

PROVIDE INCOME SUPPORT, RESTORE JOBS

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Following the adage, “never waste a crisis”, the government of Uttar Pradesh, last week, introduced an [ordinance that has scrapped most labour laws](#) for three years — ostensibly for creating jobs and for attracting factories exiting China following the outbreak of the [novel coronavirus](#). These laws deal with the occupational safety, health and working conditions of workers, regulation of hours of work, wages and settlement of industrial disputes. They apply mostly to the economy’s organised (formal) sector, that is, registered factories and companies, and large establishments in general. [Madhya Pradesh](#) and Gujarat have quickly followed suit. Reportedly, Punjab has already allowed 12-hour shifts per day (72 hours per week) in factories without overtime payment to overcome worker shortage after the migrants have left in the wake of the national lockdown.

The economic fallout of COVID-19

Snatching away labour rights in the midst of a global pandemic and national lockdown is distressing and shocking. Over the course of the last seven weeks, we have witnessed unheard of human distress as lakhs of migrant workers continue to desperately trudge to their villages after losing their jobs, livelihoods, and toeholds in cities. Despite overflowing food grain stocks, governments have been miserly in providing adequate food security. Income support to workers to retain them in their places of work has also been lacking. Significantly, migrant labour will be critical to restore production once the lockdown is lifted. In fact, factories and shops are already staring at worker shortages. Instead of encouraging workers to stay back or return to cities by ensuring livelihood support and safety nets, State governments have sought to strip workers of their fundamental rights.

Employers’ associations have urged the central government to do away with most labour rights to address temporary labour shortages. Trade union leaders from the Bharatiya Mazdoor Sangh to the Centre of Indian Trade Unions, and Opposition leaders in Uttar Pradesh have condemned the ordinance. It will face a challenge in courts, legal experts say.

The abrogation of labour laws raises many constitutional and political questions. But will it expand employment and output growth, as claimed by its proponents? Such a step, by popular belief, will reduce wage costs, increase profits and augment productive investment and growth. Improved supply is expected to create demand (following Say’s Law in economics). Such (simplistic) reasoning assumes that labour laws are the binding constraints on expanding output.

Coronavirus lockdown | [Suspend labour laws for 2-3 years, employers’ associations urge government](#)

Surely, the lockdown has disrupted supply, but only temporarily. There are no inherent shortages at the moment as the inflation rate remains moderate. Agricultural produce is rotting in farms for lack of transport. Industrial production is held up as migrant workers have fled for their lives.

Before the lockdown, annual GDP growth rate had plummeted to 4.7% during October-December quarter of 2019-20, from 8.3% in the full year of 2016-17. The slowdown is due to lack of demand, not of supply, as widely suggested. With massive job and income losses after the lockdown, aggregate demand has totally slumped, with practically no growth. Therefore, the

way to restart the economy is to provide income support and restore jobs. This will not only address the humanitarian crisis but also help revive consumer demand by augmenting incomes. Scrapping labour laws to save on labour costs will do just the opposite: it will reduce wages, lower earnings (particularly of low wage workers) and reduce consumer demand. Further, it will lead to an increase of low paid work that offers no security of tenure or income stability.

Also read | [Parliamentary panel questions dilution of labour laws](#)

The rationale for scrapping labour laws to attract investment and boost manufacturing growth poses two additional questions. One, if the laws were in fact so strongly pro-worker, they would have raised wages and reduced business profitability. But the real wage growth (net of inflation) of directly employed workers in the factory sector has been flat (2000-01 to 2015-16) as firms have increasingly resorted to casualisation and informalisation of the workforce to suppress workers' bargaining power, evidence suggests.

Two, is it right to blame the disappointing industrial performance mainly on labour market regulations? Industrial performance is not just a function of the labour laws but of the size of the market, fixed investment growth, credit availability, infrastructure, and government policies. In fact there is little evidence to suggest that amendment of key labour laws by Rajasthan and Madhya Pradesh in 2014 took them any closer to their goal of creating more jobs or industrial growth. The role of labour market regulations may be more modest than the strong views expressed against them in the popular debates.

Surely, India's complex web of labour laws, with around 47 central laws and 200 State laws, need rationalisation. However, now more than ever before, reforms need to maintain a delicate balance between the need for firms to adapt to ever-changing market conditions and workers' employment security. Depriving workers of fundamental rights such as freedom of association and the right to collective bargaining, and a set of primary working conditions (such as adequate living wages, limits on hours of work and safe and healthy workplaces), will create a fertile ground for the exploitation of the working class.

Also read | [Parties protest against labour law dilution](#)

Presently, over 90% of India's workforce is in informal jobs, with no regulations for decent conditions of work, no provision for social security and no protection against any contingencies and arbitrary actions of employers. Abrogation of labour laws, as proposed by the Uttar Pradesh government, will free more employers from the obligations they currently hold for ensuring the job security, health, and social protection of their workers. It will increase informal employment in the formal sector instead of encouraging the growth of formal work.

[Data](#) | [96% migrant workers did not get rations from the government, 90% did not receive wages during lockdown: survey](#)

As India battles the economic and social consequence of the COVID-19 pandemic, many State governments have seized the opportunity to scrap labour laws on the pretext of encouraging employment. Such a decision makes little economic sense currently, as it will reduce share of wages in output, thereby reducing growth in domestic demand and hurting output expansion. Significantly, exports cannot be an option for now as the global economy is staring at the possibility worse than the Great Depression. Hence, the Uttar Pradesh government's move will only result in a race to the bottom on workers' pay and labour standards, making workers worse off, without creating additional jobs, as it is a lack of demand that is currently holding up output growth. The Uttar Pradesh ordinance needs to be revoked, lock, stock, and barrel.

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