LABOUR ECONOMICS

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Dedicated to the memory of my father
Late Shri Samaresh Chandra Chakraborty
with reverence.
Preface

I have immense pleasure in presenting my book Labour Economics. I hope that this book will definitely achieve wide acceptance in every universities of India and abroad and every student and professor associated with this subject will appreciate my effort to write on this issue.

The term Labour may refer to: (1) Employment of any kind, (2) Manual labour, physical work done by people, (3) Wage labour, delivery of services by persons for payment.

In this context let me explain in brief about these three terms. Employment implies a relationship between two parties, usually based on a contract, one being the employer and the other being the employee.

Manual labour or manual work is physical work done by people, most especially in contrast to that done by machines and also to that done by working animals. It is most literally work done with the hands and by figurative extension, it is work done with any of the muscles and bones of the body. For most of human prehistory and history, manual labour and its close cousin, animal labour, have been the primary ways that physical work has been accomplished. Mechanisation and automation, which reduce the need for human and animal labour in production, have existed for centuries, but it was only starting in the 19th century that they began to significantly expand and to change human culture. To be implemented, they require that sufficient technology exist and that its capital costs be justified by the amount of future wages that they will obviate.

Wage labour is the socio-economic relationship between a worker and an employer, where the worker sells his labour under a formal or informal employment contract. These transactions usually occur in a labour market where wages are market determined. In exchange for the wages paid, the work product generally becomes the undifferentiated property of the employer, except for special cases such as the vesting of intellectual property patents in the United States where patent rights are usually vested in the original personal inventor. A wage labourer is a person whose primary means of income is from the selling of his or her labour in this way.

In modern mixed economies such as those of the OECD countries, it is currently the most common form of work arrangement. Although most labour is organised as per this structure, the wage work arrangements of CEOs, professional employees, and professional contract workers are sometimes conflated with class assignments, so that “wage labour” is considered to apply only to unskilled, semi-skilled or manual labour.

Now question is Why study Labour Economics? Labour economics seeks to understand the functioning and dynamics of the markets for wage labour. Labour markets function through the interaction of workers and employers. Labour economics looks at the suppliers of labour services (workers), the demands of labour services (employers), and attempts to understand the resulting pattern of wages, employment and income.

In economics, labour is a measure of the work done by human beings. It is conventionally contrasted with such other factors of production as land and capital. There are theories which have developed a concept called human capital (referring to the skills that workers possess, not necessarily their actual work), although there are also counter-posing macroeconomic system theories that think human capital is a contradiction in terms. Thus, it involves, (1) Human resources allocate substantial time and energy to labour markets, (2) Labour economics studies how labour markets work, (3) Labour economics helps us understand and address many social and economic problems facing modern societies.

Labour Economics is devoted to publishing research in the field of labour economics both on the microeconomic and on the macroeconomic level, in a balanced mix of theory, empirical testing and policy applications. It gives due recognition to analysis and explanation of institutional arrangements of national labour markets and the impact of these institutions on labour market outcomes.
Now, let us explain about the Basics of the Labour Market. It includes – (1) Participants are assigned motives, i.e., Workers look for the best job, (2) Firms look for profits, (3) Government uses regulation to achieve goals of public policy, Minimum wages and occupational safety.

Further, Three “Actors” in this context are: (1) Workers, i.e., the most important actor; without workers, there is no “labour”, Desire to optimize (to select the best option from available choices) to maximize well-being, will want to supply more time and effort for higher pay-offs, causing an upward sloping labour supply curve. (2) Firms, i.e., decide who to hire and fire, motivate to maximize profits, relationship between price of labour and the number of workers a firm is willing to hire generates the labour demand curve. (3) Government, i.e., imposes taxes, regulations, provides ground rules that guide exchanges made in labour markets.

Now question arises that, Why do We Need a Theory? The answer is, (1) to explain and understand how labour markets work, (2) to focus on the essential variables while leaving out other, less crucial, factors, (3) to create a model that helps explain the theory.

Further, it can be studied both aspects, i.e., Positive vs. Normative Economics. Positive economics because – (a) to addresses the facts, (b) to focus on “what is”, (c) questions answered with the tools of economists. Again, Normative economics because – (a) to address values, (b) to focus on “what should be”, (c) to require judgments.

The Indian Society of Labour Economics (ISLE) is a broad based organization, which promotes comprehensive scientific studies of labour and related matters, provides a forum for free and frank exchange of views on various aspects of labour and related issues among all the people concerned and disseminates information and knowledge for a wider debate.

However, this book is divided into 18 chapters dealing with issues enriched with issues regarding labour and related aspects. Importance of Labour Economics as a subject of study has increased immensely due to attaining economic efficiency, economic freedom, economic security, economic equity, economic growth and innovation. Major objectives of writing this book is to provide an authentic as well as comprehensive textbook on Labour Economics for study of postgraduate level, civil service examination and also for other national level as well as state level competitive examinations.

I am expressing my gratitude to my mother Mrs. Pratima Chakraborty who has been a constant source of encouragement, motivation, strength and determination.

I would like to express my deep sense of gratitude to Mr. S.K. Srivastava, Regional Manager Himalaya Publishing House Pvt. Ltd., for his unique idea and inspiration to write a book on this important issue.

I really appreciate my wife Mrs. Mamata Chakraborty (Diya) for taking the time out of her busy schedule to help me to complete this book, as without her thoughtful planning and oversight, a project like this would have been nearly impossible.

I am also indebted to Mr. Neeraj Pandey, Director of M/S Himalaya Publishing House Pvt. Ltd., for his wholehearted cooperation all through the process of production of this first edition. Suggestions for further improvement of this book from all quarters will be heartily welcome as well as gratefully acknowledged.

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Author
Contents

Introduction 1 – 30

   1.1 Introduction
   1.2 Nature, Scope and Importance of Labour Economics (Manpower Economics)
   1.3 Characteristics of Indian Labour Market
   1.4 Distinguishing Features of Labour Force (Growth) in India
   1.5 History of Labour Laws of India
   1.6 Labour Structure of India
   1.7 Neoclassical Microeconomic Model
   1.8 Personnel Economics: Hiring and Incentives
   1.9 Choice of Technology and Government of India Labour Policies
   1.10 Labour Legislation
   1.11 Flexibility, Employment and Labour Market Reforms in India

Labour Laws 31 – 70

2. Sources of Law 33 – 49
   2.1 Origin of Law
   2.2 Sources of Law
   2.3 Legal Concepts: Rights, Wrongs, Liability, Obligations
   2.4 Duties, Powers, Immunity, Disability
   2.5 Justice (Distributive vs. Corrective)

3. The Constitution of India and Labour Laws 50 – 70
   3.1 Constitution of India vis-a-vis Labour Laws
   3.2 Art.12. Definitions
   3.3 Art.13. Laws Inconsistent with or Derogation of the Fundamental Rights
   3.4 Part III Fundamental Rights
   3.5 Art.14. Equality before Law
   3.6 Art.15. Prohibition of Discrimination on Grounds of Religion, Race, Caste, Sex or Place of Birth
   3.8 Reservation Policy and Art. 16
   3.9 Effect of Constitutional Amendment in 1995 and 2001
   3.10 Effect of Constitutional Amendment in 1st May, 2000
   3.11 Art. 19. Protection of Certain Rights Regarding Freedom of Speech, etc.
   3.12 Test of Reasonable Restriction
   3.13 Art.19 and Demonstration
   3.14 Art. 19 and Right to form Unions
3.15 Art. 21. Protection of Life and Personal Liberty
3.16 Art. 21A. Education for Children
3.17 Art. 23. Prohibition of Traffic in Human Beings and Forced Labour
3.18 Prohibition of Employment of Children in Factories, etc.
3.19 Right to Constitutional Remedies
3.20 Types of Writs
3.21 Directive Principles of State Policies
3.22 Art. 51A Fundamental Duties
3.23 Harmonious Construction of Part III and IV
3.24 Part IV Superior to Part III
3.25 Judicial System
3.26 Other Related Areas

**Employment and Wage Issues**

4. Employment

4.1 Employment and Growth Relationship
4.2 Context of Poverty and Unemployment in Developing Countries
4.3 Unemployment — Concept, Types, Measurement and Causes particularly in India
4.4 Importance of Full Employment in the Context of Developing Countries
4.5 Rural Unemployment and Educated Unemployment
4.6 Impact of Rationalization
4.7 Technological Changes and Modernization in Employment in Organized Private Industry
4.8 Public Sector and Employment in Agricultural Sector
4.9 Employment Policy under Five Year Plans and its Evaluation

5. Wage Determination

5.1 Classical, Neoclassical and Bargaining Theories of Wage Determination
5.2 Concepts of Minimum Wage, Living Wage and Fair Wage in Theory and Practice
5.3 Wage and Inflation
5.4 Labour Productivity and Wage Relationship
5.5 Marginal Productivity Theory
5.6 Theory of Collective Bargaining
5.7 Modern Theory of Wages
5.8 Discrimination in Labour Markets
5.9 Wage Determination in Various Sectors — Rural, Urban, Organized, Unorganized and Informal Sectors
5.10 Problems of Implementation of Minimum Wages (Debates/Controversies)
5.11 Wages in Relation to Cost and Productivity
5.12 Labour Markets (Rigidities and Unemployment)
5.13 Wage Boards in India
5.14 Wage Policy in India
Problems of Labour Issues and Labour Market Reforms 115 – 172

6. Migration and Absenteeism 117 – 126
   6.1 Approaches to Labour Migration, Effects of Migration
   6.2 Absenteeism of Industrial Labour in India, Causes, Effects and Remedies of Absenteeism
   6.3 Labour Turnover — Causes of Low Labour Turnover in India, Remedies to Improve Labour Turnover

7. Labour Market 127 – 154
   7.1 Nature and Characteristics of Labour Markets in Developing Countries like India
   7.2 Paradigms of Labour Market Analysis
   7.3 Classical, Neoclassical and Dualistic Economy
   7.4 Demand for Labour in Relation to Size and Pattern of Investment
   7.5 Mobility and Productivity of Labour
   7.6 Lean and Six Sigma Methodologies
   7.7 Rationalisation
   7.8 Method of Recruitment and Placement

8. Labour Market Reform 155 – 172
   8.1 Measures Imparting Flexibility in Labour Markets
   8.2 Exit Policy
   8.3 Need for Safety Nets
   8.4 Report of the Second National Commission on Labour
   8.5 Globalisation and Labour Market
   8.6 Labour Market Reforms

Role of State in Labour Affairs and Trade Union Activities 173 – 220

9. State and Labour 175 – 195
   9.1 State and Social Security of Labour
   9.2 Concept of Social Security and Its Evaluation
   9.3 Social Assistance and Social Insurance
   9.4 Review and Appraisal of States Policies with Respect to Social Security and Labour Welfare in India
   9.5 Special Problems of Labour: Child Labour and Female Labour
   9.6 Discrimination and Gender Bias in Treatment of Labour

10. Industrial Relations and Trade Unions 196 – 220
    10.1 Growth of Industrialisation and Emergence of Unionism
    10.2 Growth, Structure, Pattern, Challenges and Achievement of Labour (Trade) Unions in India
    10.3 Causes of Industrial Disputes
    10.4 Industrial Peace
    10.5 Method of Settlement of Industrial Disputes and Prevention Mechanism
    10.6 Role of Tripartism, Current Trends in Collective Bargaining Conciliation
    10.7 Arbitration
    10.8 Workers’ Participation in Management
Advanced Labour Issues

11. ILO and Related Aspects
   11.1 ILO and Labour Administration
   11.2 Approaches to Enforcement of Labour Laws
   11.3 Labour Administration Machinery of the Central Government
   11.4 Labour Administration Machinery of the State Government
   11.5 Office of Labour Commissioner (Central and State)

