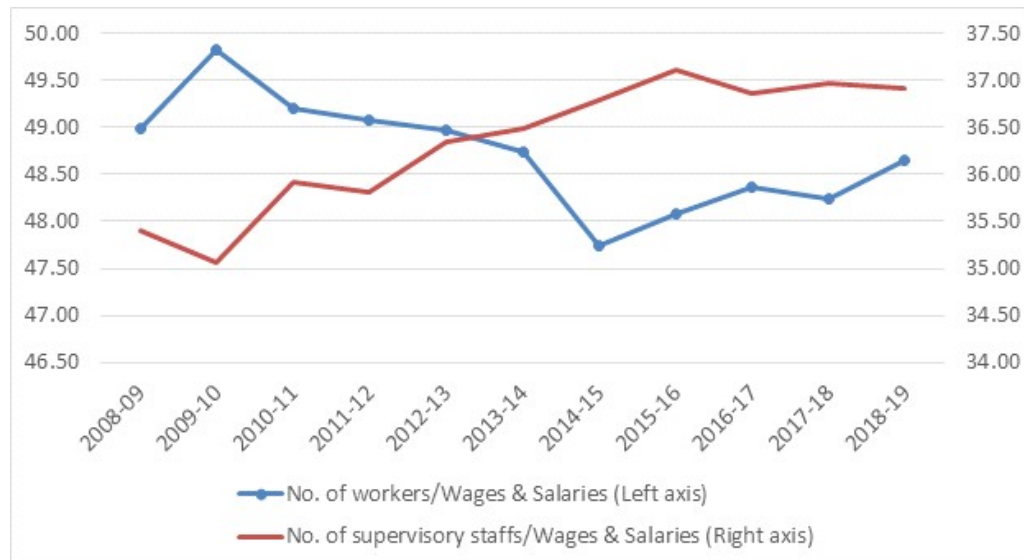
variation, we doubt whether the labor reform will indeed provide the promised wage security. Moreover, this skilled-based wage determination could further accelerate the widening wage gap as this market-driven policy will benefit employers at the cost of vulnerable workers.

**Fig .1 Skill-wise Employment**



Source: Authors' calculation based on ASI data

**Fig. 2 Skill-wise Wages and Salaries**



Source: Authors' calculation based on ASI data

## **Insecurity of Workers**

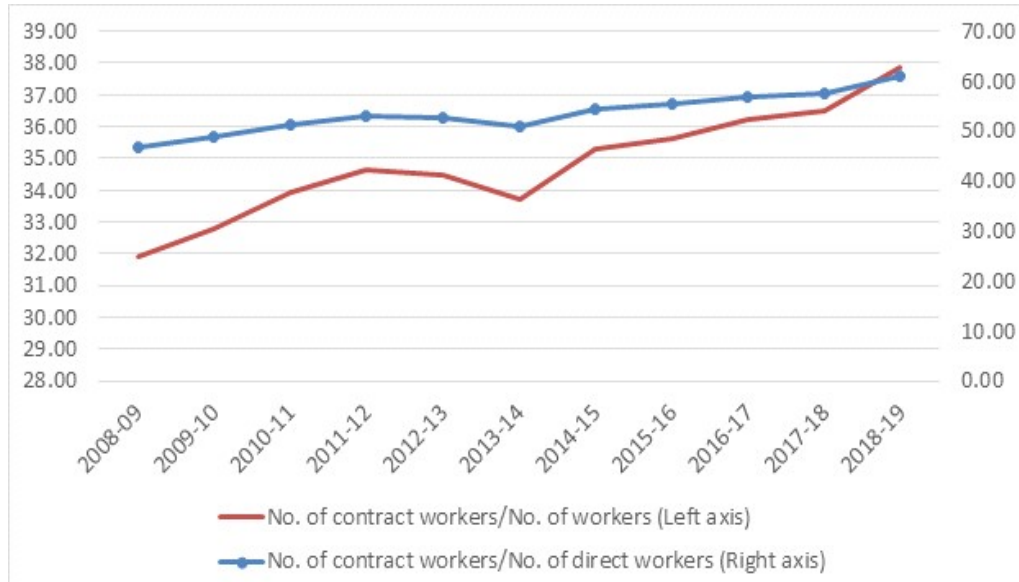
The Social Security Code 2020 amalgamated nine prevailing labor laws to secure the interests of workers by providing benefits such as insurance, pension, and gratuity. The objective of the code is to build a comprehensive framework to provide social security benefits to all types of workers. In particular, the new code mentioned creating social security fund for the unorganized sector. This raises questions on the inclusiveness of the new labor code with regard to the informalization of the organized manufacturing. In the organized manufacturing sector, the share of contractual workers in the total workers has escalated substantially by 5.92 percentage points from 31.94% in 2008-09 to 37.86% in 2018-19. Worryingly, the share of contractual workers in the total permanently employed workers increased rapidly over the last decade. It increased substantially by around 14.01 percentage points from 46.93% in 2008-09 to 60.94% in 2018-19 (Fig. 3). This surge in informatization suggests increasing insecurity in organized manufacturing. Although the new code promised social security funds for the unorganized sector, it remained silent on the growing social insecurity among the workers in organized manufacturing. In fact, several trade unions have already voiced their displeasure over the failure to provide social security for all.

