LABOUR MARKET SEGMENTATION IN INDIA
Role of Regulation and Reforms

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Introduction: Multiple Bases of Segmentation in Indian Labour Market

- Gender
  - common as elsewhere, but sharper
  - low female participation
  - sex segregation in Jobs
  - discrimination

- Caste
  - labeling of occupations
  - social exclusion
  - discrimination

- Geographical
  - large size, limited mobility
  - cultural, linguistic barriers

- Economic Space
  - rural/urban
I Introduction: Multiple Bases of Segmentation in Indian Labour Market

- Sectoral
  - agricultural/non-agricultural

- Education/Skills
  - large differences in endowments

- Institutional
  - regulated/unregulated
  - organized/unorganized
  - formal/informal
  - unionized/non-unionized
    - *Each broadly coterminous with other*

- Contracts/Work arrangement
  - regular(permanent/temporary)
  - casual
  - contract
  - home worker
  - self employed
II Size and Structure of the Labour Market

- **Large size**
  - labour force: 500 million
  - workforce: 475 million

- **Employment Structure Dominated by**

<table>
<thead>
<tr>
<th></th>
<th>1993-94</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>78%</td>
<td>72%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>64%</td>
<td>51%</td>
</tr>
<tr>
<td>(GDP)</td>
<td>(30%)</td>
<td>(16%)</td>
</tr>
<tr>
<td>Self Employed</td>
<td>55%</td>
<td>51%</td>
</tr>
<tr>
<td>(Regular)</td>
<td>(14%)</td>
<td>(17%)</td>
</tr>
<tr>
<td>Informal Sector</td>
<td>87%</td>
<td>84%</td>
</tr>
<tr>
<td>Informal Employment</td>
<td>94%</td>
<td>91%</td>
</tr>
</tbody>
</table>

- **Changes**
  - share of agriculture declined, not as much as in GDP
  - share of regular workers increased
  - share of formal sector and formal employment increased
  
  contd...
II Size and Structure of the Labour Market

• Employment growth
  • long term: around 2% per annum
  • decelerated on a decade to decade basis since 1970’s
  • GDP growth accelerated
  • decline in employment elasticity

• Unemployment rates
  • not high – 2% to 6.5% different criteria
  • not much change over time
  • UPS – 2.8 in 1993-94, 2.5 in 2009-10
  • CDS – 6.1 in 1993-94, 6.5 in 2009-10
  • employment quality – low productivity and earnings, major problem
  • one fifth of the employed ‘poor’
III Institutional Basis of Segmentation

- Ownership
  - public sector (4%)  
  - private organized sector (3%)
  - private unorganized sector (93%)

- Unionization (membership)
  - 2% of all workers
  - 35% of organized sector workers
  - impact of bargaining, however, larger
  - increasingly getting enterprise/local industry based, from national, region-cum-industry based

contd...
III Institutional Basis of Segmentation

• Regulation by Legislation
  • most important basis of segmentation
  • application of legislation implies
    • better conditions of work
    • job security
    • social security
  • most laws apply to relatively larger enterprise
  • rationale for excluding smaller enterprise
    • difficulties and high cost of implementation
    • unaffordability of compliance cost by enterprises