Industrial Laws

12. The Industrial Disputes Act, 1947
   12.1 Introduction (Objectives, Applicability and Extent of the Act)
   12.2 Definitions
   12.3 Ingredients of Industrial Disputes
   12.4 Modes of Settlement of Industrial Dispute
   12.5 Procedure, Powers and Duties of Authorities, Chapter IV (Sec. 11 to 21)
   12.6 Notice of Chance [Chapter II-A, Sections 9-A, 9-B]
   12.7 Reference of Disputes To Boards, Courts or Tribunals as well as Voluntary Reference
      (Chapter III) Sec. 10, Sec. 10 A
   12.8 Award and Settlement
   12.9 Strikes and Lockouts (Chapter V) (Sec. 22 to Sec. 25)
   12.10 Layoff and Retrenchment (Chapter VA) (Sec. 25 A to 25 J)
   12.11 Transfer and Closing Down of Undertakings
   12.12 Special Provisions Relating to Lay-off, Retrenchment and Closure in Certain Establishments
      (Chapter VB) (Section 25 K to 25 S)
   12.13 Special Provision as to Restarting of Undertakings Closed Down before Commencement
      of the Industrial Disputes (Amendment) Act, 1976 [Section 25P]
   12.14 Unfair Labour Practices (Chapter V-C) (Sec. 25T, 25U)
   12.15 Penalties (Chapter VI) (Sec. 26 to Sec. 31)
   12.16 Miscellaneous (Chapter VII) (Sec. 32 to Sec. 40)
   12.17 The Industrial Disputes (Amendment) Act, 2010

13. The Factories Act, 1948
   13.1 Introduction
   13.2 Objective of the Act
   13.3 Scope or Application of the Act
   13.4 Important Definitions
   13.5 Statutory Agencies and their Powers for Enforcement of the Act
   13.6 Approval, Licensing and Registration of Factories
   13.7 Measures to be Taken by Factories for Health, Safety and Welfare of Workers
   13.8 Special Provisions Relating to Hazardous Processes (Chapter IVA)
   13.9 Working Hours of Adults
   13.10 Additional Provisions Regulating Employment of Women in any Factory [Section 66]
13.11 Employment of Young Persons (Chapter VII)
13.12 Annual Leave with Wages [Chapter VIII]
13.13 Special Provisions (Chapter IX)
13.14 Penalties and Procedure (Chapter X)


14.1 Introduction
14.2 Objective and Applicability (Scope and Coverage) of the Act
14.3 Essential ingredients of Contract Labour (Regulation and Abolition) Act, 1970
14.4 Important Definitions (Section 2) under the Contract Labour (Regulation and Abolition) Act, 1970
14.5 Registration of Establishments Employing Contract Labour
14.6 License by Contractor
14.7 Welfare and Health of Contract Labour
14.8 Penalties and Procedures
14.9 Miscellaneous

15. The Employee State Insurance Act, 1948

15.1 Introduction
15.2 Definitions [Section 2]
15.3 Brief History of the E.S.I. Corporation
15.4 Finance and Audit (Chapter III)
15.5 Contributions (Chapter IV)
15.6 Benefits (Chapter V, Sections 46 to 73)
15.7 Adjudication of Disputes and Claims (Chapter VI)
15.8 Penalties (Chapter VII)
15.9 Miscellaneous (Chapter VIII)

16. The Employees’ Provident Funds and Miscellaneous Provisions Act, 1952

16.1 History and Objective
16.2 Extent and Application of the Act
16.3 Definitions
16.4 Schemes under the Act
16.5 Computation of Contributions
16.6 Determination and Recovery of Moneys Due from and by Employers
16.7 Power Vested in the Government
16.8 Penalties and Offences
16.9 Miscellaneous Provisions

17. The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959

17.1 Objectives and Scope of the Act
17.2 Definitions [Section 2]
17.3 Application of the Act [Section 1(2)]
17.4 Act not to Apply in Relation to Certain Vacancies [Section 3]
17.5 Notification of Vacancies to Employment Exchanges [Section 4]
17.6 Employers to Furnish Information and Returns in Prescribed Form [Section 5]
17.7 Right of Access to Records or Documents [Section 6]
17.8 Penalties [Section 7]
17.9 Cognizance of Offences [Section 8]
17.10 Protection of Action Taken in Good Faith [Section 9]
17.11 Power to Make Rules [Section 10]
17.12 Objectives of the Employment Exchanges
17.13 Functions or Duties of Employment Exchanges
17.14 Procedure for Registration and Renewals

**Benefits of Labour Education and Relevant Reforms**  407 – 442

18. Miscellaneous Labour Issues  409 – 442
18.1 Directorate of Labour Bureau: Labour Statistics
18.2 Office of Director General of Employment and Training: Apprentice Training
18.3 Labour Research and Training
18.4 Workers Education
18.5 Administration of Welfare Funds
18.6 Reforms in Labour Administration
Introduction
This chapter deals with fundamental topics of Labour Economics like its Nature, Scope, Labour Laws, Legislation and Labour reforms etc. Necessary explanation has been given here very precisely and systematically, so as to understand the entire concept very clearly and conveniently.

1.1 INTRODUCTION

In this section we shall study basics of Labour Economics starting from very fundamental concept like definition of labour and labour market, definition of labour economics. Finally, as this chapter will advance concept like labour reforms, legislations and Government of India labour policies have also been incorporated precisely and specifically.

The aggregate of all human physical and mental effort used in creation of goods as well as services. Labour is more than an abstract factor of production. Workers are people who want good jobs of high wage level to purchase things they need and want. Labour is considered to be an important factor not only due to its productive capacity but also it activates
other factors and thus make them suitable for productive purposes. Hence size of labour force is an important factor for assessing the level of economic activity. The size of a nation’s labour force is determined by size of its adult population in the age group of 15-59, i.e., the extent to which the adults are either working or are prepared to offer their labour for wages. People voluntarily retain themselves out of productive activity are not included in the labour force. Therefore, size of labour force comprises entire economically active population that also include unemployed people. According to estimation, as per 2001 report, in our country labour force comprised of about 39.26 per cent of the entire population.

**Definition of Labour**

Labour may be defined as any exertion of mind or body undergone partly or wholly to get some good other than pleasure derived directly from work.

**Features or Peculiarities of Labour**

Followings are important features of labour:

1. Labour can not be separated from the person who labours, i.e., alternatively labour can not be separated from labourer’s body as well as personality. Hence, environment and working conditions in which worker has to work are very much important for supply of labour.
2. Workers’ sells his work, services but he himself remains his property. So, supply of labour along with other things also depends on free thought and selflessness of those who bring up the labourer.
3. As seller of labour are usually poor and have no reserve fund, so they cannot withhold labour from market.
4. Labour is a perishable commodity, so it does not last and can not be stored. It implies that, if worker does not work for any particular day, that day is absolutely lost forever and thus, he would never regain to make use of his lost services.
5. Labour is not mobile like that of capital. Difference in environments, customs, language and so on at different places is a major hindrance on the mobility of workers from one place to another.
6. Supply of labour can not be decreased or increased with full increase of wage. Therefore, paid adjustment of supply of labour to its demand is not possible.
7. Labour is a living thing.
8. The marginal productivity of labour is comparatively less than capital.

**1.2 NATURE, SCOPE AND IMPORTANCE OF LABOUR ECONOMICS (MANPOWER ECONOMICS)**

**Definition**

The term Labour Economics may be defined as a study of the organization, institutions as well as behaviour of labour market in an industrial economy. In the words of Dole Yoder, Labour Economics is basically concerned with efficient utilization and also conservation of manpower and resources. It studies and seeks to realize or understand the processes by which manpower is applied and also utilized in modern society. Thus, it is concerned with natural resources of the land.

**Nature of Labour Economics**

Labour Economics is in the process of development. Its definition tends to vary and change according to nature of economy and thus, is supported to indicate criteria for delimiting its scope, enumerating and also classifying problems, i.e., (A) The Theoretical Section and (B) The Institutional Section.

(A) **The Theoretical Section:** In this section of labour economics, it is concerned with building up of models of economic behavior by means of various sets of assumptions.

(B) **The Institutional Section:** In this section of labour economics, it is concerned with studies of labour problems in an institutional historical content. Thus, nature of labour problems changes with the change in the institutional framework of the economic systems.
Scope of Labour Economics

Labour Economics has to deal with manpower planning, labour organization, labour relations and public policy, wage and employment theory, collective bargaining theory and practice of social security, welfare and so on. According to the words of Dr. G.P. Sinha, following areas of study are included under Labour Economics:

(i) Institutional framework of particular economic system.
(ii) Size as well as composition of the labour force and labour market.
(iii) Labour as a factor of production – productivity as well as efficiency condition of work, industrial relation, standard of living.
(iv) Labour risk as well as problems.
(v) Trade union movement.
(vi) Labour legislation.

Apart from above, following areas are also included in Labour Economics. These are as follows:

1. Advance theory of labour economics.
4. Theory and practice of trade union management.
5. Labour laws.

1.3 CHARACTERISTICS OF INDIAN LABOUR MARKET

Concept

Labour market may be defined as a process by which supplies of particular type of labour and demands for that type of labour try to attain a balance. The labour market is the place for operation of this process. It is a device to sort out workers with varying skills as well as interest among multitude of various jobs in an economy. The labour market is an area where relative wage levels for various plants, industries, occupations are determined. Few economists consider labour market at par with that of commodity market, because price of labour, i.e., wage is determined by forces of demand as well as supply, as in the case of price of a commodity is set by forces of supply and its demand. Thus, it is inevitable to study characteristics of a labour market which differentiates it from a commodity market.

Characteristics of the Indian Labour Market

Following are important characteristics of the Indian Labour Market:

1. Relationship between buyer and seller is not impersonal. Unlike a commodity market, relationship between buyer and seller is not impersonal: Unlike a commodity market, relationship between purchaser and seller in a labour market is not temporary and thus is expected to continue for sometime, as these are usually governed by numerous social as well as economic considerations. For instance, in our rural areas agricultural labourers have been attached to zamindars for decades and the bond passes from generation to generation.

2. Labour market is essentially local in character: Concept of local market stands for buyers and sellers of labour who are in contact with each other, i.e., communicate among themselves to settle a bargain for employment or for purchase and sale of workers’ services. Hence, labour market is usually local market in the sense that demand for supply of labour being confined to a particular locality.

3. Immobility (Lack of mobility) of labour: Lack of mobility is an important characteristics of a labour market owing to several reasons. Labour obviously can not move with the same ease and facility as commodities are transported from place to place. On many occasions reluctance of labourers to leave their families, unawareness of alternative job opportunities with adequate job security at other places and further, different job necessitates different skills, etc., results in immobility of labour.
4. **Labour market is essentially an imperfect market:** Labour market is an imperfect market where one does not find a normal wage rate to which market rate naturally tends. Nor is it possible for relative abundance of labour in a particular region of the country to pull down wage level in other areas having a relative shortage of labour.

5. **Better bargaining strength of employers:** As we know that, availability of labour supplies are abundant in our country in comparison to its buyers, thus, bargaining strength of labour is very weak. Further, in a specific place means of production are also centred in a few hands and so a common wage policy is framed. On contrary large workforce are mostly unorganized. To deal with this obstacle industrial labourers constitute trade unions in recent decades for safeguarding interest of industrial labourers by means of collective bargaining with employers. But as regards agricultural labourers are concerned they are still exploited at the hands of their employers.

### 1.4 DISTINGUISHING FEATURES OF LABOUR FORCE(GROWTH) IN INDIA

During last three decades labour force in India have almost doubled on an average of about 2.71 per cent per annum, i.e., even greater than that of our population growth of around 2.11 per cent per annum.

Rapid enhancement of labour force creates adverse impact upon employment opportunities. Thus we have seen economic growth is jobless world over in spite of rapid growth of unemployment thus cannot be ruled out, as labour force is registered a consistent growth. In this context, let us first of all study the distinguishing features of India’s labour force:

1. Workers population ratio in India is low than that of developed nations, mainly because of low female participation in labour and also its under remuneration.
2. Rate of female workers participation is lower than that of male workers participation due to social backwardness or economic compulsion in case of underprivileged communities.
3. Rural workers participation is higher than that of urban workers population ratio. This is due to social inhibitions in urban areas as urban women do not prefer to work.
4. Finally workers participation rates also differs from state to state due to demographic reasons.

#### Classifications of Labour

Broadly there are three categories —

(i) **Main workers and Marginal workers:** Main workers are whole-time workers, i.e., about 96.8 per cent as in 1971 against 3.2 per cent of marginal workers. But subsequently this proportion declined to 91 per cent. Further, male workers comprises a high proportion of total main workers. As in 2001, ratio of male workers to total main workers was 76.8 per cent against 23.2 per cent of female workers. Interesting point is that if we analyse proportion of urban and rural women workers it has been found that urban female workers comprises only 39 per cent of total marginal workers against 63 per cent of rural female workers. As regards growth rate is concerned it indicates variation. In both these decades annual rate of growth of main workers was higher than the rate of population growth as people who searched for work did manage to get jobs. But this trend was however reversed during 1990s, as rate of growth of marginal workers rose to 12.66 per cent per annum.

