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A job is a job

Just as drunk driving is not an argument against cars, the policy bias against contract employment is wrong and particularly irrelevant in service jobs

Indian labour law has a caste system; organised employment is better than contract employment. Contract employment is viewed as exploitative and any argument in its favour is met with an anecdotal horror story.

This "zero sum" view of the labour market is misguided. The abuse of something is not an argument against it. It also implies that the only jobs worth having are permanent ones and to mutilate what a beheaded French queen said, "If they can't have cake, they should not eat bread." A job is a job.

The vocal minority of organised labour (8 per cent of the workforce) adds to unemployment by blatantly wrapping its fear of contract employment in the veil of "protecting workers". It's time to let the great get out of the way of the good.

India's labour markets have matured and contract employment law needs to discriminate with a two-tier system. Legislation must effectively protect those who need it (agriculture and blue collar) but, with sufficient safeguards, loosen current restrictions for those who don't (white collar and services).

Contract employment is an idea whose time has come. It accounted for 11 per cent of job creation in the European Union in the 10 years to 1998. More than eight million Americans go to work every day on fixed term contracts. The bastion of organised labour, the International Labor Organization, in its Convention 181, calls for expanding this segment.

The case for wider and flexible contract employment is strong from three perspectives:

For potential employees: Contract employment (CE) provides a bridge to permanent employment by keeping workers who would otherwise be unemployed in touch with the labour market. It increases employability with training and opportunities to build resumes with jobs at brand organisations that may not be directly hiring. CE agencies have economic incentives to keep workers at work and thereby increase work security. CE also provides variety of work to people who find permanent work mundane or repetitive.

For potential employers: CE gives companies flexibility in handling fluctuating demand needs like peak loads. It also allows them to

take employees for a "test drive" before a final hire. CE agencies offer economies of scale and expertise in matching job descriptions with applicants. CE also removes hesitations in filling in employees who are temporarily absent from work.

For the country: CE provides labour market access to people who have been traditionally disadvantaged in the job market like students, retirees, mothers with young children, etc. CE improves labour market functioning by better matching of demand and supply across sectors, time and regions. CE agencies improve employability and create jobs.

Globally contract workers fall into three categories: those with a genuine preference for temporary work (33 per cent), those who would prefer a permanent job but cannot get one (26 per cent) and those who use agency work as a stepping stone to more permanent employment (41 per cent). We acknowledge that the second category will be much larger in India but we also expect the percentage of contract employees who find permanent employment within a year to be higher than the global average (43 per cent).

The current Contract Act has its origins in abuses but the road to hell is paved with good intentions. The cure is worse than the disease. We need to update the act to reflect labour market changes; a look at employee turnover for BPO and FMCG sales (35-40 per cent) shows where bargaining power lies and exposes the irrationality of averaging across sectors.

A first step could be a Private Employment Agency Act (PEAA) to regulate and supervise organisations for certain categories of contract employment (white collar, service, etc). PEAA would include a transparent regulatory regime for regular reporting, capital adequacy, principal employer status, compliance audits and responsibility, track record vetting, self-regulation and much more. As experience develops, the next phase could merge the two regimes or converge on a hybrid.

Today there are only 50,000 people in organised, white-collar, private employment agencies. An enabling regulatory system could take this to 14 million in three years. Are 13.95 million extra jobs enough reason for the Ministry of Labour to bury the abuses and ghosts of the past? ♦