M.A. Semester–I
ECONOMICS

Course Code: ECON114 (DSC)
Course Credits : 06

# LABOUR ECONOMICS

UNITS: 1 to 20

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**DSC Course Code: ECON 114**

**LABOUR ECONOMICS**

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**Unit – 1 Labour Market**

Nature and characteristics of labour markets in developing economics like India. Paradigms of labour market – classical, neo-classical and dualistic; Analysis of demand and supply forces, Demand for labour relating to choose of technology. Supply of labour in relation to growth of labour force. Labour force participation rates.

**Unit – II Employment**

Employment and development relationship Importance of full employment in the context of poverty in the developing countries. Unemployment – concept and measures. Causes of unemployment, Issues relating to employment rationalization, technological change and modernization. Rural unemployment and educated unemployment. Planning of Human capital.

**Unit – III Wage Determination**

Various classical, neo-classical and bargaining theories of wage determination. Various concepts of minimum wages and fair living. Problems of implementation of minimum wages. Wage determination by sectors – Urban and Rural, organized and unorganized. Wage and inflation. Productivity and wage relationship. Profit sharing schemes. Causes of wage differentials in terms of firm, industry, occupation and region.

**Unit – IV Industrial Relations and Trade Unions**

Industrialization and emergence of trade unionism. Growth, structure and pattern of trade unionism. Achievements and failures of trade union movement. Determinants of industrial disputes. Steps to achieve industrial peace. Methods of settlement of industrial disputes: collective bargaining, conciliation, arbitration and labour participation in management.

**Unit – V State and Labour in India**

Increasing role of State in labour matters. Labour policy of the Government. Social Security and Legislative Measures adopted for Socio-economic upliftment of labour. Social security measures for organized visa-vis unorganized sector of labour. Important labour legislations (industrial dispute act), trade unions act, factories act and employees state insurance act. Problems of rural labour. Government policy towards rural labour and women and child labour. Evaluation of recent employment policy in India.

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## Contents

## UNIT – 1
# LABOUR ECONOMICS: NATURE AND SCOPE

**STRUCTURE**



## 1.1 Introduction

Labour economics is the field of economics, which examines the organization, functioning and outcomes of labour markets; the decision of prospective present labour market participants; and the public policies which relate to the employment of and payment of labour resources. The field of labour economics has long been recognised as a legitimate area of study. However, the content and subject matter of the field have changed rather dramatically in the past two decades and so. The 'old' study of labour economics focused on historical and descriptive aspects of labour economics like; the history of the labour movement, a recitation of labour law and salient court cases, the institutional structure of labour unions, the scope and composition of collective bargaining agreements and so forth.

In short, the old study of labour economics was highly descriptive, emphasizing historical developments, facts, institutions, and legal considerations. A primary reason for this approach was the complexities of the labour market seemed to make them more or less immune to economic analysis.

This state of affairs has changed significantly in recent years. Economists have achieved important analytical breakthroughs in studying labour markets and labour problems. As a result, economic analysis has tended to crowd out historical, institutional, legal, and anecdotal material. Labour economics increasingly has become applied micro and macro theory.

The Choice Theoretic Approach:

Thus, labour economics attempts to measure such questions such as:

1. Why do some prospective labour market participants choose to delay their labour force entry to attend college?
2. Why do some decide to work while others do not?
3. Why do some employees choose to employ few workers and much capital while others select differing combinations?
4. Why do employers lay off some workers during the recession but retain others?

In short, contemporary labour economics focuses its attention on choices why they are made and how they generate particular outcomes. It, therefore is important to be aware of three implicit assumptions which underline this choice theoretic approach.

I. Relative Scarcity: Economists view land, labour, capital, and entrepreneur resources as being scarce, or limited, relative to many individual and collective wants of society.
II. Purposeful Behavior: Because relative scarcity keeps us from having everything we want; we are focused to choose among alternatives. For every choice, say to

work longer hours or to expand the number of people in the military, something is gained and something else is sacrificed. This sacrifice foregone leisure; forgone private sector output is an opportunity cost.

III. Adoptability: Because relative scarcity forces people to make choices, and because choices are made purposefully, labour market participants respond to perceived costs and benefits. The choice theoretic approach assumes that workers, employers, and other labour market participants adopt, adjust or alter their behaviour in response to changes in expected costs and expected gains. Therefore, labour economics sorts out these responses, finds predictable patterns, and by so doing, adds to our knowledge of the economy.

As you know, microeconomics deals with individual economic units' decisions and specific markets' functioning. In contrast, macroeconomics is concerned with the economy as a whole or with basic aggregates that constitute the economy. Hence, the determination of wage rate and employment in a particular market is clearly a microeconomic matter. In contrast, consideration of the average level of real wages, the aggregate levels of employment and unemployment, and the overall price level are issues in macroeconomics.

## 1.2 Learning Objectives

In this unit, we will focus on some basic concepts of labour economics. The learning objectives of this unit are

- Define and understand the scope of labour economics and its relevance to labour market analysis.
- Analyze the structure and functioning of labour markets, focusing on the informal sector.
- Identify and explore the key characteristics of labour markets in developing economies.

## 1.3 Labour Economics

Labour economics studies the workings and outcomes of the labour market. It is mainly concerned with the behaviour of employers and employees in response to wages, prices, profits and working conditions. Labour economics is the study of

a) The relationship between wages and employment opportunities.

b) The interaction among wages, income and decision to work.
c) The way wages, prices and profits affect occupational choices.
d) Incentives for and effects of educational and training investments.
e) The effect of unions on wages, productivity and turnover.
f) The effect of social policies (minimum wages, labour legislations and safety and health regulations) on wage and employment.

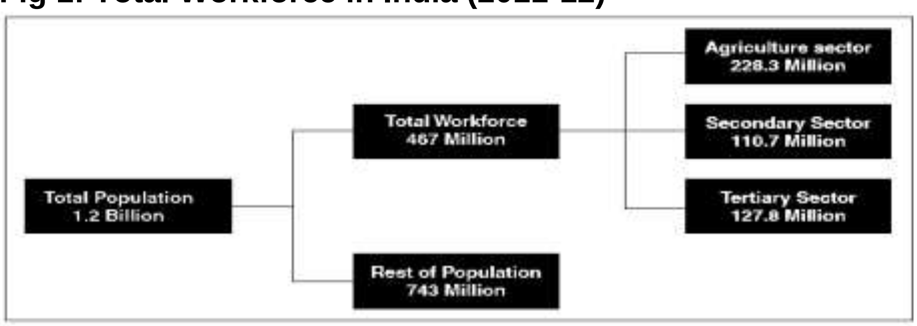
**1.3.1 Labour Market**

The labour market is the place where employers and employees interact with each other. It is also called the job market, where employees compete to hire the best and employees compete for the best satisfying job. A Labour market in an economy functions with the demand and supply of labour. When the demand is equal to the supply of labour in a market, the labour market will be in equilibrium. Labour is one of the most important factors in production. The labour services can't be separated from the labour; therefore, the condition under which such services are rented also plays an important role in the wage determination.

**1.3.2 Labour Market in India**

The Indian labour market is represented by the predominance of informal employment, as most of the labour force works as casual and self-employed workers. In the informal market, more than 80 per cent of India's workforce is casual and self-employed. The agriculture sector is one of the major employment providers which employs more than 40 per cent of the labour force and contributes 17-18 per cent of the Gross Value Added (GVA) of the economy.

**Fig 1: Total Workforce in India (2011-12)**




**Source:** Labour in Indian Economy: A Growing Challenge

The population of 1.2 billion is divided into the workforce (467 million) and the non-working population (743 million). The workforce represents those actively engaged in economic activities or seeking employment. At the same time, the rest of the population includes non-working individuals such as children, the elderly, and others not participating in the labour market.

The division of the workforce into three major sectors—agriculture, secondary (industrial), and tertiary (services)—highlights the structure of employment in the economy. The largest proportion of the workforce, 228.3 million, is employed in agriculture. This indicates a significant reliance on agriculture for livelihood, which is common in developing economies where a large portion of the population is involved in subsistence farming and related activities.

The secondary sector, employing 110.7 million people, represents those engaged in manufacturing and industry. This sector's size reflects the degree of industrialisation in the economy, which is crucial for economic development as it typically leads to higher productivity and wages than agriculture.