(ii) **Rural workers and Urban workers:** During three decades since 1971 proportion of rural workers to all workers was always more than 75 per cent but declined subsequently in 2001, which indicates increased urbanisation in India spread over a couple of years as shown in Table 1.1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural Workers (in crore)</th>
<th>Annual growth rate (in %)</th>
<th>Urban Workers (in crores)</th>
<th>Annual growth rate (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>14.91</td>
<td>–</td>
<td>3.16</td>
<td>–</td>
</tr>
<tr>
<td>1991</td>
<td>24.17</td>
<td>2.16</td>
<td>6.43</td>
<td>3.21</td>
</tr>
<tr>
<td>2001</td>
<td>3.16</td>
<td>2.54</td>
<td>9.19</td>
<td>3.64</td>
</tr>
</tbody>
</table>

**Sources:** Statistical outline of India, 2001-2002, census 2001 and Tata Services Ltd. and Indian Economy, Misra & Puri, ed 28th, Himalaya Publishing House Pvt. Ltd., p. 149
On the basis of available data as mentioned in Table 1.1 let us study annual growth rates of rural and urban workers in India under three broad heads:

(a) Fluctuating annual growth rate of rural workers: Table 1.1 clearly reveals the fact that, annual growth rates are not uniform, i.e., in 1971 it was 14.91, while in 2001 it reached at 31.06, thus increased at an average rate of 2.48 per cent per annum.

(b) Higher growth rate of urban workers: This factor is observed in urban areas due to migration of labour force from rural areas either permanently or temporarily for inability to find work in agriculture.

(c) Lack of consistency in growth rate of urban workers: According to Table 1.1 growth rates of urban workers in 2001 was 3.64 per cent but it was still lower than that of 1971, i.e., approx. 4.03 per cent mainly because of steep decline of growth of marginal workers. Hence, no consistency has been witnessed in this regard.

(iii) Male workers and Female workers: Usually, male workers are about two-thirds that of female workers. In 2001, male workers were comprised of 68.4 per cent of the country’s labour force.

<table>
<thead>
<tr>
<th>Table 1.2: Growth rates of male and female workers</th>
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<tbody>
<tr>
<td>Year</td>
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<tr>
<td>------</td>
</tr>
<tr>
<td>1971</td>
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<tr>
<td>1991</td>
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However, female workers was about 20.1 per cent of working population as was in 1971, gradually rose relatively than that of men workers and thus, ultimately stood at 31.6 per cent of labour force in 2001. It is true that, growth rate of female workers slowed down during 1980s but in 1990s it witnessed a rising trend. Following three reasons were responsible for above circumstances, i.e.,

1. Overall growth rates of workers both male as well as female declined during 1980s as lower priority was given for employment generation.
2. In 1990s rate of increase in case of both categories of workers, i.e., male and female were absolutely different as rate of growth of female marginal workers were less than that of male workers.
3. Rate of growth of female workers were always higher than that of male because of socio-economic reality, i.e., gradual omission of social inhibitions and increasing economic compulsions compelled women to come out from their homes for productive work but slowly gap between these two narrowed down over time and thus, this momentum also seems to be towards downward directions.

Labour force projections for Eleventh and Twelfth Plans: According to Eleventh Five Year Plan on the basis of current daily status in 2006-07, our labour force was 43.89 crores out of 112.83 crores of total population (38.9 per cent). However, by the year of 2016-17, i.e., the twelfth plan period it is expected to be 40.8 per cent and thus, out of 128.32 crore of population labour force will reach at 52.41 crore. Though in absolute terms 8.52 crore increase in labour force is anticipated which necessitates substantial effort in making employment generation opportunities.

1.5 HISTORY OF LABOUR LAWS OF INDIA(5)

The labour laws of India originated and also express socio-political views of our leaders like Nehru from pre-1947 independence movement struggle and subsequently expanded in part after debates in Constituent Assemblies and in part from international conventions and recommendations, viz., International Labour Organization. Existing mosaic of Indian laws on employment are combination of India’s history during its colonial heritage. India’s experiments with socialism, human rights, conventions and standards that have emerged from the United Nations.

The laws includes the right to work of one’s choice, prohibition of child labour, fair and humane conditions of work, right against discrimination, social security, protection of wages, redress of grievances, right to organize and constitute trade unions, collective bargaining as well as participation in management.

Labour Laws in India

India has over 50 major Acts and several laws which regulate employers in matters relating to industrial relations, employee unions as well as who, how and when enterprises can employ or terminate employment. Many of these laws prevails from British colonial times, while some have been enacted after our independence from British imperialism.

India is a federal form of government. Labour is a subject in the concurrent list of our Constitution and therefore labour matters are of the jurisdiction of both central and state governments. Both central and state governments have enacted laws on labour relations and employment issues. Some of the major laws relevant to India are:

The Workmen’s Compensation Act of 1923: The Workmen’s Compensation Act compensates a workman for any injury suffered during the course of his employment or to his dependents in the case of his death. This Act provides for the rate at which compensation to be paid to an employee and thus one major social security laws in India.

The Trade Unions Act of 1926: This Act enacted rules and protections granted to Trade Unions in India and was amended in 2001.

The Payment of Wages Act of 1936: The Payment of Wages Act regulates by when wages to be disbursed to employees by their employers at the same time also provides tax withholdings that employer must deduct and pay to the central or state government before distributing the wages.

The Industrial Employment (Standing Orders) Act of 1946: This Act requires employers in industrial establishments to define and post the conditions of employment by issuing standing orders approved and also duly certified by the government. Its aim to remove flexibility from employer for job, hours of work, timing, leave grant, productivity measures and so on. Further it mandates that employer to classify its employees, state the shifts, payment of wages and vacation.

The Industrial Disputes Act of 1947: The Industrial Disputes Act, 1947, regulates how employers may address industrial disputes like lockouts, layoffs, retrenchment etc. and therefore controls the lawful processes of reconciliation, adjudication of labour disputes. Further it also regulates what rules and conditions employers should be complied with before termination or layoff of a workman who has been in continuous service for more than a year with that employer. Employer must issue a notice of termination to concerned employee with a copy of the same to appropriate government office seeking government’s approval, mentioning valid ground for termination and wait for one month before the employment can be lawfully be terminated. On contrary employer may pay full compensation for one month in lieu of that notice. Furthermore, employer must pay an equivalent to 15 days average pay for each completed year of employees continuous service. Thus, an employee who has worked for 4 years in addition to various notices and due process, must be paid a minimum of the employee’s wage equivalent to 60 days before retrenchment, provided the government allows particular employer a permission to layoff.

The Minimum Wages Act of 1948: The Minimum Wages Act prescribes minimum wages in every enterprises and in few cases include those who work at home according to the schedule of this Act. Central and State Governments can and do revise minimum wages at their discretion. The minimum wage is framed according to nature of work, location and also numerous other factors at the discretion of the government.

The Industries (Regulation and Development) Act of 1951: This law declared several major manufacturing industries under its First Schedule and placed many industries under common central government regulations in addition to whatever laws state government enact. Further reserved over 600 products that can only be manufactured in small-scale enterprises and thus regulate who can enter in these businesses. Moreover it also placed ceilings on employing total number of employees per company for such listed products, viz., products ranging from iron and steel products, fuel derivatives, motors, certain machinery, machine tools to ceramics as well as scientific equipment.

The Employees Provident Fund and Miscellaneous Provisions Act of 1952: This Act ensures financial security of employees or workers in any factory or establishment through a system of compulsory savings. It provides for establishments of a contributory Provident Fund in which employees’ contribution must be equal to employer’s contribution.
Minimum contribution by the employees shall be 10 per cent up to nineteen employees and 12 per cent from 20 employees on wards of basic wages and daily allowances admissible time to time. This amount is payable to the employee after retirement and could also be withdrawn partly for certain specific purposes.

The Maternity Benefit Act of 1961: The Maternity Benefit Act regulates employment of women and maternity benefits mandated by this law. Any woman employee who has been appointed in any establishment at least for 80 days during 12 months immediately preceding the date of her expected delivery, is entitled to get maternity benefits under this Act. The employer is required to pay maternity benefits, medical allowance, maternity leave and also nursing breaks.

The Payment of Gratuity Act of 1972: This Act is applicable to any establishments employing 10 or more workers. Gratuity is payable to the employee if he or she resigns or retires. Government of India mandates that this payment must be at the rate of 15 days salary of the employee for each completed year of service subject to a maximum of ₹ 10,00,000.

The Payment of Bonus Act of 1965: This Act is applicable to an enterprise employing 20 or more persons and thus employer is required to pay a bonus to an employee on the basis of its profits or production or productivity. Subsequently it was also modified and hence it enforces companies to pay a minimum bonus, i.e., 8.33 per cent at present, even if it incurs losses during that financial year.

1.6 LABOUR STRUCTURE OF INDIA

Over 94 per cent of our working population is part of unorganized sector. Organized sector or formal sector in India refers to licensed organizations, i.e., registered and pay sales tax, income tax, etc., like publicly traded companies, incorporated/formally registered entities, corporations, factories, shopping malls, hotels, large businesses. Unorganised sector also known as informal sector or own account enterprises refers to all unlicensed, self-employed or unregistered economic activity like owner manned general stores, handicrafts, handloom workers, rural traders, farmers and so on.

India’s Ministry of Labour, in its 2008 report, classified unorganized labour in India into four categories on the basis of occupation, nature of employment, specially distressed categories as well as service categories.

(a) Unorganized occupational groups comprises small and marginal farmers, landless agricultural labourers, workers engaged in animal husbandry, beedi rolling, leather workers, labeling and packing, building and construction workers, weavers, artisans, salt workers, workers in brick kilns and stone quarries, workers in saw mills, and workers in oil mills, share croppers, fishermen.

(b) On the nature of employment includes agricultural labourers, bonded labourers, contract and casual labourers, migrant workers.

(c) Distressed unorganized sector constitutes toddy tappers, carriers of head loads, drivers of animal driven vehicles, scavengers, loaders and unloaders.

(d) Last unorganized labour category are service workers like midwives, domestic workers, vegetable and fruit vendors, pavement vendors, newspaper vendors, hand cart operators, unorganized retail, barbers etc.

There is no denying fact that that, unorganized sector has low productivity and also offer lower wages, but accounted for about 94 per cent of workers and also created 57 per cent of our national domestic product in 2006. Poverty rates are reported to be significantly higher in families where all working age members have only worked the unorganized sector throughout their lives.

Agriculture, dairy, horticulture and related occupations alone employ 52 per cent of labour in India.

Approx. 30 million workers are migrant workers mostly in agriculture and local stable employment is unavailable for them.

India’s National Sample Survey Office in its 67th report found that unorganized manufacturing, unorganized trading or retail and unorganized services employed around 10 per cent each of all workers nationwide and India had about 58 million unincorporated non-agriculture enterprises as on 2010.

As regards organized privately owned sector with more than 10 employees per company biggest employers in 2008 were manufacturing at 5 million; social services at 2.2 million that includes private schools and hospitals; finance at 1.1 million which includes bank, insurance and real estate; and agriculture at 1 million. Further we had central and state government employees in 2008, than employees in all private sector companies combined. Again if state-owned companies
and municipal government employees were also included, we get 1.8:1 ratio between public sector employees and private sector employees. In terms of the gender equality in employment, male to female ratio was 5:1 in government and government owned enterprises and in private sector 3:1 ratio. On aggregate companies with more than 10 employees per company organized public and private sector employed 5.5 million women and 22 million men. Given its natural rate of population growth and aging characteristics, around 13 million new workers are added each year to its labour pool. Simultaneously, approx. 8 million new jobs are added per year predominantly especially in low paying unorganized sector. Remaining 5 million youth engages themselves in poorly paid partial employment, casual labour pool for temporary infrastructure as well as real estate construction jobs and it will not be exaggerated to comment that in many cases, remain unemployed also.

