# India's Need for Labor Reform

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India has long been recognized as a country of vast potential. With over 1.2 billion people, it boasts nearly one-fifth of the world's working age population. However, the country's laws hark back to a period when India's political philosophy was still rooted in socialism—a time when the government ran its own factories. Such laws have failed to keep pace with the economic liberalization program that began in 1991.

Consider the notable case of an Indian factory worker who in 1983 was caught sleeping on the job for a fourth time. In subsequent court cases, his employer was not allowed to dismiss him. It was not until 22 years later that the Supreme Court finally upheld the company's decision to terminate his employment.

In India, 45 national laws stem from a 1948 act concerning "industrial disputes" and more than 200 state laws direct relations between employers and their staff. They range from prohibiting companies with more than 100 employees from making positions redundant to mandating that they maintain up to 6 attendance logs, 10 overtime wage accounts, and five different annual returns registers. The word "wage" is subject to at least 11 differing legal interpretations. Then there are rules that regulate various building codes, including how often buildings must be lime-washed.

A consequence of archaic labor laws is that the rules are not flexible for industrial firms, particularly exporters, preventing them from shedding surplus manpower when demand is falling. Several companies thus prefer to work with fewer hands rather than expand their workforce during economic booms. In the current environment of a falling rupee, Indian goods have become more competitive. But restrictive labor laws may potentially keep companies from scaling up their operations and capitalizing on the opportunity presented.

Further, the unwillingness to increase labor during economic upturns manifests in increased automation. But, once again, labor laws indirectly limit a firm's ability to move up the production value chain. Rather than hire workers that firms are unable to let go down the line, they rely on temporary labor. However, the uncertainty and churn rate of the temporary workforce prevents firms from investing in specialized, technical training. Thus, there's a cap on the labor productivity India can achieve through automation. Only 16% of India's economy is devoted to manufacturing; in China, the figure is 34%.

According to the World Bank, India could have added 2.8 million jobs to its so called "formal economy" in the decade through 2007 had labor laws been less restrictive. GDP growth has slowed to 4.4%, down from the average 7.7% from 2002 to 2011. And India is in crisis mode with a collapsing rupee, rising inflation and a crippling budget deficit. As has been the case in the past, policymakers would do well to capitalize on the current crisis to push through labor reforms, flying under the radar of fractious politics.

However, such reform needs a holistic approach with broad discussion addressing several different areas. For instance, programs like the National Rural Employment Guarantee Act have created a class of young people with no vocational skills. Partnerships such as the one between the state of Gujarat and a private company to set up the first vocational education university could help. A more efficient and updated legal framework is needed to settle labor disputes. Instead of viewing labor's demand for improved work conditions and social security as opposed to manufacturing's call for employment flexibility, both parties need to recognize the need for collaboration; perhaps workers can be hired on "fixed terms"—unlike contract workers—in order to satisfy short-term labor demands. Without sufficient job creation and concomitant labor reform, India could jeopardize the potential that rests with the world's second largest workforce.



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