The tertiary sector, with 127.8 million workers, includes education, healthcare, retail, and finance services. Growth in this sector often indicates a shift towards a more developed economy, where services play a more significant role in employment and GDP.

Overall, the diagram reflects the structure and challenges of the labour market, particularly the heavy dependence on agriculture and the need for diversification into more productive sectors like industry and services. This distribution has important implications for economic policy, particularly in terms of improving education, training, and infrastructure to support shifts from agriculture to higher-value sectors.

**Self-Check Exercise-1**

Q1. What is the labour market?

Q2. What are the primary concerns of labour economics?

### 1.4 Nature and Scope of Labour Economics

The following points clarify the nature of Labour Economics

1) **Human Resource:** Like all other resources, human resource is also scarce. Resources should be optimally utilized keeping in mind the economic problems. Unlike other fields of economics like agricultural economics and industrial economics where labour is viewed only as agricultural and industrial labour. In labour economics, labour is considered to be human resource, labour economics seeks for the optimal utilization of human resource.
2) **Labour Problems:** Labour economics identifies, classify, and analyse problems of labourers, it also gives appropriate solutions to these labour problems. These labour problems bring obstacles to the smooth working of an organization. Elimination of these obstacles is necessary from the point of view of efficient utilization of human resources.
3) **Utilization, Application and Conservation of Human Resources:** Being a source of production, labour is inseparable from production. Since labour is also scarce like other factors of production. Therefore, it should be efficiently used. Before putting the labour to work, it has to be seen that whether we are making best use of his capacities, and talents or not. e.g., If a worker is available to work. He can either be in an agricultural field or in a firm, but if he

is skilled enough to work in the firm, his services should be utilised there. Also, because the labour is available, it cannot be exploited. Labour is a scarce factor; therefore, it should be used in the best possible manner.

4) **Efficient and Effective Utilization:** Efficient and effective utilisation of the labour force has always been an important objective of policymakers of developing nations. Whereas efficient utilisation is related to selecting the best option, effective utilisation refers to productivity. The situation of disguised unemployment, where the workers actually don't make any contribution to the output, counteracts the concept of effective utilization.
5) **Labour Market:** In a free market economy, the task of allocating resources is assigned to the market forces. Under labour economics, we study the nature, efficiency, mode of functioning and imperfections in the labour market for the efficient and best utilisation of labour.
6) **Human Welfare:** Human welfare is an important facet taken under the preview of labour economics. It is a human aspect combined with technological development that can make the economies grow and progress faster. Healthy, active, talented and skilled manpower is always an asset to a country.

**Self-Check Exercise-2**

Q1. How does labour economics view human resources compared to other fields of economics?

Q2. Why is the efficient and effective utilisation of human resources a critical concern in labour economics?

## 1.5 Characteristics of Labour Markets in Developing Economies

The characteristics of the labour market in developing economies are following:

a) **Agricultural labourers live on the margin of existence:**
The agricultural labour households are the most vulnerable sections of the society. The agricultural labour force is continuously increasing with the increase in the size of the labour force in India. In contrast, the percentage of agricultural contribution to GDP (Gross Domestic Product) has declined drastically over the period.

b) **Low wage rate in the agricultural labour market:**
The agricultural wage in the rural labour market is very low and there is seen very little increase in agricultural real wages over the period.

c) **Gender discrimination and child labour:**
The Indian labour market is characterised by wage differential and gender discrimination. The wage for female labourers in rural areas across all over country is less than male labourers. According to the Rural Labour Inquiry Report on Wages and Earnings of Rural Labour Households (1999-2000), the Male labour force is paid about 30 per cent more than the female labour force.

Moreover, the incidence of child labour is high in the rural labour market and the most exploited segment in the Indian labour market.

**d) Migratory character of the industrial labour market:**

The increase in population is one of the main problems in developing countries. The population pressure on land has increased the labour supply, leading to disguised and open unemployment in the rural economy. The disguised and open unemployment is one of the main reasons behind the low wage rate in rural areas. The higher wages and work opportunities in urban areas attract the unemployed rural labour force. In the peak agricultural season, the rural labour force migrates back to their villages and returns to the urban labour market after the season.

**e) Dualism and segmentation in the Indian labour market:**

The labour market of developing countries like India has a dualistic character. The dualism in the labour market refers to the coexistence of formal and informal sectors with unequal wages, opportunities, and job security.

**f) Heterogeneity of Workers and Jobs:**

Although labour is considered a single factor of production, the two units of labour are not identical in terms of productivity and creativity. The labour units vary by gender, age, education, training and skill sets. These differences lead to heterogeneity of workers.

**g) Imperfect Information:**

The lack of perfect information characterises the labour market in developing countries. The imperfect information in the labour market means the employer or workers do not have complete information regarding job details, wages, working conditions, labour laws, and workers' skill sets, leading to inefficiencies in the labour market. Due to these inefficiencies the employer or labour can not make informed decisions.

**Self-Check Exercise-3**

Q1. What are the key features of labour markets in developing economies?

Q2. How does the migratory character of industrial labour in developing economies impact wage rates in rural areas?

## 1.6 Summary

This chapter provided an overview of labour economics, highlighting its importance in understanding the functioning and dynamics of labour markets. Labour economics explores the relationship between wages and employment opportunities and how these factors influence decisions within the labour market. The chapter also examined the unique characteristics of labour markets in developing countries, emphasising the challenges agricultural labourers face, wage disparities, gender discrimination, and the dualistic nature of these markets.

## 1.7 Glossary

- **Labour Economics:** Labour economics is the study of the workings and the outcome of the market for labour.
- **Labour Market:** The labour market is the place where employers and employees interact with each other.
- **Formal Employment:** Formal employment is created through contractual arrangements between an incorporated company and an individual employee. In developed economies, many sectors of the economy, such as the extractive industry, manufacturing, and provision of services, are typically part of the formal economy.
- **Informal Employment:** An informal work situation means the person doing the work has little or no job security, doesn't have a contract and might not have the same employer for more than a few weeks or months.
- **Developing Economies:** A developing country, also called an emerging or transitional economy, is a nation with an underdeveloped industrial base, and low Human Development Index (HDI) relative to other countries and a poor quality of governance.

## 1.8 Answers to Self-Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 1.3.1.

Ans.2. Refer to Section 1.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 1.4.

Ans.2. Refer to Section 1.4.

**Self-Check Exercise-3**

Ans.1. Refer to Section 1.5.

Ans.2. Refer to Section 1.5.

## 1.9 References/Suggested Readings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## 1.10 Terminal Question

Q1. What is a labour market, and what are its key characteristics in developing economies?
Q2. Define labour economics. Discuss its nature and scope.

# UNIT – 2

# PARADIGMS OF LABOUR MARKET

**STRUCTURE**



## 2.1 Introduction

In this unit, we will explore different theories about how the Labour market works. We will start with the Classical Theory, which explains the basic ideas and assumptions about labour markets. Then, we'll move on to the Neo-classical Theory, which adds new insights and contrasts with the classical view. Lastly, we will discuss the Dualistic Theory, which focuses on the division and differences within labour markets. This unit aims to give you a clear understanding of these theories and how they help us understand labour market behaviour.

## 2.2 Learning Objectives

By going through this unit, you will be able to

- Understand the fundamental principles of the Classical Theory of the labour market.

- Compare and contrast the Classical and Neo-classical theories of the labour market.
- Analyze the Dualistic Theory and its perspective on labour market segmentation.

### 2.3 Classical Theory of Employment and Output

Classical economics is a broad term that refers to the dominant economics school of thought in the 18$^{th}$ and 19$^{th}$ centuries. The three major treaties of the classical period were Inquiry into Nature and Causes of the Wealth of Nations (1776) by Adam Smith, Principles of Political Economy and Taxation (1817) by David Ricardo and Principles of Political Economy (1848) by John Stuart Mill. The classical economists believed in full employment in the economy. Classical economists believed that in a free-market economy, there was always a tendency towards the establishment of full employment of labour, and there was sufficient demand for the output produced.