To, sum up India’s rigid labour laws and excessive regulations are cause of slow employment growth in high paying, organized sector and encourages shadow economy for entrepreneurs, i.e., an economy that prefers to employ informal labour to avoid complicated and opaque laws particularly the Industrial Disputes Act of 1947 added rigid labour laws and one sided trade union laws. It is true that, it does not prohibit layoffs and retrenchments, but require entrepreneurs and companies to get approval from government officials to fire an employee for absenteeism, retrench employees for economic reasons, or to close an economically nonviable company. This bureaucratic process can stretch into years and government officials have consistently and usually deny such permission. So, our inflexible labour laws again proved as disincentive to both new and existing companies in organized sector to hire additional workers. Unlike China, Indian businesses have avoided substituting India’s abundant labour for export or domestic opportunities by capital intensive technique of production, i.e., substitute labour instead of expensive equipment for quality control, which is responsible for India’s weak employment growth.

<table>
<thead>
<tr>
<th>Practice required by law</th>
<th>India</th>
<th>China</th>
<th>U.S.A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum wage (US$/month)</td>
<td>90 (INR 5000)</td>
<td>182.5</td>
<td>1242.6</td>
</tr>
<tr>
<td>Standard work day</td>
<td>9 hours</td>
<td>8 hours</td>
<td>8 hours</td>
</tr>
<tr>
<td>Minimum rest while at work</td>
<td>30 minutes/5 hour</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Maximum overtime limit</td>
<td>200 hours/year</td>
<td>1 hour/day</td>
<td>None</td>
</tr>
<tr>
<td>Premium pay for overtime</td>
<td>100%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Dismissal due to redundancy allowed</td>
<td>Yes, if approved by Government</td>
<td>Yes, without approval of government</td>
<td>Yes, without approval of government</td>
</tr>
<tr>
<td>Government approval required for 1 to 9 persons dismissal</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Government approval for redundancy dismissal granted</td>
<td>Rarely</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Dismissal priority rules regulated</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Severance pay for redundancy dismissal of employee with 1 year tenure</td>
<td>2.1 week salary</td>
<td>4.3 week salary</td>
<td>None</td>
</tr>
<tr>
<td>Severance pay for redundancy dismissal of employee with 5 year tenure</td>
<td>10.7 week salary</td>
<td>21.7 week salary</td>
<td>None</td>
</tr>
</tbody>
</table>

**Labour relations:** Almost 7 per cent of 400 million workforce were employed in formal sector, i.e., both government and corporate as of 2000 contributes around 60 per cent of nominal GDP of our country. Further The Trade Unions Act of 1926 provided recognition as well as protection for our labour union movement. Gradually, number of unions grew considerably after independence, but most unions are small and usually active in only one firm. In 1997, India had around 59,000 trade unions registered with the government of India, but only 9,900 unions filed income and expenditure reports and hence claimed to be 7.4 million workers. The state of Kerala has about 9,800 trade unions — highest number of registered unions, but few filed income and expenditure reports with the government of India. Again Karnataka had the fastest growth in number of unions between 1950s to 1990s.
In the year 1995, India had 10 central federations of trade unions, viz., INTUC, CITU, BMS, AITUC, HMS, NLO, UTUC, UTUC-LS, NFITU and TUCC. — each had several local trade union affiliates, with the smallest TUCC with 65 and INTUC with 1604 affiliated unions. By 1989, BMS turned India’s largest federation of unions comprising 3,117 affiliated unions, while INTUC remained the largest federation by combined number of members at 2.2 million and represents about 0.5 per cent of India’s labour force in organized sector and unorganized sector. In 2010, still over 98 per cent of Indian workers did not belong to any trade unions and were not covered by any collective bargaining agreements.

**Labour relations during 1950-1990:** The industrial relations climate in some states of India over 1958-1992 witnessed as a pro-worker, greater labour inflexibility caused more labour relations problems, more lost man-days and experienced lowered output, investment, productivity and employment in organized or formal manufacturing sector. Our economic output improved primarily in unregistered or informal manufacturing where worker has little or no protections at all in these states. Again states that passed labour union friendly regulations experienced greater urban poverty over 34 year period than states that did not enact additional pro-worker greater labour inflexibility laws. Between 1950 and 1970, labour disputes almost tripled in India, i.e., on average from 1000 labour disputes to 3000 labour disputes per year and number of labour relations issues peaked in 1973 at 3,370 labour disputes per year. Number of workers joined labour disputes within the same year stopped work but stood at 2.9 million workers in 1979. Besides number of lost man-days from labour relation issues was highest in 1982, i.e., 74.6 million lost man-days or approx. 2.7 per cent of total man-days in organized sector. In 1970 sudden decline in labour disputes took place during 1975-1977, while then prime minister Indira Gandhi declared an emergency and thus amongst other things many civil rights like that of worker’s right to strike also prohibited.

**Labour relations during 1990-2000:** Union membership is concentrated in the organized sector and total membership was almost 9 million in early 1990s. Many unions are affiliated with regional or national federations, major of them are — the Indian National Trade Union Congress, the All India Trade Union Congress, the Centre of Indian Trade Unions, and the Bharatiya Mazdoor Sangh, the Hind Mazdoor Sabha. Politicians have often been union leaders and few analysts believe that strikes and other labour protests are called primarily to further the interests of political parties than that of to promote the interests of the workforce. Our government recorded 1,825 strikes and lockouts during 1990. As a result, 24.1 million workdays were lost, 10.6 million to strikes and 13.5 million to lockouts. However more than 1.3 million workers were involved in these labour disputes. The number and seriousness of strikes and lockouts varies from year to year. In 1999, around 927 strikes and lockouts or about half of those for 1990 were recorded. Further number of lost man-days were almost same for 1999 and 1991, even though Indian economic output and number of workers had grown significantly over that of 1990s. Apart from numerous workers in urban unorganized sector are self employed labourers, street vendors and also other services providers who neither pay union dues nor belong to any particular union.

**Labour relations during 2000-2011:** Between 2004 and 2011, India has experienced a decline in unionized labour. Number of labour disputes has dropped to 400 annually over the same period, compared with over 1,000 in the 1990s. Annual number of man-days lost to labour disputes in early 1990s averaged around 27 million; by 2010, while Indian economy has grown significantly and Indian labour force has expanded, average number of man-days lost has dropped by 30 per cent approximately. Downward trend continues both in terms of number of disputes and lost man-days per dispute. For example, India experienced 249 disputes in the first 5 months of 2010, and 101 disputes in 2012 over the same period.

**Unorganized labour issues:** Numerous issues plague unorganized labour. The Ministry of labour has identified significant issues with migrant, home or bondage labourers and child labour.

- Migrant workers: India has two broad groups of migrant workers:
  - (a) one that migrates to temporarily work overseas,
  - (b) another that migrates domestically on a seasonal and work available basis.

  About 4 million Indian-origin labourers are migrant workers in the middle east alone. They are credited to have been the majority of workers who built many of Dubai, Bahrain, Qatar and Persian Gulf modern architecture. These migrant workers are attracted by better salaries ranging US$ 2 to 5 per hour, possibility of earning overtime pay and also opportunity to remit funds to support their families in India. The Middle East-based migrant workers from India remitted about US$ 20 billion in 2009. Once the projects are over they are required to return back at their own expenses, with no unemployment or social security benefits. In few cases, labour abuses like that of unpaid salaries, unsafe work conditions, poor living conditions as well have been claimed.
On contrary, Domestic migrant workers have been estimated to be about 4.2 million range from full-time to part-time workers, temporary or permanent workers. They are employed for remuneration in cash or kind, in any household through any agency or directly for household work. Some of these work exclusively for a single employer, while others work for more than one employer. Some are live-in workers, while some are seasonal.

**Debt bondage in India:** Bonded labour is a forced labour relationship between an employer and an employee, where compulsion is derived from outstanding debt. Often interest accrues at a rate that is so high that bonded labour remains in the relationship for very long period or indefinitely. On many occasions employee has no option for employment in the organized or unorganized sectors of India and prefers security of any employment including that one offered in bonded labour form. Though illegal, bonded labour relationships may be reinforced by force. Once an employee becomes a bonded labour, they are characterised by asymmetry of information and gets no opportunity to search for alternative jobs for its high exit costs. Estimates of bonded labour in India differs widely upon survey methods, assumptions as well as sources ranging from few hundred to 2.6 to 5 million. Major employment sectors for debt bonded labour are agriculture, stone quarries, forestry, brick kilns, pottery, rural weaving, betel and bidi workers, carpet, illegal mining and fireworks, religious and temple workmen, fishing. Child labour has been found in family debt bonded situations. In every survey, debt bonded labourers have been found in unorganized, unincorporated sector.

**Child labour:** At par 2001 Census, India had 12.6 million children of age group 5–14 work either part-time or full-time and over 60 per cent of it engaged in unorganized agriculture sector, and remaining in other unorganized labour markets. Poverty, lack of schools, poor education infrastructure and growth of unorganized economy are most crucial causes of child labour in our country. Article 24 of our Constitution prohibits child labour. Further several laws and the Indian Penal Code, viz., the Juvenile Justice (care and protection) of Children Act, 2000, and the Child Labour (Prohibition and Abolition) Act, 1986 provide a sound basis in law to identify, prosecute as well as stop child labour in India. Child labour is observed in almost all unorganized, small scale, informal sectors of our economy. In fact, inflexibility and structure of India’s labour market, size of informal economy, legal hurdles prevent industries from scaling up, besides deficiency of advanced manufacturing technologies another important macroeconomic factors which instigates demand and acceptability of child labour.

### 1.7 NEOCLASSICAL MICROECONOMIC MODEL

**Neoclassical Microeconomic Model — Supply**

As we know that, households are suppliers of labour. In microeconomics theory, people are assumed to be rational and seeks to maximise their utility function. In the labour market model, their utility function is determined by choice between income and leisure. Although, they are constrained by the working hours available to them.

Let,

\[ w = \text{Hourly wage}, \]
\[ k = \text{Total working hours}, \]
\[ L = \text{Working hours}. \]
\[ \pi = \text{Other incomes or benefits}. \]
\[ A = \text{Leisure hours}. \]

Utility function and budget constraint can be expressed as following:

\[
\max U(wL + \pi A) \text{ such that } L + A \leq k.
\]

This can be explained by figure 1.1 as it illustrates this trade-off between allocation of time between leisure and income generating activities. Linear constraint line indicates here that there are only 24 hours in a day and individuals have to decide how much time to be allocated to leisure activities and how much in working activities. In case of multiple days maximum number of hours that could be allocated towards leisure or work is about 16 due to the necessity of sleep. This allocation preference is shown by the curved indifference curve labelled IC, which indicates combinations of leisure and work that provide individual a specific level of utility. Point where the highest indifference curve is just tangent to the constraint line, i.e., point A, illustrates short-run equilibrium for this supplier of labour services.
Preference for consumption (hours spent per day on income generating activities) 
Preference for leisure (hours spent per day on leisure activities) 

**Fig. 1.1: Income/Leisure Trade-off during Short Run**

If preference for consumption is measured by value of income obtained rather than work hours, Figure 1.1 can also be used to several interesting impacts. This is because slope of the budget constraint becomes wage rate. Point of optimization, i.e., point A indicates equility between wage rate and marginal rate of substitution leisure for income, i.e., slope of indifference curve. As, marginal rate of substitution, leisure for income is also ratio of the marginal utility of leisure $MU_L$ to marginal utility of income $MU_Y$. So it can be expressed as —

$$\frac{MU_L}{MU_Y} = \frac{dY}{dL}$$

**Fig. 1.2: Impact of Wage Increase**
Now, while wages increase, this individual’s constraint line pivots up from \( x, Y_1 \) to \( x, Y_2 \) and consequently said individual can buy more goods and services and also his utility will increase from point A on IC\(_1\) to point B on IC\(_2\). To realize this impact, one should taken into account particularly decision about how many hours to work. In simple words, it is because of income and substitution effect.

Wage increase shown in Figure 1.2 can be divided into two separate effects as shown in Figure 1.3. Pure income effect is shown as the movement from point A to point C in Figure 1.3. Consumption increases from \( Y_A \) to \( Y_C \) and considering leisure is a normal good. So, when leisure time increases from \( x_A \) to \( x_C \) (employment time decreases by the same amount; \( x_A \) to \( x_C \)).