**The share of contractual workers in the total permanently employed workers increased rapidly over the last decade.**

In addition, the new code mandated extending social security benefits, equal to those extended to permanent employees, to contractual workers. This suggests that the government has normalized the contextualization in the organized sector. Firms use contractual workers to reduce the high labor cost and bargaining power of the permanent workers (Basu et al., 2021; Saha et al., 2013), to increase flexibility as the employers are free to hire and fire the contract workers (Srivastava, 2016), to stay away from the legal establishment size threshold of 100 workers and to deal with temporary economic shocks (Chaurey, 2015). The benefits of hiring contractual workers having been well documented, it is doubtful that firms will prefer hiring permanent workers and also provide the same social security benefits as permanent workers to the growing number of contractual workers. Additionally, the Industrial Relations Code Bill 2020 has conferred the power to renew employment contracts solely to employers. This will stimulate the hire and fire policy where workers will be left at the mercy of the employers (Sundar, 2020).

## **Lack of a better and safer working condition**

The Occupational, Safety, Health, and Working Condition (OSHWC) Code 2020 consolidated 13 existing labor laws to provide a better and safe working environment for all types of workers. The unified OSHWC code 2020 ensures better working conditions for all workers, including female, migrant, and contractual. Specifically, the code provides the

**Fig. 3 Informalization of the Organised Manufacturing**

**Source:** Authors' calculation based on ASI data

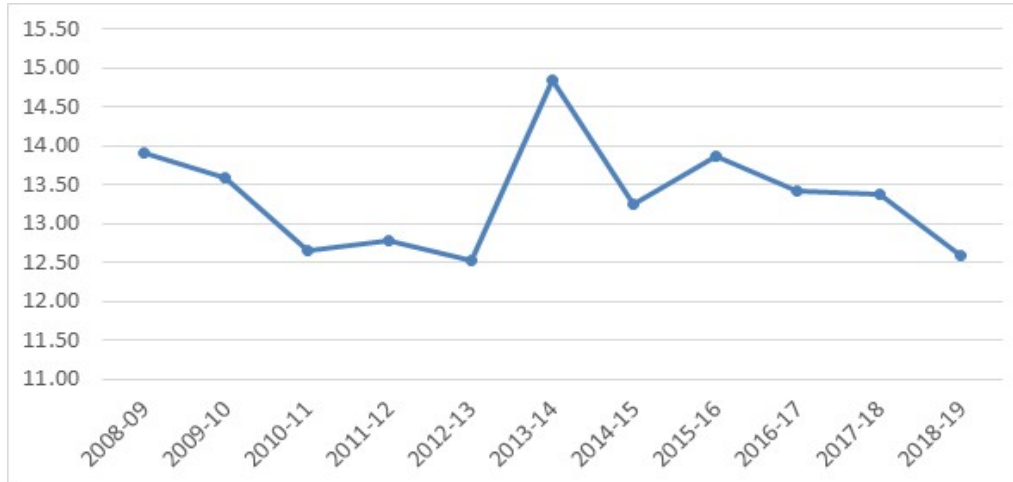
right for female workers to work in all types of establishments. However, mere conferring the right to work will not ensure a better and safer environment for female workers. This is because women employed in organised manufacturing are primarily contractual (Veeramani and Banerjee, 2022). In addition, as noticed from Fig. 4, the share of permanently employed females in the total workers has been pitifully low and has moreover been on the decline since 2013-14. It fell about 2.27 percentage points from 14.85% in 2013-14 to 12.58% in 2018-19. This drastic decline in permanent female workers indicates the process of defeminization of regular workers in organised manufacturing. Under such a scenario, mere conferring the right to work in all establishments will not guarantee better and safer employment for females. It is highly probable that the