The classical theory of employment and output is based on the following notions:

1. **Say's Law:** According to the classical theory propounded by Ricardo and Adam Smith, the level of income and employment are governed by fixed capital stock and wage-goods fund. Classical economists believed that the prevalence of full employment in the economy is based on Say's Law of Market put forward by a French Economist, J. B. Say. According to this law, "Supply creates its own demand".
2. **Wage Price Flexibility:** Classical economists believed in the prevalence of full employment in the economy. According to them, the production which the business firms can supply does not depend only on aggregate demand or expenditure but also on the prices of goods and services. When investment decreases, aggregate demand for goods and services falls, the economy will still remain at a full-employment level of output. According to them, this happens because product prices fall quickly, so the quantity demanded increases to restore equilibrium at the full-employment level of output.

#### 2.3.1 Assumptions of Classical Theory

The following are the assumptions of the classical theory:

1) There is an exitance of full employment without inflation.
2) There is a laissez-faire capitalist economy without government interference.
3) It is a closed economy without foreign trade.
4) There is perfect competition in labour and product market.
5) Labour is homogeneous.
6) The total output of the economy is divided between consumption and investment expenditure.
7) The quantity of money is given and money is only the medium of exchange.
8) Wages and prices are perfectly flexible.
9) There is perfect information in the market.
10) Money wages and real wages are directly related and proportional.

11) Savings are automatically invested and equality between the two is brought about by the rate of interest.
12) Capital stock and technical knowledge are given.
13) The law of diminishing returns operates in production.
14) It assumes the long run.

### 2.3.2 Determination of Output and Employment

In the classical theory, output and employment are determined by the production function and intersection of demand for labour and supply of labour. Given the capital stock, technical knowledge and other factors, output and employment are determined in the economy.

This can be shown with the help of production functions:

Q = f (K, T, N)

Where;

Q = Output

K = Capital Stock

T = Technical Knowledge

N = Number of Workers

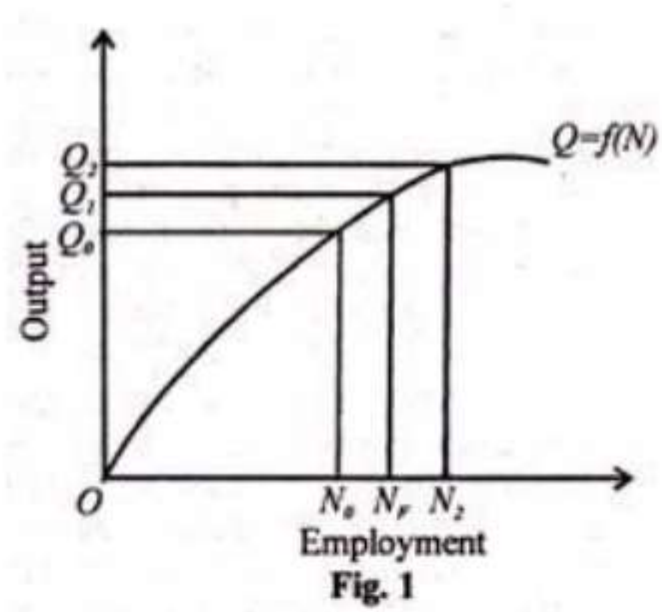


Fig. 3.1

Determination of Employment and Output

### 2.3.3 Labour Market Equilibrium

In the classical theory of the labour market, the demand for labour and the supply of labour determines output and employment. The demand for labour is a function of the real wage rate.

$$D_N = f\ (W/P)$$

Where,

$D_N$ = Demand for Labour

W = Wage Rate

P = Price Level

W/P = Real Wage Rate

The demand for labour is derived from short-run production function, that is diminishing marginal product of labour. As we discussed the assumption of classical theory, classical economists assume perfect competition factor and product markets. Classical economists assume that the firms which undertake the task of production attempt to maximize profit and they will employ labour until the marginal product of labour is equal to the given real wage rate. Therefore, the firm will employ labour until

$$W/P = MP_N$$

Where $MP_N$ is the Marginal Product of Labour.

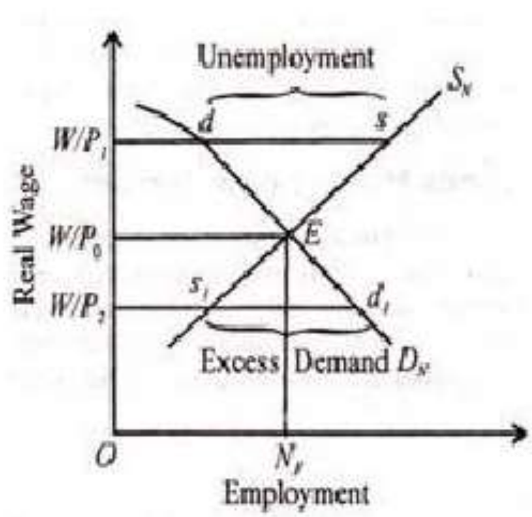


Fig.3.2

Labour Market Equilibrium

The above diagram shows that at a lower wage rate, more labour will be demanded, and at a higher wage rate, less labour will be demanded by the firms. Thus, the demand curve for labour is derived from the Marginal Product Curve of labour. Therefore, the marginal product of labour represents the demand curve for labour. The demand function for labour can be written as;

$$D_N = f\ (W/P)$$

That means demand for labour ($D_N$) is the function of the real wage rate (W/P).

The supply of labour by the household depends upon the pattern of preference between income and leisure. The classical theory assumes that in the short run, the population does not vary and the supply curve of labour slopes upward. It may be noted that the real wage rate is the opportunity cost of the relative price of leisure. When the real wage rate rises, leisure becomes more expensive; the opportunity cost or price of leisure in terms of income forgone by not working goes up. This induces the individual to work more and thereby substitute income for leisure, called the substitution effect. Whereas, in the income effect, when the wages of labour rise the individual becomes richer than before. This increase in income induces him to consume more of all commodities. This income effect of a rise in wages tends to increase leisure and reduce labour hours supplied. However, classical economists believed that the substitution effect is larger than the income effect of the rise in the real wage rate. Thus, the supply function of labour can be written as;

$$N_s = g\ (W/p)$$

The supply of labour ($N_s$) is the function of the real wage rate (W/p). This implies that more labour would be supplied at a higher wage rate and vice-versa. The diagram shows that the labour market is in equilibrium where demand for labour and supply of labour intersect each other at real wage rate $(W/P)_0$ and Employment level ($N_F$). In the classical theory, the level of employment in the economy is determined by the labour market equilibrium. The equilibrium in the labour market implies that all those who offer their labour services at this wage rate are, in fact, employed. There is neither an excess supply of labour nor an excess demand for labour at this market equilibrium. Therefore, according to classical economists, there is no involuntary unemployment of labour at this labour market equilibrium level and full employment of labour prevails.

**Self-correction by a Free Market Economy**

If somehow the real wage rate in the labour market is higher than this equilibrium wage rate (W/P)0, if it is equal to (W/P)1, then it can be seen from the figure above that the excess supply of labour is equal to AB would emerge. In other words, AB workers will be unemployed at a real wage rate (W/P)1. However, given the competition among the workers, the excess supply of labour at wage rate (W/P)1 would cause the wage rate to fall to the equilibrium level (W/P)0 at which the labour market is cleared. On the contrary, if somehow the real wage rate in the labour market is (W/P)2, the firms would demand more labour than is offered at this real wage rate. As a result of competition among the firms to hire labour desired by them, the wage rate would go up to the equilibrium level (W/P)0. At (W/P)0 to repeat all those who offer their labour services are demanded and employed. It there fore follows that at the real wage (W/P)0, there is no involuntary unemployment, or, in other words, full employment of labour prevails. Further, it is the **wage flexibility** (i.e., quick adjustment in the wage rate) which brings about this full-employment situation.

**Self-Check Exercise-1**

Q1. What are the key assumptions of the Classical Theory of employment?

Q2. How does the Classical Theory explain the determination of output and employment?

## 2.4 Neo-Classical Theory of Labour Market

The labour market economies were established based on the neoclassical paradigm, the fundamental concepts are competitive markets with internal forces capable of reaching effective solutions and rational subjects, maximizing utilities, profits and rent according to their preferences (Brozova, 2015). The labour market economics built its paradigm on the marginal principles, which brought suitable instruments for analyzing decisions of particular subjects in competitive markets, able to reach effective solutions.