![Fig. 1.3: Income and Substitution Effects for Increase in Wages](image)

But that is only one part of this situation. Now, as wage rate increases, worker will substitute work hours for leisure hours, i.e., they will work more hours to take benefits of higher wage rate, or alternatively substitute away from leisure due to its higher opportunity cost. This substitution effect is shown by way of shifting from point C to point B. Ultimate effect of these two effects has been represented in this figure by shift from point A to point B. Further relative magnitude of these two effects depends upon relevant situations. In few cases substitution effect is greater than that of income effect — in that circumstances more time will be allocated to working. But in other cases income effect will be greater than substitution effect — in which case less time is allocated to working. In fact, basic intuition behind the latter case is that worker has reached at point where their respective marginal utility of leisure outweighs individual marginal utility of income. To put it in less formal as well as less appropriate terms we can say that there is no point in earning more money if one does not have the time to spend it.

Now, again assume a situation, if substitution effect is greater than income effect, labour supply curve will slope upwards towards right shown at point A in Figure 1.4. Thus, individual labour will tend to continue his increased supply of labour services as wage rate increases up to point B where he works \( H_b \) hours in each period of time. Beyond this point he decreases supply of labour hours, i.e., point C, where work hours decreased to \( H_c \). Here, supply curve slopes upwards towards right indicates positive wage elasticity of labour supply, the substitution effect is greater than the income effect. Where it slopes upwards towards left, i.e., negative wage elasticity, here income effect is greater than the substitution effect. Direction of slope may change more than once in case of few individuals and labour supply curve is likely to be different for individual to individual.
Other variables which also affect this decision are taxation, work environment, welfare and also income as a signal of ability or social contribution.

**Neoclassical Microeconomic Model — Demand**

Now, here we shall examine labour supply curve which explain at each wage rate maximum quantity of hours a worker will be ready to supply per period of time in an economy. Simultaneously, it is also required to know maximum quantity of hours an employer will demand at each rate of wages. To understand quantity of hours demanded per period of time it is inevitable to look at production of product. So, labour demand is a derived demand — as it is derived from output levels in the goods market.

A firm’s labour demand is based upon marginal physical product of labour (MPP<sub>L</sub>), defined as an additional output or physical product which is due to an increase of one unit of labour or from infinitesimally small increase in labour.

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**Fig. 1.4: Labour Supply Curve**

**Fig. 1.5: Marginal Physical Product of Labour**
In maximum industries and over relevant range of outputs, marginal physical product of labour is declining, i.e., as more and more units of labour are employed their additional output begins to decline reflected by slope of MPP\textsubscript{L} curve in the Figure 1.5 towards right. If marginal physical product of labour is multiplied by the value of the output that it produces we get Value of marginal physical product of labour:

$$MPP\textsubscript{L} \cdot P_0 = VMP\textsubscript{L}$$

Value of marginal physical product of labour VMPP\textsubscript{L} is value of additional output produced by an additional unit of labour. As shown in Figure 1.5 VMPP\textsubscript{L} curve lies above MPP\textsubscript{L}.

Further, in competitive industries, the VMPP\textsubscript{L} is in identity with that of marginal revenue product of labour MRP\textsubscript{L}, as in competitive markets price is equal to its marginal revenue and marginal revenue product is defined as the marginal physical product times the marginal revenue from the output. So we can express it as:

$$MRP = MPP \times MR$$

Further marginal revenue product of labour can be used as demand for labour curve for this firm during its short run. In competitive markets firm faces a perfectly elastic supply of labour that corresponds with wage rate as well as marginal resource cost of labour i.e.,

$$W = S_L = MFC\textsubscript{L}.$$ 

But, on contrary, in imperfect markets, Figure 1.6 would have to be adjusted as MFC\textsubscript{L} would then be equal to wage rate divided by marginal costs because for optimum resource allocation marginal factor costs equal marginal revenue product, where firm will demand L units of labour as shown in Figure 1.6.

Neoclassical Microeconomic Model — Equilibrium

Demand for labour of this firm can be summed with the demand for labour of all other firms in the economy to get aggregate demand for labour. Similarly, supply curves of all the individual workers can also be added to get aggregate supply of labour. These supply and demand curves can be analysed in similar manner as in case of any other industry demand and supply curves for determining equilibrium wage and employment levels.

1.8 PERSONNEL ECONOMICS: HIRING AND INCENTIVES

Further, at micro level, one sub-discipline eliciting increased attention in recent decades is analysis of internal labour markets, i.e., within firms or other organisations, studied in personnel economics from the perspective of personnel management. On the other hand, external labour markets implies that workers move somewhat fluidly between firms and wages and hence determined by aggregate process whereby firms do not have much significant discretion over wage setting. Rather focus is on how firms establish, maintain and end employment relationships and also on how firms provide incentives to employees that includes models and empirical work upon incentive systems and as constrained by economic efficiency and risk or incentive trade-offs that relates to personnel compensation.
Information Approaches

But in real-life situations this is far from the case. Firm does not necessarily know how hard a worker is working or how productive they are. Consequently it provides an incentive to workers to shirk from providing their full effort, as it is difficult for employer to identify hard-working and shirking employees, as a result overall productivity declines, that leads to more workers being hired and unemployment rate will be lower.

One measure used in this regard now is stock options which benefits employees directly from firm’s success. Though it is subject to criticism as executives having large stock option packages have been suspected of acting to over-inflate values of share which is definitely detrimental for long run welfare of firm.

Another solution, foreshadowed by increase of temporary workers in Japan and firing of many workers due to financial crisis of 2008. It created more flexible job contracts and terms that encouraged employees to work less than full-time by partially compensating for loss of hours. Relying on workers adaptability of their working time against job requirement as well as economic conditions, but on contrary employer trying to determine how much work is required to complete a given task and in turn overestimating too.

Another aspect of uncertainty that also due to imperfect knowledge of firm regarding workers’ ability and consequently pays a wage considering worker’s ability is average like that of other workers. This under compensation of wage to high ability workers may drive them away from labour market termed as adverse selection that may also cause market collapse too.

Measures to Overcome Adverse Selection in Labour Market

In this context one important mechanism is signaling pronounced by Michael Spence. According to him even if education does not increase productivity, efficient workers may still acquire to signal their abilities, which in turn help employers by utilizing their intellect these signals to decide about workers’ ability and pay higher wages accordingly.

1.9 CHOICE OF TECHNOLOGY AND GOVERNMENT OF INDIA LABOUR POLICIES

1.9.1 Employment Intensive Investment Programme (EIIP)

Background: For attaining sustainable improvement of poor people in developing nations and especially in the least developed nations, necessitates access to remunerated employment as well as basic goods and services like health care, education, markets, water, sanitation and housing. A large contribution can be made towards improvement of their livelihoods by appropriate investments in infrastructure that provide these jobs and basic services.

The Employment Intensive Investment Programme (EIIP) of the ILO works with governments, employers’ and workers’ organizations, private sector and community associations in orienting infrastructure investments towards the creation of higher levels of productive employment and also towards improvement of access to basic goods and services for the poor. This combined actions of local participation in planning process through utilization of locally available skills, technology, materials and proper work methods definitely has proven to be an effective and also economically viable approach to infrastructure works in developing nations.

Importance of infrastructure in providing access to basic services and to promote development is widely understood. Half of public investments in most developing countries is in infrastructure and in many cases, over 50 per cent of this investment (increased to as much as 80 or 90 per cent in least developed nations) is funded by external donors. Impact of these investments in infrastructure can be increased more, by local level planning process that identifies appropriate interventions based on the needs of local communities.

Further, employment potential of these infrastructure investments is vast, but is often not realized. As many projects are equipment-intensive, frequently using foreign contractors, which may be necessary for airports, motorways or heavy bridges, but employment-intensive alternatives using labour-based technology are available for more basic infrastructure, offers more advantages in terms of using infrastructure investments in creation of local employment and incomes, as well as skills and capacities on the other.

All these stages of the project cycle form suitable entry points for promoting the employment intensive investment approach.
Immediate Objectives of EIIP

The programme’s development objective (or Mission Statement) is to promote and support the generation of productive and decent employment in developing countries through labour-based investment policies and programmes in the infrastructure sector, thus contributing to poverty reduction, economic development and social progress. Its immediate objectives are:

1. To promote development and application of employment-friendly policies for public investment in infrastructure at national, regional and international levels.
2. To promote small enterprises in construction sector (labour-based contractors) and private sector execution of public works by using locally available resources in an optimum manner, combining job creation in infrastructure sector under improved and decent working conditions.
3. To promote organisation and collective negotiation at small enterprise and community levels in labour-based works in urban as well as rural sectors, besides improved access of deprived communities to productive resources and social services.
4. To provide assistance to social safety nets and labour-intensive employment schemes for direct job and asset creation in reconstruction programmes following man-made or natural disasters.

Local Level Planning

One important constraint for population of developing nations to improve and maintain their standard of living is lack of access to essential goods and services, where access is defined as the ease or difficulty of reaching these goods and services, that can be improved through necessary investments in infrastructure, i.e., improvement of proximity and quality of services along with required transport infrastructure) apart from transport means that implies public transport and intermediate means of transport. Local level planning is potent tools to identify these investments and also to ensure their maximum impact upon access of people to basic services. It enables local governments to identify and prioritise rural infrastructure investment opportunities absolutely according to real core needs and demands of people.

The ILO through the EIIP has assisted to develop a simple and relatively cheap planning tool (Integrated Rural Accessibility Planning – IRAP) that involves communities, local governments and local civic organisations to identify appropriate interventions. It is an area-based tool for physical planning which captures access problems and identifies a set of prioritised interventions to address these. Therefore, it complements existing local level planning structure and strengthens local capacity in target nations to identify appropriate investments in infrastructure more efficiently and also effectively.
Labour-based Technologies

The term labour-based technology is used to describe a technology that applies a labour and equipment mix that gives priority to labour, supplementing it with appropriate equipment where necessary for reasons of quality or cost. When producing or maintaining infrastructure to a specified standard in a cost-effective manner, people are employed under fair working conditions. It is in thus important to differentiate between an optimum and efficient use of labour, as opposed to a maximum, and possibly inefficient use.

It has been found that, for same level of investment in local infrastructure, use of labour-based technologies can create between two and four times more employment (mostly unskilled), drop foreign exchange requirements by 50 per cent to 60 per cent, decrease overall cost by 10 per cent to 30 per cent, and also reduces environmental impacts.

Utilisation of labour-based methods implies increased use of associated local resources like locally available materials, tools and equipment, skills and knowledge and finance, which reinforces percentage of investment that remains in any country and often in the locality of the works, decreases dependency on costly imports, stimulates local economy.

The ILO promotes use of labour-based methods as a regular component of recurrent public investment programmes for infrastructure and construction sectors and supports special training as well as awareness programmes for this purpose, besides development and use of technical and contractual materials for realisation of such programmes. On account of high dependence on labour, the ILO actively promotes application of proper labour standards like minimum working conditions, i.e., minimum wages, non-discrimination, elimination of forced and child labour, the right to organize, protection of wages, safety and health and insurance against work accidents and so on. Apart from inclusion of women as workers and leaders is also advocated.

Areas of Work

To promote local level planning and labour-based technologies, the EIIP works at different implementation levels. At national level it works on the creation of an enabling environment, by increased awareness, promotion of appropriate policies, regulations and capacity building. At local level it focuses on creating an implementation capacity through promotion of private sector implementation by small contractors that includes training of local contractors in labour-based works and the capacity building of local government in contract administration and supervision. At community level the EIIP works on improving communities’ capacities for organisation and negotiation to attain appropriate projects and execute them.

Employment and Investment Policies

The EIIP has over 25 years of experience with labour-based technologies and local level planning over a ten year period, about over 1 million direct jobs and almost 2 million indirect jobs have been created in investment programmes where the EIIP has been directly involved through demonstration and capacity-building activities. Appart from experiences of partner organisations an adequate large resource base is created to provide the evidence of the viability of employment creation through infrastructure investments for poverty alleviation. Macroeconomic studies in various countries have amply shown the positive effect of labour-intensive investments on national employment.

1.9.2 Work Principles

**Enabling environment:** An enabling environment refers to the creation of appropriate conditions which allow small-scale contractors and local communities to enter into public procurement contracts on a level playing field.

**Promotional policy framework:** To ensure that upstream policy formulation is linked to employment and investment policies and decisions, the EIIP promotes the reorientation of government policy, to emphasize the employment potential of public investments like raising awareness amongst governments and other interested institutions of the nature and potential impact of employment-intensive investment programmes.

