

Labouring Reforms

by manish sabharwal

TWO DANGEROUS MYTHS ABOUT OUR LABOUR markets are; a) Corporate India will gain from labour reform, b) the Left parties and trade unions are pro labour. Our current labour regime is minority rule and friendly fire that hurts the very people it masquerades to protect. Both these myths must be busted because growth is a necessary but not sufficient condition for poverty reduction. The poor need access that only inclusive labour markets can give.

The first myth does not recognise that corporate India has made peace with our 25,000-plus labour laws because of the transmission losses between how the laws are written, interpreted, practiced and enforced. They are a thorn in the flesh but not a dagger in the heart. Companies would welcome reform, but it is not their binding constraint. Labour laws, in effect, do not hinder job creation but just make sure all job creation happens in the unorganised sector.

The second myth is clever marketing that positions self-interest as national interest. The Left parties and trade unions represent less than 4 per cent of India's 440 million workers and issues such as provident fund, defined benefit pensions and job security guarantees are irrelevant for most workers. Left parties and trade unions are not pro labour or pro poor, but pro unions.

Both these myths have made reforming labour laws a policy orphan and political untouchable. How has a small, but vocal, minority of privileged insiders (largely not poor, middle aged men in organised labour) positioned their needs ahead of the handicapped majority? What explains the higher moral outrage of politicians when somebody loses their job than when somebody is unemployed? Political scientist Mancur Olson called this dysfunctional outcome, where special interests overwhelm greater good, the "power of distributional coalitions". These "insiders" want to distribute the pie in their favour rather than increase its size for everybody to partake. But an important responsibility of a democratic state (the executive, legislature and judiciary) is preventing this hijacking.

The debate about whether labour reform will accelerate



The myth that labour reform is anti-labour is perpetuated by the Left and trade unions in self-interest

organised job creation is crucial, complicated and unresolved, but the current regime has many unintended and damaging consequences. Unorganised employment has 50 per cent higher employment elasticity than the organised sector and accounted for all net job creation in the last 17 years. Labour laws have encouraged the substitution of labour by capital, particularly in low-skill manufacturing jobs that are the global portal for farm to non-farm transitions. Blue-collar workers suffer information asymmetries, low labour mobility, and poor skills, but our labour laws create opportunities for blue-collar exploitation by individuals with criminal, regulatory or political connections that provide regulatory arbitrage. For example, 99 per cent of temporary/contract labour workers (80 million people) are in the unorganised sector that gives a wage discount to temporary blue-collar workers (relative to permanent workers). This discount, absent in organised white-collar temporary jobs, may not go away (it may reflect skill differentials) but will sink as Contract Labour Act reform, makes regulatory arbitrage redundant. Finally, unenforceable labour laws amplify opportunities for corruption by looking the other way.

On a recent TV debate, a Left party MP told me that no job was better than a temporary job and I was preaching self-interest to exploit labour. We believe a job is better than no job and the self-interest of 4 per cent of the labour force is not in national interest. Reforming labour laws is a small price to pay to widen the circle of opportunity and deepen the meaning of freedom for the 300

million people who will never ride the car they clean, read the newspaper they deliver, or live in the house they build. The true victims of our labour regime are labour market outsiders — the less skilled, less educated, people from small towns, first-time job seekers, retired people and women.

Policy can help labour market outsiders by creating and facilitating infrastructure for India's four labour market transitions: farm to non-farm, unorganised to organised, rural to urban and school to work. These transitions represent journeys to a new and better life for many Indians. But inclusive labour markets are sabotaged by a regime that positions job preservation as job creation and violates our youth's right to work. Perhaps making labour a state subject will help. Or perhaps, just old fashioned backbone by standing up for right against might (and intellectual dishonesty).

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