According to the basic neoclassical model, the determination of the employment level and the unit price of labour is dealt with as belonging to a perfectly competitive market compared to that of consumer goods (Verchanderan, 2014). On the one hand, companies supply goods for the market and demand labour for the production of goods and services. On the other hand, households are suppliers of labour to the company and demanders for the goods and services produced by the firms and companies. Therefore, the free confrontation of hourly wage rate and labour volume results in labour demand and supply.

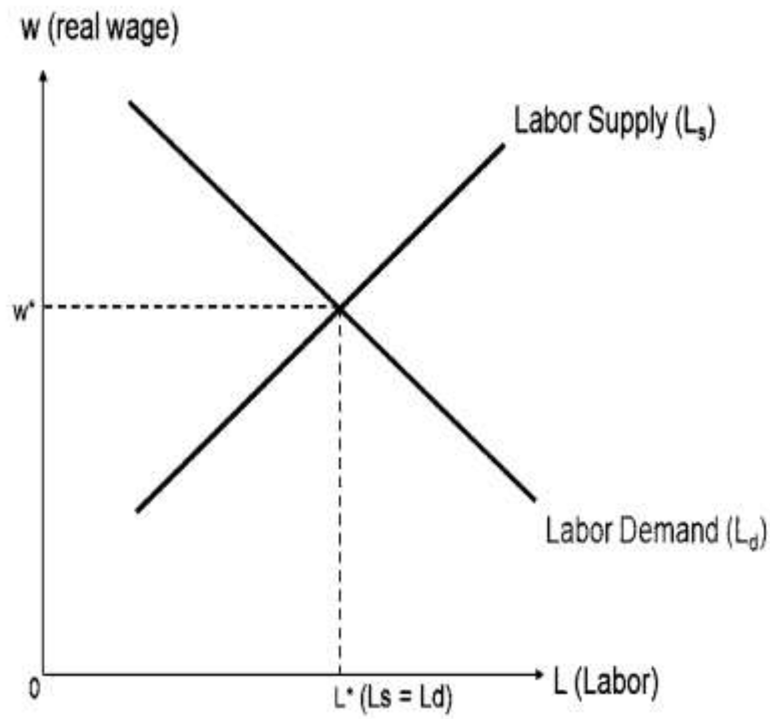


Fig. 3.3

The Neo-classical Labour Market

In the basic model of neo-classical, the labour is considered perfectly homogeneous, which means all the workers have the same productivity.

### 2.4.1 Marginal Productivity Theory of Wages

Marginal productivity theory of wages explains that in perfect competition, a worker’s wage is equal to marginal and average revenue productivity. The marginal revenue productivity and average revenue productivity of a worker determine his wages. According to marginal productivity theory wage of a labourer is determined by his marginal productivity. In other words, MRP = M. W. Marginal productivity is the addition made to total productivity by employing one more unit of a labourer. As the labourers are given a money wage their marginal productivity is calculated in terms of money.

This is called marginal revenue productivity (MRP). MRP is the addition made to the total revenue by employing one more unit of a worker. A producer will maximise his profit when the wages of labour are equal to the marginal revenue product. If MW is greater than MRP (MW>MRP), the wage is greater than the marginal revenue product; the producer will sustain a loss. Employers bear the loss and pay more if MW for labour is higher than its marginal revenue product. Thus, he loses. He will gain if the producer pays a wage less than MRP (MW<MRP). However, this again will be maximised. Thus, he will gain by employing workers for as long as MW = MRP. Thus, the wage of a labourer will be determined where MRP = M. W.

**Assumptions:**

1. Perfect competition prevails in both product and factor markets.
2. The law of diminishing marginal returns operates on the marginal productivity of labour.
3. Labour is homogeneous.
4. Full employment prevails.
5. The theory is based on the long run.
6. Modes of production are constant.

Supposing the producer employs 3 labourers with other factors of production. He gets Rs. 200 as total revenue i.e., income from the sale of output. If he employs an additional labour, his total revenue increases by Rs. 300. Thus, by employing one additional labourer he adds Rs. 200-100 = Rs. 100 to the total revenue, this increase in Rs. 100 is called MRP. Under perfect competition, workers get wages equal to their marginal revenue productivity.

If the labourers demand more than Rs. 100, the producer will employ lower number of workers since their new price exceeds their marginal productivity. When a smaller number of workers get higher wages, the unemployed labourers will bring down the wage to the equilibrium level. Ultimately wages will tend to equal marginal productivity of workers. In such a situation the producer thinks of employing more Labourers to maximize his profit. This process will continue until wages equal the workers' marginal productivity.

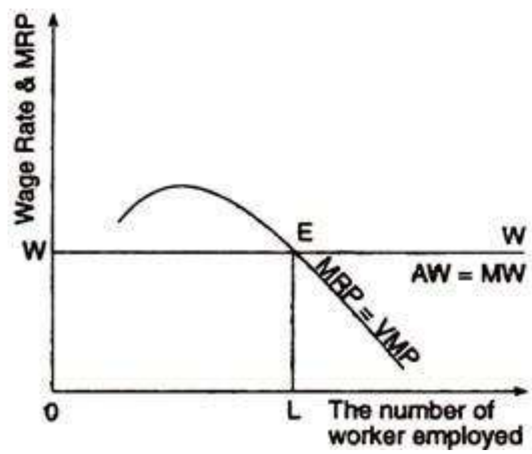


Fig. 3.4

Wage Determination

In the diagram number

of workers are measured on OX – axis and wages and productivity on OY – axis. Under conditions of perfect competition average wage (AW) and marginal wage (MW) are equal (AW = MV) as shown by WW horizontal line which is parallel to OX – axis. ARP is the average revenue productivity and MRP/VMP is the marginal revenue and value of the marginal productivity curve. At the equilibrium point E, marginal productivity is equal to marginal revenue or average wage i.e., MRP = MW (AW). At the equilibrium point E, the term provides employment to OL number of labourers. In this situation, the firm's MRP = MW = AW = ARP. If the firm employs less than the ON number of labourers, then the marginal revenue productivity (MRP)of the labourers will be more than the wages (MRP>MW = AW) paid to them. This will encourage the firm to employ more labourers. on the contrary, if the firm employs more than ON number of labourers, then the marginal revenue productivity of these labourers will be less than the wages (MRP<MW = AW) paid to them. Thus, the firm will incur a loss. Under the circumstances, the firm will have to provide less employment.

**Self-Check Exercise-2**

Q1. What is the Marginal Productivity Theory of wages?

Q2. How does the Neo-classical Theory of labour market differ from the Classical Theory?

**2.5 Dualistic Theory of Labour Market**

In recent years different economists have explained how the labour markets operate, in dissatisfaction with how neo-classical theory explained the functioning of labour markets.

Some examples include simple extensions of neo-classical models to include the effect of various institutional factors like governments, corporations, labour unions, legislations, collective bargaining and labour policies etc. All these rejected the predominantly competitive analysis and emphasis on the segmented labour market and dualistic nature of the labour market. The underlying theme of these approaches is that the labour market should be viewed as a collection of parts and segments. One segment may consist of high-wage males, for example, and another low-wage female workers.

### 2.5.1 Dual Labour Market Theory

Segmentation theory suggests that the labour market is separated into different sub-markets or segments. Economists believe that overlooking these divisions and the limitations they impose on workers results in a limited understanding of labour market inequalities. The theory highlights a division between a primary segment offering high wages, favourable working conditions, and job stability, and a secondary segment characterized by low wages, poor working conditions, and high employee turnover. Primary jobs are usually in large, capital-intensive firms with strong unions, while secondary jobs are in smaller, Labour-intensive firms with weak unions. This segmentation is driven by job characteristics rather than worker attributes, such as education. Primary jobs are mostly held by "prime age" white males, while non-whites, females, and youths often fill secondary jobs. Internal Labour markets within firms further reinforce this divide, with structured systems favouring existing employees for promotions and better positions. These markets prioritize the organization's needs over external market conditions. This theory highlights the institutional and social factors influencing Labour market disadvantage, contrasting with neoclassical models focusing on individual worker attributes.

### Self-Check Exercise-3

Q1. What are the main differences between the primary and secondary segments in the Dualistic Theory?

Q2. How do internal labour markets contribute to labour market segmentation according to the Dualistic Theory?