**Decent work for men and women:** In its promotion of employment intensive investments, the EIIP is concerned with incorporation of the ILO’s core values as well as principles as enshrined in several ILO Conventions, so that good quality jobs are created. The EIIP expands framework of initiatives on Decent Work from advice and guidance to a hands-on approach to application of the Decent Work principles.
Private sector implementation: Development of a local contracting industry in developing nations are useful in mobilising and engaging local human and material resources for development and maintenance of infrastructure and thus an important means to promote local employment and improve efficiency. Small-scale contractors play a major role in implementation and maintenance of rural infrastructure services, hence recognized as key sources of employment creation, though often face obstacles in attaining public contracts.

Community development: Governments and City Councils often lack capacity to provide adequate services to poor settlements. Communities knows problems and provide solutions, but usually lack organization, know-how, funding and contacts and thus can be assisted to improve their organisation and negotiation skills by organising themselves into Community-based Organizations (CBOs) that represent interests of the wider community.

Countries affected by crisis: The origin of the EIIP dates back to the 1970s, when the World Employment Programme (WEP) was created as part of the ILO’s response to the deteriorating employment situation in developing nations. Subsequently, as policy environment changed, EIIP has evolved from relief, emergency and special public works programmes to a long-term structured employment-generation programme. EIIP’s strategy to linking economic growth, employment and investment policies has proven its importance in crisis- and conflict-affected countries. The Employment Intensive Investment Programme is delivered through the Employment Intensive Investment Branch EMP/INVEST of the ILO headquarters, the ILO field offices and through the ASSIST programmes in Africa and also in Asia.

1.9.3 Government of India Labour Policies

National policy on skill development: Skills and knowledge are driving forces of economic growth and social development for any country. Nations with higher and better levels of skills adjust more effectively to challenges and opportunities of world of work. Potentially, target group for skill development comprises all those in labour force, including those entering the labour market for the first time around 12.8 million annually, those employed in the organized sector approximately 26.0 million and even those working in unorganized sector, i.e., almost 433 million in 2004-05. Existing capacity of skill development programmes is 3.1 million. India has set a target of skilling 500 million people by 2022.

Vision for the National Skill Development Initiative in India:

1. Scale of ambition: At present capacity of skill development in India is about 3.1 million persons per year. The 11th Five Year Plan envisions an increase in that capacity to 15 million annually. India has target of creating about 500 million skilled workers by 2022. So, there is a need for increasing capacity and capability of skill development programs.

2. High inclusivity: Skill development initiatives will harness inclusivity and reduce divisions such as male or female, rural or urban, organized or unorganized employment and traditional or contemporary workplace.

3. Dynamic and demand-based system planning: Skill development initiatives support supply of trained workers who are adjustable dynamically to changing demands of employment and technologies. Hence, this policy will promote excellence and will fulfill requirements of knowledge economy.

4. Choice, competition and accountability: Skill development initiative does not differentiate between private or public delivery, places importance on outcomes, users’ choice, competition among training providers as well as their accountability.

5. Policy coordination and coherence: Skill development initiatives support employment generation, economic growth and social development processes and thus this policy will be an integral part of comprehensive economic, labour as well as social policies and programmes. A framework for better coordination among various Ministries, States, industry and other stakeholders must be established.

Core Operating Principles

1. Government financial support must complement private investment: Central Ministries must focus on areas where private investment in skilled development is unlikely to be available or forthcoming. Thus, Government would aim at useful public-private partnerships.

2. States as key actors: States being the major factors in Skill Development that would set up integrated framework for action for Skill Development through State level Skill Development Missions.
3. Deployment of funds: Funds would be deployed more for activities than for buildings and other hard assets. However, upgradation of machinery and equipment, teaching and learning aids will be a continuous process. Creation of infrastructure in latest technology, need-based new initiatives, creation of infrastructure in rural, remote and difficult areas will continue.

4. Focus of modular courses, open architecture and short term courses: Along with fast changing skills in labour market focus should be on short, relevant and effective courses that would get candidates into workplace. They will be welded through National Vocational Education Qualifications Framework (NVQF) to maintain dynamism and open to feedback too.

5. Separate financing from delivery: Now Government funds are only available for government delivery.

Private Skill Development Initiatives

National Skill Development Corporation will support private skill development initiatives. Following financing options will be explored:

1. Link financing to outcomes: Nowadays public and private training is financed largely based on inputs, viz., number of courses, number of students, faculty, etc. Further efforts would be made to move towards Government financing linked to placement ratios and also outcomes.

2. Focus funding on candidates: Focus would be on funding the candidates rather than institutions to create choice – that may be structured as a scholarship, skill voucher, outcome-based reimbursement etc.

3. Create infrastructure for on-the-job-training and encourage apprenticeships: Further enabling infrastructure for large number of formal apprentices are to be built that also includes modification to the Apprentices Act, 1961.

4. Publicise rating and outcome information on training institutions: Framework of accreditation and infrastructure for information dissemination around measurable criteria on institutions will be created and also ratings of public and private institutions would be put on public domain.

5. Effective assessment and credible certification: Quality assured learning, credible assessment and certification will be developed. This will allow employers to use the certificate as a proxy to fast track job applicants.

6. Restructure employment exchanges as career guidance centres: Employment exchanges will be restructured as career guidance centres to channelize candidates into jobs, apprenticeships as well as training.

7. Expand formal employment: Formal employment is not only fiscally attractive but also more amenable to finance innovations, which will be required to review of existing State and Central legislations which encourage informal and unorganized employment.

Safety, health and environment at workplace: The Constitution of India provide detailed provisions for the rights of citizens and also lays down the Directive Principles of State Policy which set an aim to which activities of the state are to be guided. At par the Directive Principles and international instruments our Government is committed to control entire economic activities for management of safety and health risks at workplaces and also to provide measures to ensure safe and healthy working conditions for every working man and woman of our country. Government recognizes that safety and health of workers has a positive impact upon productivity, economic as well as social development. Prevention is an integral part of our economic activities, because high safety and health standard at work is as important as good business performance for new as well as existing industries.

National policy on HIV/AIDS: The HIV/AIDS epidemic constitutes one of the most formidable challenges to development and social progress. The epidemic exacerbates poverty and inequality and also increases burden on most vulnerable people in society such as elderly, women, children and poor. Countries as well as organizations that do not respond in time have to bear huge costs on public and private sector enterprises by declining productivity, loss of skilled experienced labour, increased expenditures on employee treatment and also associated costs as demand for public services increases. National economies, as found in severely affected regions such as the sub-Saharan Africa, have experienced impact on virtually every sector.

Labour Jurisdiction: Under the Constitution of India, Labour is a subject in the Concurrent List where both Central and State Governments are competent to enact legislation subject to certain matters being reserved for the Centre.
Constitutional Status:

<table>
<thead>
<tr>
<th>Union List</th>
<th>Concurrent list</th>
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<tbody>
<tr>
<td>Entry no.55</td>
<td>Regulation of labour and safety in mines and oil fields.</td>
</tr>
<tr>
<td>Entry No 22</td>
<td>Trade Unions; industrial and labour disputes.</td>
</tr>
<tr>
<td>Entry No. 61</td>
<td>Industrial disputes concerning Union employees</td>
</tr>
<tr>
<td>Entry No. 23</td>
<td>Social security and insurance, employment and unemployment.</td>
</tr>
<tr>
<td>Entry No. 65</td>
<td>Union agencies and institutions for “Vocational training..”</td>
</tr>
<tr>
<td>Entry No. 24</td>
<td>Welfare of labour including conditions of work, provident funds, employers invalidity and old age pension and maternity.</td>
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1.10 LABOUR LEGISLATION

The term labour environment is an important determinant of business location and its functioning. Factors like availability of labour of different skills, productivity, cost, flexibility, attitude, behavior, nature of trade union, labour legislations etc. inevitable for business. Further labour standards that includes working conditions, labour welfare measures, wage structure, child labour and so on are also major concerns of international business.

Labour legislation is one crucial factor which shapes entire labour environment. It refers to all laws of the Government which have been enacted to provide social as well as economic security to the labour or workers. Evils of industrial revolution have led to the labour legislation. Now every state has direct interest in the industrial peace and prosperity. Hence these acts are aimed at reduction of production losses arises on account of industrial disputes and also to ensure timely payment of wages and other minimum amenities of workers.

Need for Labour Legislation

Core principle of industrial legislation is to ensure social justice to workers. Basic objective of legislation is equitable distribution of profits and benefits accruing from industry between industrialists and workers and to provide protection to workers against harmful factors affecting their health safety and morality. In India, labour legislation becomes especially important due to following reasons:

1. Labour organizations are relatively weak and mostly, dependent merely upon mercy of respective employers. Individual worker is economically very weak and thus unable to bargain his terms with their employers. Now payment of wages, layoff, dismissal, retrenchments, etc., all are governed by legislation. So, economic insecurity of the workers is removed to a great extent.

2. In many cases workers feel occupational insecurity. Workers may not be given by amount in case of accidents, death, occupational Act, Employees State Insurance Act. Certain benefits have been statutorily given to workers which employees otherwise may not get from their employers.

3. In any factories, one important working conditions on account of which health and safety of workers or employees are always in danger. The Factories Act encompasses number of provisions relates to health safety and welfare of workers. Special provisions have been made especially for women.

4. Labour legislation is also necessary from the viewpoint of law and order situation and national security of our country. State plays a crucial role in the process production, in turn helps in economic development of our country. Idea of Welfare State is embodied in the Directive Principles of the constitution and several labour laws also have been enacted to protect this sections of our society.

5. Labour Legislation is one of the most progressive and dynamic instruments to achieve socio-economic progress.

Objectives of Labour Legislation

Major objectives for various labour laws are as follows:

1. To protect workers from profit seeking exploiters.
2. To promote cordial industrial relations between employers and employees.
3. To preserve health safety and welfare of workers.
4. To protect interests of women and children working in the factories.
Principles of Labour Legislation

There are four cardinal principles on which the labour legislation is based, viz.,

1. Social Justice: Concept of social justice refers to providing justice to everyone in the society so that the poor are not exploited by the rich. Alternatively, state must protect to workers against harmful effects to their health, safety, working conditions, reasonable wages, so that organized workers can not succeed to meet socially unjustifiable rights and hold public life at ransom.

2. Social and Economic Equity: Social equality is a social state of affairs in which all people within a specific society or isolated group have the same status in certain respects. At the very least, social equality includes equal rights under the law, such as security, voting rights, freedom of speech and assembly, property rights, and equal access to social goods and services. However, it also includes concepts of economic equity, i.e., access to education, health care and other social securities. It also includes equal opportunities and obligations and so involves the whole of society. The principle of social equity implies that changes in socio-economic, political conditions and also environment should be absorbed into labour legislation from time to time.

3. National Economy: Labour legislation ensures industrial peace and helps in the industrialization of the country, i.e., general economic situation of our country. The Directive principles of the constitution contain the idea of welfare state. It is a fundamental of a welfare state to look after interest of workers who are weakest section of our society and fulfil their physical needs. By increasing productivity benefits are shared with workers that leads to their prosperity. Henceforth for growth of any economy and development of our country labour legislation are no obviously guiding principles.

4. International Conventions (Uniformity): International labour origination aims at securing the minimum standard of living (common platform) for the workers and also ensure uniformity in labour legislation throughout the world. If any convention is passed by govt., it becomes binding if it is ratified by any country.

Growth of Labour Legislation in India

Law is necessary to maintain peaceful environment for industrial growth. Labour legislation in our country has developed with the growth of industry. During the eighteenth century India was not only a great agricultural country but a great manufacturing country too. Asian and European markets were mainly fed by looms supplied by India, but British Government in India as a matter of their imperialist policy discouraged Indian manufacturers, to boost rising manufacturers of England. Their policy was to make India subservient to industries of Great Britain and to make Indian people to grow only raw materials. The British oppression in India continued for a long time which led to the growth of Indian nationalism and to a vigorous renaissance. Nationalism has an obvious economic aspect within our country which was reflected in the urge for economic reforms and also for industrialization. During the twentieth century our national movement took a new turn for a common demand for Indian goods. A non-co-operation movement which is known as The Swadeshi movement was started, which urged people to use goods made in India and to boycott foreign goods. This non-co-operation movement synchronized with periods of economic crisis gave impetus to our industrialization strategy. Not only that, growth of Indian private sector owes much to these popular movements. It is true that, the Indian Economist drew their inspiration from British classical Economists but they outgrew those ideas. Like British Economists, Indian Economists not only advocated that trade and commerce should be free but they laid emphasis upon free trade of local goods. A deliberate attempt was made to put forward a theory of economic development and planning suited to conditions of our country. After thirty, the planning was accepted by the national movement as an economic ideology. Subsequently, planned industrialization became our ultimate goal.

