Critical Analysis of Job Security Law in India

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ABSTRACT *Labor laws in India have been debated to be pro labor leading to increased cost of hiring labor. But making such a conclusion is naive as there are arguments, which show the opposite side of the same law, favoring generation of employment, and there could be other reasons for such an unemployment situation to exist. Present paper analyzes impact of Job security law under Industrial Disputes Act 1947(chapter V-B), which talks about the conditions precedent to retrenchment of workmen, on labor and non-labor intensive industries to study the trend of wages, labor productivity and level of capital being used in industries, if they are getting inclined towards more capital intensive techniques of production since the formation of the law or not.*

Key words: Labor laws, labor-intensive, wages, labor productivity.

1. INTRODUCTION

India being a developing country heavily relies on labor-intensive techniques to kick start industrialization, making labor/workers core to the process of production and growth. Labour laws affect the productivity of labour, physical investment and human investment in the industries.

Labor laws have remained contentious since industrial liberalization of 1980's-1990 till date. There are numerous papers talking about rigid labour laws in India making entry, functioning and exit of enterprises difficult and having a negative impact on output productivity of the industries (Besleyand Burgess, 2004). Labor laws in India make retrenchment, layoff and closure of labor difficult leading to increased cost of hiring labor. Such laws discourage investment in labor-intensive industries (BibekDebroy).

Such laws might be an answer in itself to an important question that why India failed to grow and maintain labor-intensive export oriented growth as China (BibekDebroy).

Jobless growth of 1990's is also indicative of failure of labor laws at generation of employment.

The law selected to carry out the following research is the Job Security Law under Industrial Disputes Act 1947(chapter V-B), which talks about the conditions precedent to retrenchment of workmen.

RESEARCH QUESTION:

To analyze the differences in impacts of Job security law over labor and non-labor intensive industries, before and after the amendment of 1984?

2.METHODOLOGY

Target group: 2-digit industries in India.

Data collection:Data has been collected for various variables like value added by each industry, real wages, labor productivity, capital intensity, total persons engaged etc. from Annual Survey of Industries (ASI) since 1973 to 2003.

To differentiate between the labor and non labor intensive industries, labor intensity of industries has been measured following the methodology of an ICRIER research paper 2008 " A study on labor intensity and employment potential of Indian manufacturing."

I have defined the following indicators for analysis:

Labor/Capital = Number of workers/Gross fixed capital in real terms.

The values of capital formation has been deflated by capital goods price deflator i.e. each industrial good has been deflated by its respective WPI series from the database of Ministry of Commerce and Industry.

Then the average of L/K has been calculated for each year over all the industries. All industries falling above this average will be considered labor intensive and non-labor otherwise.

Labor productivity = Real gross value added/Total persons engaged.

To study the impacts of amendments to the law, two sets of data have been made according to the amendment made to the law in 1982, which came in effect from 1984. Thus, two sets are: 1973-1974 to 1983-1984 and 1984-1985 to 2003-2004.

Cost of labor = Wages/Rental costs.

For analyzing the impact of the law on the payments to the labor, real wages and emoluments (real terms) paid have been considered where wages are paid to the temporary workers and emoluments being paid to the permanent employers, so this study will try to capture if the amendments to the law has different or similar impacts on the earnings of temporary and permanent workers.

Capital productivity= Real gross value added/Gross fixed capital stock.

Employment in industries= Total persons engaged in each industry.

3. ANALYSIS

According to the measure of labor intensity, following firms come out to be labor intensive.

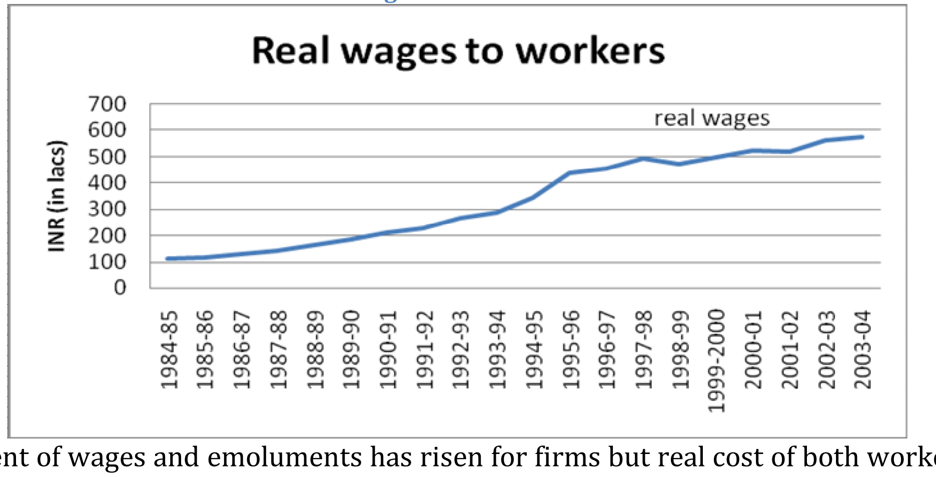
1. Manufacturing of Food products and beverages (15)
2. Manufacturing of Tobacco products (16)
3. Manufacturing of Wearing apparel dressing and dyeing of fur (18)
4. Manufacturing of Textiles (17)
5. Manufacturing of Wood and wood products (20)
6. Manufacturing of Other transport equipment (35)

It could be seen from the calculation of real wages as an average over all 2 digit industries that for each year, real wages are rising irrespective of the amendment but falls in early 2000 (figure 1 and 2).