## 2.6 Summary

In this unit, we discussed various theories of the labour market. We started with the Classical Theory, which includes assumptions about full employment and wage-price flexibility. We then examined the Neo-classical Theory, focusing on the marginal productivity of wages and the competitive market structure. Finally, we explored the Dualistic Theory, which highlights the segmentation within labour markets, differentiating between high-wage primary jobs and low-wage secondary jobs. These theories provide insights into labour market dynamics and the factors influencing employment and wages.

## 2.7 Glossary

- **Classical Theory**: Economic theory emphasizing full employment and wage-price flexibility in a free market.

- **Neo-classical Theory**: Theory that focuses on the marginal productivity of wages and competitive market dynamics.
- **Dualistic Theory**: Theory highlighting labour market segmentation between high-wage primary and low-wage secondary jobs.
- **Marginal Productivity**: The additional output produced by employing one more labour unit.
- **Wage-Price Flexibility**: The concept that wages and prices adjust to ensure full employment.

### 2.7 Answer to Self-Check Exercises

**Self-Chek Exercise-1**

Answer 1. Refer to Section 3.3.1

Answer 2. Refer to Section 3.3.2.

**Self-Check Exercise-2**

Answer 1. Refer to Section 3.4.1.

Answer 2. Refer to Sections 3.3 and 3.4.

**Self-Check Exercise-3**

Answer 1. Refer to Section 3.5.

Answer 2. Refer to Section 3.5.

### 2.8 References/Suggested Readings

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2) Brožová, D. (2015). Modern labour economics: the neoclassical paradigm with institutional content. *Procedia Economics and Finance*, *30*, 50-56.
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### 2.9 Terminal Questions

Q1. Explain the paradigms of Classical, Neo-classical, and Dualistic labour markets, highlighting their main assumptions and mechanisms for wage and employment determination.

Q2. Discuss the impact of labour market segmentation in the Dualistic Theory on wage determination and employment opportunities.

UNIT – 3

# DEMAND FOR LABOUR AND SUPPLY OF LABOUR

**STRUCTURE**



## 3.1 Introduction

Labour is demanded to produce goods and services. Firms demand labour because consumers want to purchase various goods and services. The firm's labour demand is a derived demand. The labour demand is derived from the wants and desires of consumers. Many of the central questions in economic policy involve the workers employed by firms and the wages these workers get paid. Laboiur supply means the number of labourers doing a particular job who willingly offer their service at different wage rates and the number of hours or days that each labourer is prepared to work at different rates of wages. Thus, labour supply refers to the number of days or hours for which a particular type of labour is willing to work at different wage rates.

## 3.2 Learning Objectives

After the completion of this unit, you will be able to

- Explain the concept of demand for labour, including the factors that cause shifts in the labour demand curve and the relationship between labour demand and the market wage rate.
- Understand the supply of labour and the factors affecting it, including the concept of individual labour supply.
- Analyze the elasticity of labour demand and the determinants that influence it.

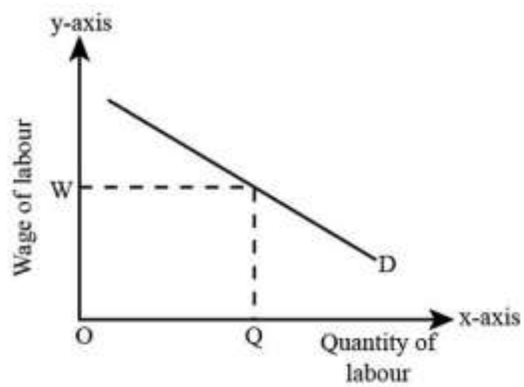
### 3.3 Demand for Labour

Demand for labour is a concept that describes the demand for labour that an economy or firm is willing to employ at a given time. The demand may not necessarily be in long-run equilibrium and is determined by the real wage, firms are willing to pay for this labour, and the amount of labour workers are willing to supply at that wage. Demand for labour increases market wages, and more workers enter the market. However, this higher labour cost will mean employers will use less labour because it is more expensive.

Assuming there are many employers in a region or that workers are highly mobile geographically, the wager that a company will pay to workers is dependent on the competitive market wage for a given skill set. This means that any company is a wage taker, which is simply another way of saying companies must pay competitive wages to obtain workers.

#### 3.3.1 Demand for Labour as a Derived Demand

Labour is only demanded in terms of input into the production process. In a factor market, demand for labour is made by the producers or entrepreneurs. Demand for labour is a derived demand because it depends upon the demand for those goods and services they produce. When the economy expands, we expect to see an increase in aggregate demand for labour, providing that the rise in output is greater than the increase in labour productivity. In contrast, when the economy faces recession, or a slowdown, the aggregate demand for labour will decrease because businesses look to cut their operations costs and scale back on production.




The labour demand curve is downward sloping. Figure 3.1 shows the number of labourers on the OX axis and wages on the OY axis. DD is the demand curve for labourers. It slopes downward, signifying that more labourers are demanded at low wages and less on wages.

### 3.3.2 Shift in Labour Demand Curve

The number of people employed at each wage rate is liable to change due to a change in the conditions of demand in the job markets. The shift in labour demand occurs due to

1. A change in demand for a product.
2. A change in the productivity of labour.
3. A change in the level of national insurance contributions made by employers or other costs of employing people such as health and safety legislations and training levies.
4. A change in cost and productivity of machinery and technology which might produce and provide a good or service in place of the labour input.

### 3.3.3. Demand for Labour and Market Wage Rate

There is an inverse relationship between the demand for labour and the wage rate. At higher wage rates, the labour demand will be lower than at lower wage rates. If the wages are high, hiring extra employees will be more costly. The demand for labour is highly dependent on the productivity of the worker. Firms always aim at maximisation of their profits; they will use the factor of production function that does the job as efficiently as possible and also minimise the cost of production. The marginal productivity theory explains the relationship between the demand for labour and the market wage rate.

**Marginal Productivity Theory of Wages**

Marginal productivity theory of wages explains that a worker's wage is equal to marginal as well as average revenue productivity under perfect competition. The marginal revenue productivity and average revenue productivity of a worker determine his wages. According to marginal productivity theory, the wage of a labourer is determined by his marginal productivity. Where MRP = M. W. Marginal productivity is the addition made to total productivity by employing one more unit of a labourer. As the labourers are given a money wage their marginal productivity is calculated in terms of money.

This is called marginal revenue productivity (MRP). MRP is the addition made to the total revenue by employing one more unit of a worker. A producer will maximise his profit when the wages of labour are equal to the marginal revenue product. If MW is greater than MRP (MW>MRP), the wage is greater than the marginal revenue product; the producer will sustain a loss. If MW for labour is higher than its marginal revenue product, employers incur losses and pay more. Thus, he loses. However, he will gain if the producer pays a wage less than MRP (MW<MRP). Thus, he will gain by employing workers for as long as MW = MRP. Thus, the wage of a labourer will be determined where MRP = M. W.

**Assumptions:**

7. Perfect competition prevails in both product and factor markets.

8. The law of diminishing marginal returns operates on the marginal productivity of labour.
9. Labour is homogeneous.
10. Full employment prevails.
11. The theory is based on the long run.
12. Modes of production are constant.

Supposing the producer employs 3 labourers with other factors of production, he gets Rs. 200 as total revenue, i.e., income from the sale of output. If he employs an additional labourer, his total revenue increases by Rs. 300. Thus, by employing one additional labourer, he adds Rs. 200-100 = Rs. 100 to the total revenue. This increase in Rs. 100 is called MRP. Under perfect competition, workers get wages equal to their marginal revenue productivity.

If the labourers demand more than Rs. 100, the producer will employ fewer workers since their new price exceeds their marginal productivity. When a smaller number of workers get higher wages, the unemployed labourers will bring down the wage to the equilibrium level. Ultimately, wages will tend to equal the marginal productivity of workers. In such a situation, the producer thinks of employing more labourers to maximise profit. This process will continue until wages equal the workers' marginal productivity.