In India, plantation industry in Assam was first to attract legislative control. Process of recruitment of workers in this industry was full of hardships. Workers were employed by professional recruiters and workers were not allowed by the planters to leave the tea gardens. Several Acts were passed from 1863 onwards to regulate recruitment process, but ironically these legislations protected interests of employers more than safeguarding interests of workers. The Factories Act was passed in 1934, The Mines Act in 1923, The Workmen’s Compensation Act 1923 was passed to protect interest of workers. Following Acts have been enacted time to time to promote conditions of labour and maintain harmonical relationship between employer and employee keeping in view development of industry as well as our national economy. These are as follows:

The Bonded Labour System (Abolition) Act, 1976

The Child Labour (Prohibition & Regulation) Act, 1986
The Children (Pledging of Labour) Act, 1933
The Contract Labour (Regulation & Abolition) Act, 1970
The Apprentices Act, 1961
The Factories Act, 1948
The Industrial Disputes Act, 1947
The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
The Weekly Holidays Act, 1942
The Mines Act, 1952
The Employees Provident Funds and Misc. Provisions Act, 1952
The Employees State Insurance Act, 1948
The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959
The Equal Remuneration Act, 1976
The Industrial Employment (Standing Orders) Act, 1946
The Employers Liability Act, 1938
The Labour Laws (Exemption from Furnishing Returns & Maintaining Registers by Certain Establishments) Act, 1988
The Maternity Benefit Act, 1961
The Minimum Wages Act, 1948
The Payment of Bonus Act, 1965
The Payment of Gratuity Act, 1972
The Payment of Wages Act, 1936
The Sales Promotion Employees (Conditions of Service) Act, 1976
The Shops and Establishments Act, 1953
The Trade Union Act, 1926
The Workmen’s Compensation Act, 1923

Mahatma Gandhi had once said, ‘A nation may do without its millionaires and without its capitalists, but a nation can never do without its labour’. In India, various labour legislation has been enacted to promote condition of labour keeping in view development of industry and national economy. But for industrial regeneration it is indispensable that partners of the industry must rectify their defects. Since independence both legislation and public opinion have done a lot to improve condition of workers. At the same time it is also duty of workers and their organizations to improve their work, i.e., efficiency which is inevitable for better production and in turn greater profits. Prosperity of industry should be shared both by management with workers and also community at large. Workers are dominant partners in industrial undertakings and thus without their co-operation, good work, discipline, integrity and character industry will not be able to produce effective results (profits). If human element refuses to co-operate entire industry will collapse. So, profit of industry should be shared among employers, workers and community at a large. Government and also factory owner should realize labour psychology and at the same time, change in their outlook and attitude towards workers is desired to secure industrial peace. Nothing should be done under threat or coercion but on a clear understanding that whatever is good and is due to the labour must be given. Therefore, industry owners should treat workers as co-partners. On the other hand, workers of our country also have a sense that if they want to secure their respective due place in industrial world they must think more in terms of their responsibilities as well as duties. Hence, sabotage and violence of all kinds, bitterness in thought, word and deed must be eschewed. Thus, it is safe to comment that, an improvement in labour regulations will definitely provide an opportunity to accelerate manufacturing growth and development of nation.

1.11 FLEXIBILITY, EMPLOYMENT AND LABOUR MARKET REFORMS IN INDIA

There is intense debate on labour market reforms in India today. In our country restrictive labour laws create inflexibility in labour market. Indian economy would have experienced a higher growth of employment. Indian labour market is quite flexible despite restrictive labour laws, though laws are so numerous, complex and ambiguous that they promote litigation instead of resolution of problems related to industrial relations. Thus, one comprehensive labour market
reform is inevitable, which addresses the needs of both employers and workers, to allow sufficient labour adjustment with adequate social and income security for workers.

1. Labour Flexibility Debate: The term “labour market flexibility” comes next to “globalisation” in frequent occurrence in the discourse on economic growth. Framework for producing labour market flexibility was designed to deregulate labour market and remove protective regulations. Core concept behind this thesis was free market outcomes are efficient and Pareto optimal. Free play of market forces results in employment of resources at market-clearing prices, that leads to both efficiency and also equity. Regulation of market by state leads to deviations from full employment of all resources. Attempts should be made to eradicate maximum of these imperfections in market as possible to attain full employment of all resources and optimal social welfare. Labour market trade unions and protective labour legislations are considered as market-distorting agents as it curtail free operation of market forces to ensure full employment of labour. Interference by collective institutions, i.e., law and free trade unions in the market process raises transaction costs and results unemployment and welfare loss. These institutions not only tamper with “price” and essential market signals that enable effective functioning of market but also affect freedom of employers to adjust quantities of resources, that results unemployment. Further, they also result inequity because by protecting interests of insiders they hurt chances of outsiders to enter labour market and thus remain unemployed. When outsiders remain scattered and their political power becomes diffused the insiders becomes well-organised and vocal and influence policy decisions more than their unfortunate counterparts. Thus, labour market should be deregulated to stimulate investment and employment, also to attain equality to provide flexibility in entry and exit. Several other economists like Wilkinson, Sengenberger and Campbell opposed this view with their respective microeconomic and macroeconomic logic. They believed that, competing firms may compete either by reducing their unit costs through lowering wages and labour standards. A firm can continue competing on the basis of low wages and bad working conditions, there is no motivation for improving productivity. Only when path to competition by lowering of wages and bad working conditions is barred by providing a floor of labour standards, firms can become enterprising and invest in technological and organisational innovation, which, in turn, leads to better wages and working conditions. Recent ILO study based on data collected from 162 nations, concludes that stronger trade union rights do not generally hinder trade competitiveness, including trade of labour intensive goods and thus nations with stronger trade union rights tend to do comparatively well. So, deregulation of labour market, even in most of the advanced capitalist nations, has not been able to contain high unemployment even after decades of implementation, raises scepticism about deregulation and its supposed benefits.

2. Employment Growth and Labour Flexibility in India: After liberalisation, rate of growth of gross domestic product (GDP) of India has increased significantly, i.e., about 8 per cent during 2005-06. Presently making our country one of the fastest growing economies of the world. Though this growth has been led by services, there has been considerable improvement in industrial activity and international competitiveness is seen in some Indian industries like automobiles and pharmaceuticals in terms of both cost and quality. Employment which had experienced a steady growth of about 2 per cent from 1961 to 1990 while growth of GDP was only around 3.5 per cent, declined sharply to 1.5 per cent during 1990-92 and 1 per cent during 1993-2000 and thereby witnessed deceleration in employment growth during the 1990s occurred along with acceleration in GDP growth rate. Employment content of growth deteriorated, as witnessed by substantial decline in employment elasticity from 0.41 during 1983-94 to 0.15 during 1999-2000 for both policy level and technological changes in production process over last several years. Significant component of GDP growth took place for productivity growth and increasing capital-intensity of our economy. Again, deceleration in employment growth has been accompanied by increased formalisation of workforce. Over the years, organised sector employment grew at 1.20 per cent per annum during 1983-94 but this rate fell to 0.53 per cent between 1994 and 2000 and thereby proportion of unorganised sector employment has considerably increased in construction, transport, storage, communications as well as financial services. Again, apart from new jobs largely being created in unorganised sector, numerous retrenched workers have also found refuge in unorganised sector. Several economists, industry associations and mainstream media have attributed this deceleration in employment growth in India, particularly in organised industrial sector, due to enhanced labour costs for enterprises which hindered investment that include even foreign investment and growth. Employment protection laws are also found inefficient and inequitable that leads to slowdown in growth and segregates workers into protected and unprotected categories. Social security of a limited pattern is enjoyed by merely 8 to 9 per cent of total workforce. Over-protection of a small section of workers is not only ostensibly inimical to growth of employment, but also against social justice as large number of workers are faced with deplorable working conditions. A recent study of pattern of manufacturing growth during 1958-1992 concludes as, states which amended the Industrial Disputes Act in a pro-worker direction experienced lowered output,
employment as well as investment in registered formal manufacturing. Legislating in a pro-worker direction was also associated with increased urban poverty, which is an attempt to redress balance of power between capital and labour that can end up hurting the poor. But, trade unions and few economists claim that labour cannot be treated like commodity and so measures like minimum wages, job security, social security, separation benefits, trade union rights and so on are socially and politically inevitable to sustain process of globalisation which increase labour productivity. Government also suffers acute dilemma over this issue and labour and managements are at loggerheads with one another, compel government to be circumspect in reforming labour market and it is rooted in our philosophy of social and labour policy. Besides, detailed laws governing industrial relations were enacted and a mechanism for fixing and implementing minimum wages was also developed. During our earlier years of planning when anticipation of economic growth were higher and unemployment was not thought to be a serious problem, this issue did not attract much attention. However, gradually with a significant slowdown in employment growth in organised sector debate has taken centre stage at present due to fierce resistance from trade unions government is hesitant to introduce drastic labour reforms. According to our Economic survey 2005-06, Indian Labour Laws are highly protective of labour and labour markets are also relatively inflexible. These laws apply only to organised sector. So, these laws have restricted labour mobility that have led to capital-intensive techniques in organised sector and adversely affected the sector’s long-run demand for labour. China is a good instance in this regard, as it has drastically transformed its system of labour market from a rigid security of employment to one in which labour is mobile, which greatly helped China to generate employment and redeployed laid off workers during restructuring of enterprises. However, it is true that over 100 developing countries have reformed their respective labour laws due to competitiveness in the era of globalisation, but India remains among a few selected nations due to its rigid system labour protection measures.

3. Employment, Restructuring and Labour: Flexibility in Indian labour market has been debated in recent years in reference to manufacturing sector employment – both factory and non-factory segments – especially the former one, as this sector is supposed to have borne the brunt of the mild dose of restructuring during 1980s and for liberalisation of the economy in the early 1990s. This sector experienced an annual average growth rate of 7 per cent per annum in terms value added or output, during the decade of the 1980s as compared to 4.3 per cent per annum in terms of value added or output during 1970s. The organised factory sector registered higher annual average growth rate of output, i.e., about 7.9 per cent in 1980s as compared to 4.6 per cent during the previous decade. Faster growth rate of 1980s with a virtual stagnation in factory sector employment indicates ‘jobless growth’ in the factory-manufacturing segment. Employment elasticity in the organised manufacturing sector has also been very low and declining rapidly and these trends, are often attributed to rigidities in labour market, that leads to high labour adjustment cost, Further, provision in the Industrial Disputes Act relates to prior governmental permission for retrenchment of workers or close down enterprises of a particular size is held to be the main obstacle. Employment in organised manufacturing would have been almost 17.5 per cent higher in absence of job security regulations and a steep increase in real wages has also been held responsible for decline in employment in organised manufacturing sector. Faster growth of industrial wages relative to consumer prices abetted by provisions of job security resulted long-term reduction of employment during period 1959-60 to 1981-82. Important factor behind ‘jobless growth’ during 1980s was increase in product wage which was because of inflationary consequences of macroeconomic policies as well as pressure in labour market, which encouraged enterprises irrespective of their respective size and organisational set-up to implement capital deepening approach. This technique involved modernisation and pure substitution of capital for labour. Jose thinks that instead of higher level of wages resulted low level of employment in the 1980s, rapid productivity growth resulted improvement in real wages and also points out that fall or deceleration in the employment growth rate and also concomitant rise in level of productivity in 1980s were foundation of structural reforms and technological changes in manufacturing industries. But there has been a decline in the incidence of strikes since early 1990s and now lockouts account for a lion’s share in the total workdays lost. According to some critics opposed the idea that job security regulations which were strengthened by changes in law in 1980s restricted flexibility in labour market. In this perspective, amendments in the Industrial Disputes Act, 1976 are prominent, which made it mandatory for enterprises employing 300 or more workers to seek government approval to lay-offs, retrenchment and closure in later stages of 1982. It is to be remembered that, these provisions were applicable to establishments employing 100 or more workers. So, industries either opted for more capital intensive technique or alternatively contracted out increasingly larger volumes of work to smaller enterprises to aside the provision of government permission in this regard. At aggregate level growth rate of employment was 1.6 per cent per annum during 1972-73 to 1989-90, which raised to around 3 per cent per annum in 1990-91 to 1997-98. Employment elasticity also showed an increase, i.e., 0.33 in 1990-91 to 1997-98 while it was 0.26 in 1972-73 to 1989-90. There was also an acceleration in output growth responsible for expansion of industrial employment. Between 1995-96 and 2000-01 approx. 1.1 million workers or about 15 per cent of workers in organised manufacturing
sector across major states and industry groups lost their jobs. Real wages thus stagnated, though emoluments of supervisors and managers increased considerably. Retrenchments were initiated by the voluntary retirement scheme (VRS) of the public sector enterprises but subsequently the private sector followed suit, when enforcement of labour laws was relaxed. After curtailing workforce employers resorted to strategy of engaging contract labour. Overall percentage of contract workers to total workers in manufacturing sectors increased from approx. 12 per cent in 1990 to almost 23 per cent in 2002. States like Andhra Pradesh this increase was phenomenal, i.e., from 40 per cent in 1990 to 62 per cent in 2002. Actually contract labour has been one major principal approach adopted by employers to attain flexibility in labour market and employers innovated ways to curtail workforce inspite of restrictive provisions amended by government. Hence, simultaneous fall and rise in employment seems to have taken place primarily based upon considerations of prevailing market as well as technology.