...contd
### III Institutional Basis of Segmentation

#### Applicability, provisions and coverage of some major laws

<table>
<thead>
<tr>
<th>Law</th>
<th>Applicability (size of enterprise)</th>
<th>Provision</th>
<th>Workers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factories Act</td>
<td>10 and more workers manufacturing</td>
<td>Conditions of work</td>
<td>3 73.5 2.2</td>
</tr>
<tr>
<td>Shops and Commercial Established Act</td>
<td>&lt;10 workers all activities (urban area)</td>
<td>-do-</td>
<td>3.9 44.7 1.7</td>
</tr>
<tr>
<td>Payment of Wages Act</td>
<td>All establishment (in practice factories and 10+ enterprises)</td>
<td>Regular payment of wages without unfair deductions</td>
<td>10.5 50.0 5.1</td>
</tr>
<tr>
<td>Minimum Wages Act</td>
<td>All workers in scheduled employments</td>
<td>Legal minimum wages</td>
<td>38.1 9.3 3.6</td>
</tr>
<tr>
<td>Employees State Insurance Act</td>
<td>10 and + workers</td>
<td>Sickness, accident, maternity, retirement benefits</td>
<td>2.2 87.5 1.9</td>
</tr>
<tr>
<td>Industrial Disputes Act</td>
<td>10 and more workers, some job security provisions to larger 50+ &amp; 100+ establishments</td>
<td>Settlement of disputes, conditions for retrenchment, lay off, closure</td>
<td>5.5 47.6 6.6</td>
</tr>
</tbody>
</table>

- Only a small proportion of all workers covered, mostly those in establishment with 10 or more workers.
- Even among eligible workers, a significant proportion not covered.
IV  Segmentation by Regulation: Impact on Quality of Employment

- Differential application of regulation leads to segmentation
  - eligible and non-eligible
  - different levels of eligibility of different laws and provisions
  - covered and uncovered among the eligible

- Groups excluded from statutory protective benefits
  - self-employed—completely
  - agricultural workers—largely
  - worker in small non-agricultural enterprises in rural areas—largely
  - workers in non-factory establishments—generally
  - casual and contract workers—largely

- Quality of employment in these categories already low, vis-a-vis
  - workers in government and public sector
  - regular workers in large private establishments

- Regulation further widened quality gap
  - laws relating to workers in unorganized sector, MWA and SCEA, with potential of reducing the gap, not effectively implemented
V Has Regulation Based Segmentation Restricted Growth of Employment

• A view postulating negative impact emerged in recent years
  • overall employment growth slowed down post 1990
  • employment in organized sector declined, post 1997
  • most new employment in unorganized, generally unregulated sector, or as contract labour
  • studies finding pro-labour changes in law in States coinciding with low employment growth

• The Counterview
  • no impact of labour regulation on employment
  • decline in aggregate employment growth due technological/competitive reasons
  • decline only in public not in private organized sector
  • increase in post-2004 period with no change in law
  • unorganized sector and contract employment growth due technological and organizational changes, out-sourcing and order-based production under GPN
  • studies methodologically flawed

• The Most Contested Provisions
  • IDA-VB requiring prior government permission to retrench, lay-off or close
  • prohibitive provisions of CL(R&A) Act
  • Government finds some provisions including these as ‘restrictive’, therefore, desires change
  • no change, however, introduced due political reasons
VI Coping with ‘Inflexibility’: ‘Reforms by Stealth’

In the meantime States facilitated flexibility

- Strictness in compliance relaxed
  - inspections reduced
  - ‘look the other way’

- Permissions more easily granted under IDA-VB
- Rules amended to facilitate more liberal use of contract labour (e.g. in Andhra Pradesh)
  - % contract labour in org.mfg. 10 in 1990, 20 in 2000 and 33 in 2010

- Several activities/sectors (IT, export-oriented) declared public utilities, exemption from labour laws
- These changes prompted PM (Feb.2012) to observe the view “labour laws being unduly protective of labour” as losing importance
VII Yet Reforms Necessary to Reduce Dualism and Degree of Segmentation

- Too many laws (54 Central and 160 + State), need to develop a Labour Code or codify them into a few laws by subject.
- Prior government permission clause in IDA irrational and unfair, must go, raise retrenchment compensation.
- Allow use of contract labour more liberally but strictly implement the equal wages and social security provisions.
- Legislation to ensure minimum human conditions of work, national minimum wages and a minimum measure of social protection to the workers in unorganized sector.
- Prospects for reforms better if introduction of greater flexibility in restrictive provisions combined with provision of a minimum ‘floor’ of social protection for all workers.