The number of workers in the diagram is measured on the OX–-axis, and wages and productivity on the OY–-axis. Under conditions of perfect competition, average wage (AW) and marginal wage (MW) are equal (AW = MV), as shown by the WW horizontal line, which is parallel to OX – the OX-axis. ARP is the average revenue productivity, and MRP/VMP is the marginal revenue and value of the marginal productivity curve. At the equilibrium point E, marginal productivity equals marginal revenue or average wage, i.e., MRP = MW (AW). At the equilibrium point E the term employs ON number of labourers. In this situation, the firm's MRP = MW = AW = ARP. If the firm employs less than the ON number of labourers, then the marginal revenue productivity (MRP)of the labourers will be more than the wages (MRP>MW = AW) paid to them. This will encourage the firm to employ more labourers. On the contrary, if the firm employs more than the ON number of labourers, then the marginal revenue productivity of these labourers will be less than the wages (MRP<MW = AW) paid to them. Thus, the firm will incur a loss. Under the circumstances, the firm will have to provide less employment.

### 3.3.4 Causes of Shifts in Labour Demand Curve

The labour demand curve shows the value of the marginal product of labour as a function of labour hired. Using this fact, the following changes the labour demanded each wage:

**I. The Output Price**

When the output price rises, the labour demand curve shifts to the right – more labour is demanded at each wage. When the output price falls, less labour is demanded at each wage.

**II. Technological Change**

Technological advancements generally increase the marginal product of labour (MPL) at every level of labour input, shifting the labour demand curve to the right. For example, from 1960 to 2000, the average hourly output of U.S. workers grew by 140%. However, certain technological innovations can reduce labour demand. For instance, introducing an affordable industrial robot into production may lower the MPL as the robot substitutes human labour. This type of technology is referred to as labour-saving. Conversely, most technological progress tends to be labour-augmenting, enhancing the MPL, which helps explain historical rises in employment and wages. Between 1960 and 2000, inflation-adjusted wages increased by 131%, while labour employment rose by 80%.

**III. Supply of Other Factors**

The availability of other production inputs can influence the MPL. For instance, if the supply of ladders declines, the productivity of apple pickers would decrease.

### 3.3.5 Factors Affecting Demand for Labour

The factors affecting the demand for labour are the following:

a) **The wage rate:** If the wage rate is higher, the demand for labour will be lower. Therefore, the demand for labour curve is downward sloping. This can be explained through income and substitution effects. At higher wages, firms substitute labour for capital and vice versa. If, at the higher wages, the firm uses the same amount of labour for production, that will lead to a fall in the firm's income.

b) **The demand for the product:** The labour demand is a derived demand. It depends upon the demand for the goods and services that labour produces. If the demand for goods and services increases, the demand for labour will increase.

c) **Productivity of labour:** The demand for labour also depends upon its productivity. If labour is more productive, then the demand for productive labour is greater. However, labour productivity also depends upon the level of education and skill sets of labour.

d) **Profitability of Firms:** A firm's profitability affects the demand for labour in the market. If the firm is earning a profit, that could increase the demand for labour.

e) **Substitutes:** The demand for labour is also affected by the substitutes available in the market. If labour substitutes, such as capital and technology, are cheaper than labour, that will decrease the demand for labour in the market and vice-versa.

f) **The number of labour buyers:** The demand for labour is affected by the number of buyers available in the labour market. If there is only one employer in the market, there will be less demand for labour. However, if there are more employers available in the labour market, there will be greater demand for labour.

### 3.3.6 Elasticity of Labour Demand

Elasticity is a means of measuring responsiveness. When the price of a good change, how responsive is the change in quantity demanded? A relatively large change in quantity demanded (Qd) that demand is quite responsive or elastic. A relatively small change in Qd indicates that demand is less responsive or inelastic.

In labour economics, we are interested in how responsive an employer's demand for labour is to the change in wage. More specifically in the elasticity if labour demand we look for the relative change in employment level for a relative change in wage:

$$\text{Elasticity of Labour Demand} = \frac{\text{\% change in employment}}{\text{\% change in wage}}$$

Notice that because the demand curve is downward–sloping, this calculation will be negative. If wages go up, employment will go down (all else constant), and if the wage goes down, employment will go up (all else constant).

The terms elastic and inelastic, as used above, have both technical and relative uses. The technical use depends on the absolute value of the elasticity calculation above.

If the absolute value of the elasticity of labour demand is > 1, that portion of the demand is considered elastic.

If the absolute value of the elasticity of labour demand is <1, that portion of the demand curve is considered inelastic.

If the absolute value of the elasticity of labour demand is =1, that portion of the demand curve is considered unitary elastic.

In the above sense, a demand is more elastic than something else if it is more responsive to price. We similarly might say that a particular demand is less elastic too (or more elastic) than another if it is less responsive to price.

### 3.3.7 Determinants of Elasticity of Labour Demand

The factors determining the elasticity of labour demand are the following:

I. The proportion of labour costs in total costs: If labour costs account for a large proportion of total costs, a change in wages would have a significant impact on costs, and hence, demand would be elastic.
II. The ease with which labour can be substituted by capital: If it is easy to replace workers with machines, demand would again be elastic.
III. The elasticity of demand for the product is produced: A rise in wages increases production costs, which, in turn, raises the price of the product. This causes demand for this product to contract and demand for labour to fall. The more elastic the demand for the product is, the greater the fall in demand for it and hence for workers—making demand for labour elastic.
IV. The time period: Demand for labour is usually more elastic. In the long run, there is more time for firms to change their methods of production.

V. The qualifications and skills required: The more qualifications and skills needed, the more inelastic the supply will be. For instance, a large increase in the wage paid to brain surgeons will not have much effect on the labour supply. This is especially true in the short run, as it will take years to gain the requisite qualifications and experience.

VI. The length of training period: A long period of training may put some people off the occupation. It will also mean that there will be a delay before those who are willing to take it up are fully qualified to join the labour force. Both effects make the supply of labour inelastic.

VII. The level of employment: If most workers are employed already, the supply of labour to any particular occupation is likely to be inelastic. An employer may have to raise the wage rate quite significantly to attract more workers and encourage the workers employed in other occupations to switch jobs.

VIII. The mobility of Labour: the easier workers find it to change jobs or to move from one area to another. The easier it will be for an employer to recruit labour by raising the wage rate. Thus, higher mobility makes the supply elastic.

IX. The degree of vocation: the stronger the attachment of workers to their jobs, the more inelastic supply tends to be in case of a decrease in wage rate.

X. The time period: As with demand, supply of labour tends to become more elastic over time. This is because it gives workers more time to notice wage changes and to gain any qualifications or undertake any training needed for a new job.

**Self-Check Exercise-1**

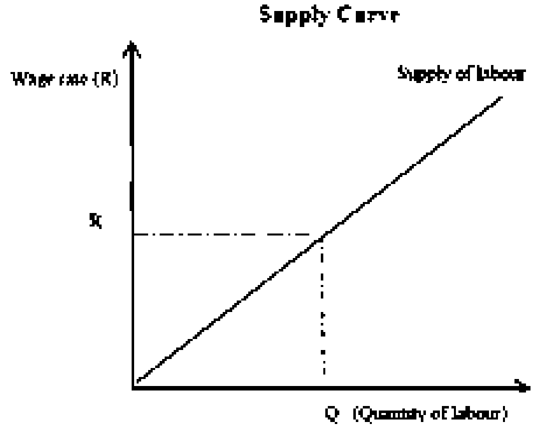
Q1. What does it mean to say that the labour demand curve is a "derived demand"?

Q2. What are two main factors that can cause a shift in the demand curve for labour?

Q3. Define the elasticity of labour demand.

### 3.4 The Supply of Labour

The labour supply refers to the number of workers willing to work at a given wage rate. It means the total hours of work that a worker is willing to work at a given wage rate. If the wage rate is high, the labour supply will increase, and vice versa. Therefore, there is a positive relation between labour supply and wage rate.




### 3.4.1 Individual Labour Supply

Normally, the labour supply is an upward-sloping curve from left to right, but psychological factors cause the supply curve to be backward-sloping. This is because as wages exceed a particular limit, the labourer begins to prefer leisure to work. At higher wages, the supply of labour begins to fall, and the supply curve has a tendency to slope backwards. In this process the two most important effects that affect the labour supply are:

I. **Substitution Effect:** An increase in the wage rate will stimulate the labourer to work more; as such, he will devote himself to work rather than leisure. He will substitute work hours with leisure hours. Thus, because of the substitution effect, a rise in the wage – rate leads to an increased supply of labourers. The substitution effect is positive.