female workers are hired in organised manufacturing but as contractual employees. In this scenario, the purpose of the code to universalize social security will remain inconclusive.

### Jeopardizing Workers Interest

The Industrial Relations Code 2020 that aims to safeguard the interest of trade unions and workers, integrated the previously existing three labor laws- the Trade Union Act 1926, the Industrial Employment (Standing Orders) Act 1946, and the Industrial Dispute Act 1947. The integrated code targets to lessen the disputes arising from the industrial units and workers. In one of its objectives, the code promises to provide financial assistance to the workers in case of job loss and, accordingly, the safety net of Atal Bimit Vyakti Kalyan Yojna was instituted. The

**Fig. 4 The Percentage Share of Permanently Employed Women in the Total Workers**



**Source:** Authors' calculation based on ASI data

scheme is designed to provide unemployment allowance to the workers covered under the Employees' State Insurance Scheme (ESI). However, unfortunately, the contractual workers are not covered under ESI (Vijay, 2005). As discussed earlier (Fig. 3), there has been increasing informatization in the organized manufacturing over the years. In addition, there was a massive job loss of contractual workers, particularly in labor-intensive

manufacturing such as tobacco, textiles, and wearing apparel, and some of the capital-intensive manufacturing such as

**If the new code does not protect contractual workers, we are apprehensive if at all this code provides any additional security to the vulnerable workers.**

**Table 1 Job Loss/gain of Contractual Workers (nos)**

Year	Tobacco products	Textiles	Wearing apparel	Computer and electronic products
2009-10	-32416	-7663	21046	49121
2010-11	-5038	10701	-2072	-37539
2011-12	12583	-841	2501	-364
2012-13	19953	-15207	-12511	-4359
2013-14	-200145	41525	5707	2634
2014-15	207371	-22590	-12486	-267
2015-16	-29013	27334	9876	5810
2016-17	-14271	-10420	9945	-819
2017-18	-10528	11444	-4141	2647
2018-19	29846	3923	-1299	20710

**Source:** Authors' calculation based on ASI data

computer and electronics products during 2009-10 to 2018-19 (Table 1). However, the loss in the jobs of contractual workers is not compensated and secured by the new scheme. So, if the new code does not protect contractual workers, we are apprehensive if at all this code provides any additional security to the vulnerable workers. This exemption of the unemployment allowance to the contractual workers negatively impacts the coverage of the new code and adversely affects labor welfare.

### A Long Way to Go

The labor reforms introduced after three decades purportedly aimed to reduce the complexities of numerous pre-existing labor laws and improve transparency and accountability. More specifically, its apparent design was the provision of minimum wages for all, the creation of a vigorous social security framework, the provision of a better and safer working environment, and the safeguarding of the interest of trade unions and workers. After examining the possible implications of the new labor legislation from the lens of supposedly protected workers in organized manufacturing, the yawning loopholes in it can be clearly noticed. Any actual gains from the assurance of skill-based minimum wage, provision of social security for contractual workers, promise to better working conditions for all workers, including female, migrant, and contractual workers, and provision of unemployment allowance to the workers remain mere promises on paper. The mismatch between the purported aims and their failure to translate

into any tangible gain on the ground will only put the workers at a greater disadvantage, besides severely constraining economic and social freedom. This misconstrual conclusively proves that the market-driven labor reforms remain an illusion and that far more work needs to be done by the Indian state to provide decent employment and adequate protection to all its workers.

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