Thus, existence of stringent labour laws is merely one factor out of several other factors responsible for deceleration in employment growth. As regards, extent of labour flexibility is concerned, major focus was to find out extent of flexibility enjoyed by employers while adjusting employment and labour processes within an establishment to external changes. Under unionism by collective bargaining, legislations at par the Industrial Disputes Act particularly issues like retrenchment, closure, and also deter employment.

4. Employment Change and Wage Flexibility: In this context, total employment in all nine industry groups increased at 2.8 per cent per annum between 1991 and 1998. Non-manual and manual employment increased at 5 per cent and 2.3 per cent per annum, respectively. 60 per cent of employers increased their total employment and 27 per cent downsized their workforce. So, expansion and contraction of manual employment were undertaken by almost equal proportion of employers. Non-permanent employment contributed an increase in total employment, but increase in manual employment resulted from an increase in number of women workers. Employment in textile and chemical enterprises increased, employment in basic metals and alloys industry declined. Higher rate of growth was observed in smaller firms than that of bigger firms. Firms experienced an increase in demand and in turn raised their production that were more likely to increase rather than decrease both their manual and total employment, although latter being greater than the former one. Employers who raised their fixed capital per worker decreased manual employment and instead raised employment merely by employing non-regular flexi workers and respondents were reluctant to disclose information on wages and allowances. Overwhelming proportion of firms did not employ women at all and few who did, employed them in unskilled work. In formal sector earnings of a worker consist of a basic wage, dearness allowance (DA) and a bonus. But according to recent study more than 80 per cent of respondent firms paid consolidated wages. Basic wage comprises fixed component of total wage while DA and bonus are variable components. In most of the firms, statutory minimum wages prevail as basic wages and collective bargaining plays insignificant role to determine basic wage. This is also true, though to a much smaller extent, of the firms in the cotton textile industry, as it is most unionised industries in India. In textile products factors like experience, qualification, job evaluation and adjudication determined basic wage in a majority of firms. But higher proportion of larger firms resort to collective bargaining as major strategy of finalising basic wage as it indicates unity of workers under umbrella of unions applicable particularly in large firms. Further, slightly little over one-third of employers pay bonus at minimum rate, whereas three out of every ten paid bonus at maximum rate. Firms generally raises employment level provided their unit labour costs become lower.

5. Impact of Trade Unions and Collective Bargaining: Trade union is both an economic as well as political institution whose impact is determined by factors like qualitative and quantitative strength, leadership etc. According to latest study 28 per cent of firms had unions and of these 30 per cent had more than one union. Larger firms are more unionised than that of smaller ones. One in every 10 small firms employing 10-19 workers, but 9 of every 10 firms employing 1,000 or more workers were unionised. Thus, number of unions may not be adequate to influence manufacturing sector yet, they still have a substantial presence in large firms. Both unionised and non-unionised firms raised their capital intensity and therefore unions cannot be blamed for forcing employers to adopt capital-intensive technology. But, no doubt absence of union appears to be more likely to facilitate growth in employment than its presence because, a larger proportion of unionized than that of non-unionised firms curtailed employment. Ceteris paribus, study found that firms with unions paid unskilled and skilled workers approx. 17 per cent more than those without unions and older firms paid a higher wages than that of newer firms. Further greater the share of women in employment, lower was wage paid both to unskilled and skilled male worker, but higher the share of contract labour, higher was wage paid to skilled worker. Firms based in Maharashtra paid 20 per cent higher wage to unskilled worker while those situated in West Bengal paid about 28 per cent less to unskilled and 39 per cent less to skilled male worker than those based in Andhra Pradesh.
6. Impact of State Regulation: State in India has played a crucial role in forming regulation of employment, wages and also conditions of work in case of organized manufacturing sector, almost half the firms paying only statutory minimum wage. Importance of minimum wage law (MWL) declines as the incidence of presence of union increases along with the size of employment. MWL is most important determinant of wages in some industries like that of beverages and tobacco, which are least unionised. Nearly about two-thirds of firms engaging less than 10 workers paid merely statutory minimum wages, while 17 per cent of firms employing 1,000 or more workers could do so. 17 per cent of firms employing 1,000 and more workers could pay statutory minimum wages despite the restrictive industrial relations laws still being on the statute book, that is mainly because of recent anti-labour twist in the approach to labour rights, both lies at executive and judicial arms of the state. Further, bonus payment is determined by the Payment of Bonus Act. It is found that firms engaging less than 100 workers increased their employment faster than those employing 100 workers or more. However, advantage of small firms appeared to be marginal as regards total employment was concerned — that was almost zero in manual employment. Firms engaging 100 workers and above all labour laws are applicable especially provisions relating to retrenchment and closure.

7. Employment Flexibility: Indian labour markets have been dualistic and the process of liberalisation and globalisation was expected to widen this dualism further. Actually, it was found that dualism accelerated the post-liberalisation era, i.e., share of permanent manual workers decreased from 69 per cent in 1991 to 62 per cent in 1998, but, increased sharply in industries like non-metallic minerals, beverages as well as tobacco. Not only share of non-permanent workers increased but also the share of casual workers in non-poor permanent category increased even faster. Large firms resorted to more use of non-permanent workers. Provided all other factors remaining unaltered, firms engaging 50-99 workers and those employing 500 or more workers raised respective share of non-permanent workers between period 1991 and 1998. Casual employment did not indicate any relation with size of employment. Again, gender-wise, women workers were mostly employed in large firms and thus firms employing 1,000 workers or more employed for more than 75 per cent of women workers.

8. Impact of Ideology and Administrative Efficiency: As regards impact of ideology and administrative efficiency is concerned few states experienced faster employment than others. Total employment increased much faster in Kerala than West Bengal. Employment was anticipated to grow at a slower rate in these two states dominated by left parties. Relationship between location as well as share of non-permanent workers was not significant in manual workers was significant particularly about that of total employment in Kerala, Madhya Pradesh, Maharashtra and West Bengal. Firms situated in Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal engaged a smaller proportion of casual workers in total as well as manual employment, although, of these states, West Bengal was ruled by left parties only. Further, share of female labour in 1998 was significantly higher exclusively in Kerala. Even in West Bengal found a small proportion of women workers. States like Madhya Pradesh, Maharashtra and West Bengal also decreased share of women in manual employment up to a significant extent. Hence, it will be appropriate that, state regulations to be formulated in line of the MWL, the Bonus Act or the employment of flexible categories that of contract labour, does not seem to have been as effectual as claimed by critics. So, recent study indicates following two observations —

1. Employment in factory sector of manufacturing has increased ahead of the corresponding population;
2. Share of employers covered by exit ban resorted to decline in employment is not only higher than that of employers not restrained by the 1982 Amendment but also increases with the size of the firm.

Conclusions

Above analysis reveals the fact that despite all hue and cry about inflexibility in the labour market and stringent labour laws, Indian industry has been adjusting its workforce, particularly more so after liberalisation. Ample evidence is found from cotton textile and garment sectors where workers were retrenched on a massive scale during 1980s and also loss of more than one million jobs during latter half of 1990s in organised manufacturing sector. No doubt VRS has been potent tool to curtail workforce, yet, large-scale closures by resorting to informal routes, i.e., non-payment of electricity bills, etc have also been adopted. All these happened alongwith reduction in workforce and significant growth in output and took place without much resistance from trade unions, because of dominant ideology of liberalisation and globalisation in which state and its various organs including both executive and judiciary have either retreated from collective bargaining process or have taken implicitly or explicitly anti-worker stance. Many states have also relaxed provisions of enforcement of labour laws that lead to flexible practices at grass root level. Apart from that, flexible labour practices have made adverse impact
upon trade unions activities, and there has been a general decline in their strength too. Trade unions have been further weakened by ascendance of managerial rights and new strategies like outsourcing and parallel production. All these developments have weakened the collective bargaining machinery and in a significant number of cases led to agreements between local and plant level unions and employers, which have, in turn, adversely affected the interests and welfare of workers.

Again, burgeoning employment in informal sector, along with its low productivity, low wages, fragile employment and income insecurity, necessitates regulation of this sector so that it creates organised sector-like conditions of higher productivity, better employment and wages. This prevalent abysmal situations of employment have been made modern informal sector competitive.

Any change in labour law in favour of flexibility and efficacy, leads to a blind alley in absence of social security for those who lose employment on account labour flexibility. Recent revolt of young workforce in France should alert us about possibility of such social unrest anywhere in the name of promoting labour flexibility, if “free hire and fire” sanction is given to employers. This problem can only be resolved provided state intervenes to ensure security of income to all its workers. The national rural employment guarantee scheme in India is a major step, but yet lot more needs to be done to provide social and economic security in our country.


SUMMARY

1. Labour may be defined as any exertion of mind or body undergone partly or wholly to get some good other than pleasure derived directly from work.
2. The term Labour Economics may be defined as a study of the organization, institutions as well as behavior of labour market in an industrial economy. In the words of Dole Yoder, Labour Economics is basically concerned with efficient utilization and also conservation of manpower and resources. It studies and seeks to realise or understand the processes by which manpower is applied and also utilized in modern society. Thus, it is concerned of natural resources of the land.
3. Labour market may be defined as a process by which supplies of particular type of labour and demands for that type of labour try to attain a balance.
4. The labour laws of India originated and also express socio-political views of our leaders.
5. Labour legislation is one crucial factor which shapes entire labour environment. It refers to all laws of the Government which have been enacted to provide social as well as economic security to the labour or workers.
6. Labour adjustment with adequate social and income security for workers.
7. Labour market reform is inevitable, which addresses the needs of both employers and workers in such a manner that it allows sufficient.

QUESTIONS

Objective Type Questions

1. Define the term ‘Labour’.
2. What are the important features of labour?
3. Define Labour Economics.
4. What is the nature and scope of Labour Economics?
5. Define the term ‘Labour Market’.
6. What are the characteristics of Labour market?
7. How can Labour be classified?
8. What is the basic objective of the Workmen’s Compensation Act, 1923?
9. What are the two broad groups of migrant workers?
10. Define the term ‘bonded labour’.
11. What do you understand by the term ‘Labour-based technology’?
Long Answer Questions

1. Define the term Labour Economics. What is its significance?
2. Explain in detail about labour laws in India.
3. Explain Neoclassical Microeconomic model of demand and supply and also explain how to attain equilibrium?
4. Explain the role of technology in Labour Economics. Critically analyse.
5. Explain in detail about Government of India labour policy. What are labour reforms?
6. Explain in detail about labour legislation in India. What is its importance?

KEY TERMS

- Concurrent list
- Gross domestic product
- Labour legislation
- Labour jurisdiction
- Labour reforms
- Neoclassical Microeconomic model
- Trade union
- Union list