II. **Income Effect:** A rise in wage rate means the better position of the labourers. He now prefers leisure. Thus, the income effect discourages work and encourages leisure. Therefore, the income effect is negative.

Figure 3.3 shows a backward-sloping supply curve. It shows that up to w1, the relative price of leisure increases, and workers want to substitute leisure with work. As wages increase, a strong substitution effect is dominant.

Up to a wage rate of w1, the relative price of leisure increases, and workers will look to switch from leisure to work. In other words, there is a strong substitution effect as wages start to rise. Hence, the supply curve slopes upwards and then backwards to point S.

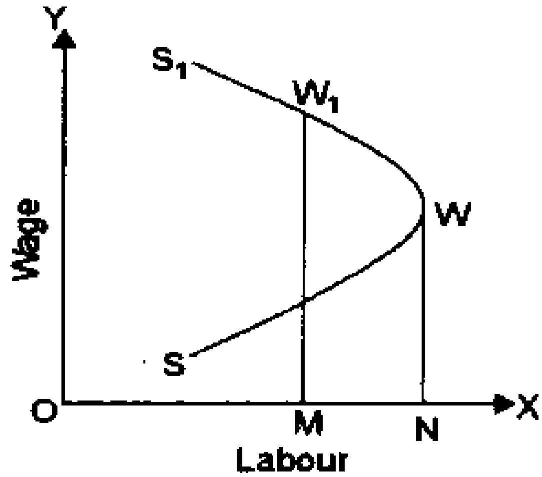



Fig.3.3.

However, above w1, the income effect is stronger than the substitution effect, leading to an increase in labour's real income. That means now the single labourer needs to do less work to earn the same income level.

### 3.4.2 Factors Affecting Supply of Labour

The factors affecting the supply of labour are the following:

I. **The size of the working population:** The size of the working population affects the labour supply in the market. If the working population is larger, the labour supply will increase.

II. **Migration:** Labour migration generally occurs from low-wage to high-wage areas. Therefore, it can affect the supply of labour in the labour market.

III. **People's preference for work:** People's preference for work affects the labour supply in the market. The labour supply will increase if more labourers are willing to work at a given wage rate.

IV. **Net advantage to work:** The labour supply is also affected by non-monetary advantages such as working conditions, leave, security, health, and other benefits. Improvements in net benefits and monetary benefits can affect the labour supply in the market.

V. **Work and leisure:** The individual's decision between work and leisure affects the labour supply. As you know, the time that a worker or individual has in a day is fixed. Therefore, the worker's or individual's choice between work and leisure affects the labour supply in the market. The choice of individual or worker depends upon age, income taxes, no. of dependents in the family, and other income.

**VI.** **Wage rate:** The wage rate is the most important factor which affects the supply of labour in the market.

VII. **Working conditions:** The working conditions, including the work environment and facilities available at the workplace, affect the labour supply in the market.

VIII. **Education and Skills:** In some work profiles, a minimum educational level and skill sets are required. Therefore, if a worker does not have these, it affects the labour supply in the market.

**Self-Check Exercise-2**

Q1. What factors influence an individual's decision to supply labour?

Q2. How does a change in wage rates affect the supply of labour?

### 3.5 Summary

The unit explores the relationship between the demand for labour, the market wage rate, and the labour supply. Labour demand is a derived demand, influenced by the demand for the goods and services that labour produces. Various factors contribute to shifts in the labour demand curve, including changes in product demand, productivity, and costs associated with employing labour. The elasticity of demand for labour is examined, highlighting how responsive employers are to changes in wage rates. The labour supply is also discussed, focusing on the individual labour supply and the factors affecting it. The unit comprehensively explains how labour markets function, especially concerning wage determination and employment levels.

### 3.6 Glossary

- **Demand for labour:** Labour is demanded to produce goods and services. Firms demand labour because consumers want to purchase various goods and services. The firm's labour demand is a derived demand derived from the wants and desires of consumers.
- **Supply of labour:** The supply of labour means the number of labourers doing a particular job who willingly offer their services at different wage rates and the number of hours or days that each labourer is prepared to work at different wage rates.
- **Elasticity of Labour Substitution:** Elasticity is a means of measuring responsiveness. If the price of a good changes, how responsive is the change in quantity or elasticity? A relatively large change in Qd suggests that demand is less responsive or inelastic. In the realm of labour economics, we are interested in how responsive an employer's demand for labour is to the price (wage) of labour. More specifically, we look for the relative change in employment level for a relative change in the wage.
- **Factors affecting demand for labour:** Wage rate, the demand for products, the productivity of labourers, profitability of firms, substitutes, and the number of buyers of labour.

- **Factors affecting labour supply:** Length of training of workers, barriers to entry, trade union, tax and benefit, incentives and disincentives, labour subsidies, and the actual and potential labour supply.

## 3.7 Answers to Self–Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 2.3.1.
Ans.2. Refer to Section 2.3.2.
Ans.3. Refer to Section 2.3.6.

**Self-Check Exercise-2**

Ans.1. Refer to Section 2.4.2.
Ans.2. Refer to Section 2.4.1.

## 3.8 References/Suggested Readings

1) Bahgoliwal, T. N. (1983). *Economics of labour and industrial relations*. Sahitya Bhawan Publications.
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## 3.9 Terminal Questions

Q1: What do you mean by demand for labour? Explain various factors affecting demand for labour.

Q2: Explain the concept of Elasticity of Labour Demand. Explain its main determinants.

## UNIT-4

## Employment Dynamics and Policy Review

**STRUCTURE**



### 4.1 Introduction

In this unit, we will discuss employment dynamics and review various employment policies in India. We will explore the relationship between employment and development, the effects of technological change and modernisation, and the concept of employment rationalisation. Additionally, the unit will examine the interplay between wage and productivity and provide an overview of recent employment programs and policies in India. This comprehensive review will offer insights into the country's evolving employment landscape.

### 4.2 Learning Objectives

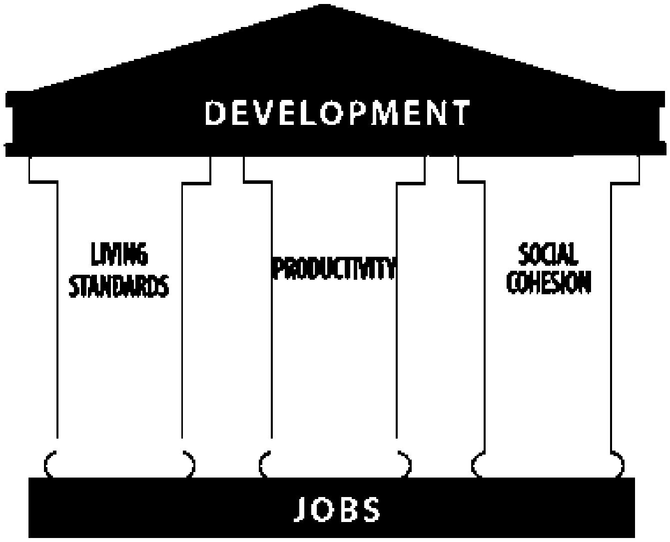
By the end of this unit, self-learners will be able to:

- Understand the relationship between employment and economic development and how they influence each other.
- Analyze the impact of technological change, modernisation, and employment rationalisation on the labour market in India.
- Evaluate recent employment programs and policies in India.

### 4.3 Employment and Development Relationship

While economic growth and economic development are often thought to mean the same thing, they refer to different concepts in economics. Economic growth is a more specific term that refers to an increase in a nation's output of goods and services, usually measured by GDP. In contrast, economic development is a broader term that includes improvements in income, social well-being, living standards, education, and health. The Employment and Development relationship highlights the connection between job opportunities and economic growth. Employment is more than just a source of income for individuals; it plays a crucial role in fostering economic development and improving societal well-being. Whereas economic development is a broader concept that focuses on income, social welfare, and other dimensions, such as improvements in living standards, education, and health. When people are employed, they contribute to economic productivity, innovation, and stability, leading to higher living standards and reduced poverty. Moreover, employment generates income, which stimulates consumer demand and drives further economic activity. A strong employment sector also supports social cohesion by reducing inequality and promoting social inclusion. Thus, creating quality jobs is essential for sustainable development and overall economic progress. According to Scarpetta and Pierre (2015), job creation is a critical focus for policymakers, social partners, and civil society because labour is much more than a mere production factor; it is essential for economic development, personal well-being, and social cohesion. The nature of one's employment significantly affects their quality of life, as work occupies a major part of people's lives. Labour is crucial for businesses as it brings in skills and expertise that foster innovation and boost productivity. Global shifts have transformed labour markets, presenting both opportunities and challenges. With rising competition and technological advancements, companies and workers must adapt to changing economic landscapes. Thus, robust economic development is crucial for creating more productive and fulfilling jobs, and better jobs are essential to ensure that the benefits of growth are widely shared, enhancing the overall well-being of the population.