Similarly, it could be seen that real emoluments have risen continuously not even falling once.

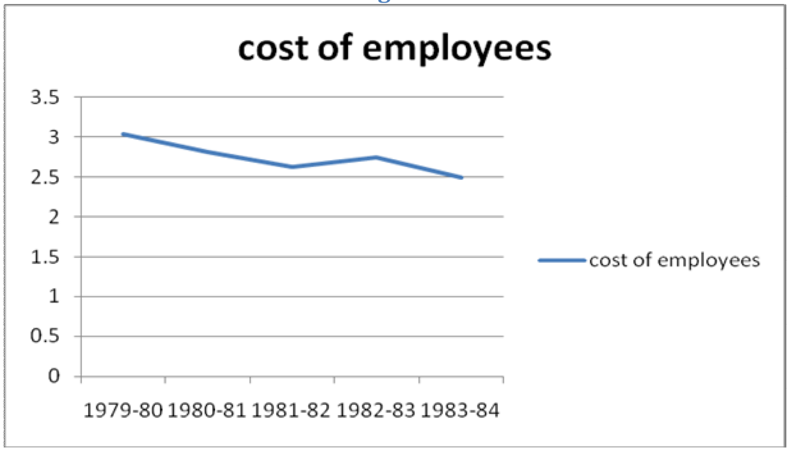
Figure 1

Figure 2



CLAIM 1: Payment of wages and emoluments has risen for firms but real cost of both workers and permanent workers is falling even after the amendment (figure 3).

Figure 3



REASON: Rise in wages could be seen as a push from unions or as a result of mportliberalization.
CLAIM 2: Labor productivity has seen a rising trend since early 1970 till early 2000 but one should note that though labor productivity is rising even then labor intensity of industries is falling since the very beginning of 1970's till today or in other words capital intensity is rising and capital productivity has a mixed trend reflecting variability factor attached to capital. But on overall capital productivity is falling and capital intensity is still rising (figure 4, 5 and 6).

Figure 4

Figure 5

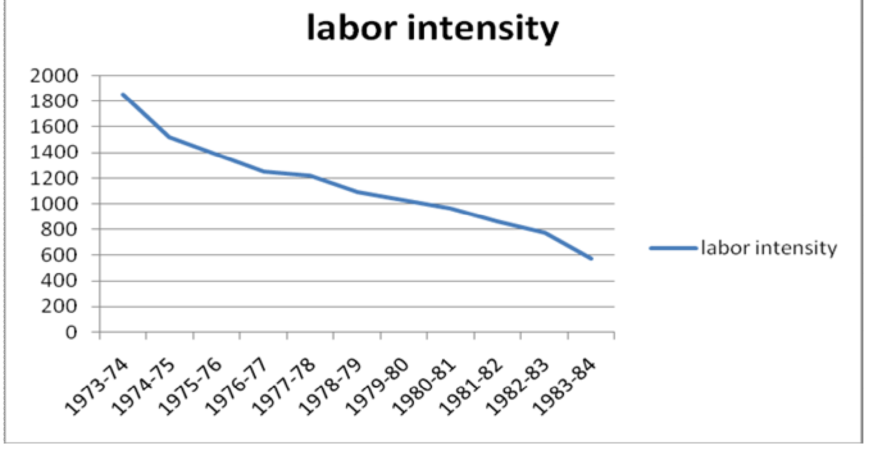
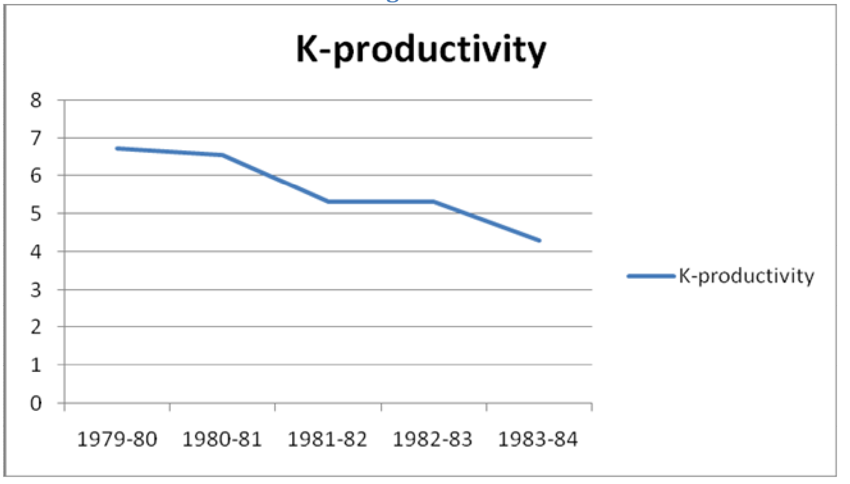


Figure 6

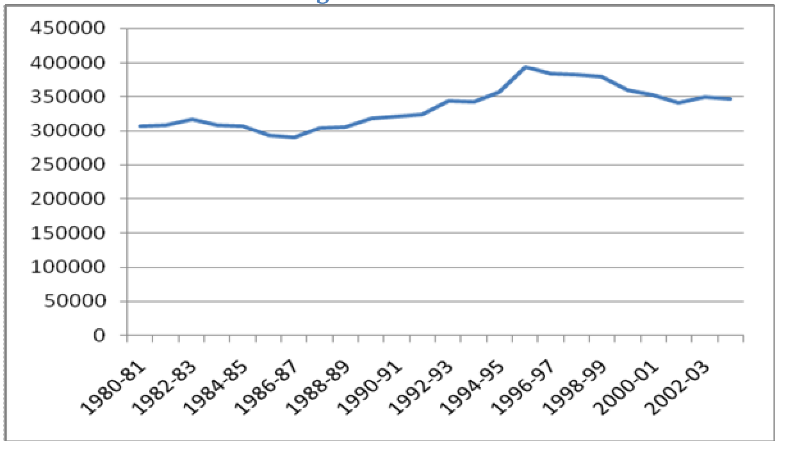


REASON: Which might be a result of better technologies available due to trade liberalization since early 1990's and also one reason for lower labor intensity could be rising real wages and difficulty posed by job security law under the act due to which firm has to seek permission before laying off their workers.

CLAIM 3:Total employment has seen a rising trend before the amendment to the act but immediately after the amendment has been made, both continue to fall till mid 1990's then has seen a rising trend for few years and then starts to fall again since late 1990's (figure 7).

REASON: An argument to support such a trend could be that as soon as amendment comes in, it became difficult for firms to hire more workers due to difficulties to retrench them but as soon as trade liberalization was announced, firms tried to take comparative advantage of labor due to presence of huge labor pool in the country, and when upgraded technologies were available because of liberalization, they switched to capital intensive techniques leading to lower level of overall employment and lesser hiring of workers by firms.

Figure 7



Total Employment

Now to analyze the trends over two categories of industries i.e. labor and non- labor industries, same variables have been considered.

CLAIM 4: Labor-intensive industries tend to pay real wages to workers above the average of real wages over all the industries for each year.

REASON: Due to higher demand of workers in these industries, labor wages rises and also the higher levels of employment in these industries tend to increase the total wage bill paid by these industries.

But real wages of tobacco is lower than the overall average, as it has less amount of capital associated with its manufacturing and therefore unskilled workers

CLAIM 5: Real wages of capital-intensive industries are lower than average, as demand for labor in such industries is low thus no pressure on wages to rise.

REASON: As the term capital intensive is self-explanatory that these industries rely more on capital than labor for production thus their overall wage bill is below average.

But under the category of capital-intensive industries three industries, which pay real wages more than average, are manufacturing units of chemicals, basic metals and machinery and equipment.

The reason is that these industries still employ a large number of workers but are less in relative strength compared to the capital used in these manufacturing units. According to MSME (micro, small and medium enterprises) these three industries along with above mentioned labor intensive industries haveemployment generation is 5% to 9% whereas other industries have employment generation less than 5%.

CLAIM 6: Labor intensive industries employ more workers therefore both workers and total employment is above average for labor intensive set of industries except wearing apparel manufacturing units as they are considered to be L-intensive due to their comparative strength with capital employed but in absolute terms total number of labor employed by them is less than average.

Similarly, total employment in capital-intensive industries is less except chemical, basic metals and machinery and equipment as in absolute terms they employ good amount of labor but labor in these industries is relatively less than capital employed.

4.CONCLUSION

Amendments to the Industrial Disputes Act 1947 cannot be considered as a reason for firms employing lesser labor due to rise in wages. True that wages and emolument bill on average is rising but real cost of workers and employees has been falling aswell.

It is important to analyze the impact of labor unions on real wage bill as they act as one of the major factors to increase the real wages paid rather than as a result of the law.

Firms seem to have responded very effectively to the opportunity of trade liberalization;therefore, fluctuations in hiring of labor are not completely based on amendments made to the law.

Due to rise in wages, firms opted to hire more efficient labor out of the total pool of labor including skilled and semi skilled labor, due to rise in efficient labor with industries, they preferred working with more capital intensive techniques. Hence, capital intensity faces a rising trend since the amendment made to the law.

Wages paid by labor-intensive industries have stayed above average both before and after the amendment with a rising trend overall. On the other hand, wages and emoluments paid by capital-intensive industries have remained below average with few exceptions due to large number of persons engaged in absolute terms.

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