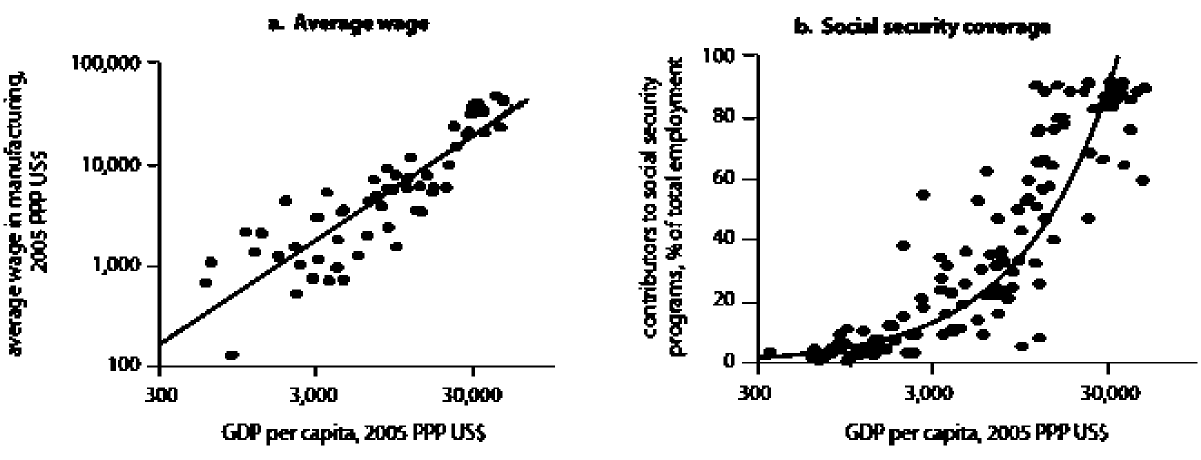
According to the World Development Report (2013), jobs go beyond the wages and benefits they offer; they also shape our identity and influence how we connect with others in society. By contributing to personal fulfilment and social interaction, jobs can play a key role in improving living standards and enhancing overall productivity. Furthermore, employment fosters social cohesion by integrating individuals into the community and providing a sense of purpose. The outcomes of meaningful employment can lead to a more productive workforce and a more cohesive society, where individuals contribute positively to economic growth and communal well-being.




Source: World Development Report (2013)

Fig. 4.1. Jobs are Transformational

Jobs are crucial for improving living standards, as they provide the primary source of income for many, especially in poorer countries. Economic growth leads to higher earnings and better benefits, which enhance job opportunities and help households escape or avoid poverty. Increased job earnings allow for greater consumption, stability, and access to education, contributing significantly to poverty reduction and overall well-being.




Source: World Development Report (2013)
Note: GDP: Gross Domestic Product; PPP: Purchasing Power Parity. Each dot represents a country

Fig. 4.2 Jobs Provide Higher Earnings and Benefits as Countries Grow

Employment is closely tied to economic development, as jobs provide a primary source of income and drive improvements in living standards, especially in developing countries. Employment opportunities boost economic growth by increasing household income, reducing poverty, and enhancing overall well-being, including health and life satisfaction. Thus, employment is vital for sustainable development. Therefore, the relationship between employment and development emphasizes that jobs are vital for economic growth and societal well-being. Employment boosts productivity, drives economic activity, and enhances living standards. It provides income, fosters innovation, and supports social cohesion. Quality job creation is essential for sustainable development and poverty reduction, shaping identity and improving overall quality of life.

**Self-Check Exercise-1**

Q1. What is the difference between economic growth and economic development?

Q2. How does employment contribute to economic development and societal well-being?

## 4.4 Rationalization, Technological Change and Modernization

Technology drives change and development and involves a continuous process that includes mechanisation, mass production, and automation. The World Intellectual Property Organization defines technology as systematic knowledge for manufacturing, applying processes, or providing services. Choosing the appropriate technology depends on various factors, including social priorities. Technological advancements influence markets, work environments, and organizational structures, affecting employment, human resources, and industrial relations. According to the study of Teona (2021). The impact of technology on the labour market is a long-standing concern, with recent advancements raising fears of increased automation and unemployment. This study examines how technology shifts the labour market, altering the division of work between humans and machines. To address these changes, the study recommends policies focused on social protection, regulating technology investments, adapting labour market policies to mitigate skill mismatches, and improving education and training. It emphasizes the need for continuous policy adaptation to balance technological advancements with employment stability and protect vulnerable workers from potential income inequality.

### 4.4.1 Rationalization

Rationalisation involves fundamentally changing the structure and management of industrial operations to enhance efficiency. This approach can be applied to the methods used, materials sourced, and workforce management, aiming to streamline processes and reduce waste, ultimately improving overall productivity and effectiveness.

### 4.4.2 Technological Change

Technological change involves the development and implementation of new technologies within existing production systems, significantly influencing industrial efficiency and competitiveness. In industrial economics, technological advancements can alter the way products are manufactured, resulting in lower costs, higher output, and enhanced quality. These changes may happen gradually, through minor enhancements to current methods, or disruptively, by introducing new techniques or products that transform markets. Technological change is a key driver of economic growth and innovation, allowing industries to meet changing consumer needs and adapt to global market trends. It also shapes the structure of industries, affecting how firms operate, the nature of market competition, and how resources are allocated. Understanding technological change is crucial for analyzing industrial dynamics and its broader economic effects on society.

Technological change (TC) refers to the entire process that includes the creation, innovation, and spread of new technologies or methods. Technology serves as a key tool for development, influencing many areas of both economic and social life.

**Types of Technological Changes**

1. **Scientific Management or Time & Motion Studies**: This approach involves analyzing and improving work processes through systematic observation and measurement. It focuses on increasing efficiency by optimizing tasks, minimizing wasted time, and enhancing productivity.
2. **Changes in Location of Plants**: This refers to the relocation of manufacturing facilities or production plants to new geographic areas. Such changes can be driven by factors like access to raw materials, labour costs, or market proximity, and they can impact operational efficiency and cost-effectiveness.
3. **Shift in Product Demand**: This occurs when consumer preferences change, leading to alterations in the types of products being produced. Companies may need to adapt their technology and production processes to meet new market demands and stay competitive.
4. **Change in Machinery**: This involves updating or replacing machinery and equipment used in production. Technological advancements in machinery can lead to improved efficiency, higher-quality products, and reduced operational costs.
5. **Automation**: Automation refers to the use of technology to perform tasks without human intervention. By implementing automated systems, businesses can enhance productivity, reduce labor costs, and improve accuracy in manufacturing and other processes.

**4.4.3 Automation**: Automation uses technology to autonomously control and manage production processes. Machines operate with minimal human intervention by gathering data from their activities and adjusting controls accordingly. This self-regulating system enhances efficiency, reduces errors, and optimizes the production flow, making operations more consistent and reliable.

**Self-Check Exercise-2**

Q1. What is technological change, and how does it affect industrial efficiency?

Q2 What is automation, and why is it important for production processes?

### 4.5 Recent Employment Programmes/Policies in India

The government aims to provide employment and enhance the employability skills of human capital. To address this, the government has implemented several initiatives to create jobs and foster self-reliance in the country. These efforts include a range of long-term schemes, programs, and policies designed to boost employment opportunities. Below is a summary of the Employment Generation Schemes and Employment Promotion Programs introduced by the Government, along with their website details.

#### 4.5.1 Atmanirbhar Bharat Rojgar Yojana (ABRY)

The ABRY was introduced on October 1, 2020. This yojana was introduced as a component of the Atmanirbhar Bharat package 3.0. The objective of this yojana is to encourage employers to provide new jobs and social security benefits and restore employment affected by the COVID-19 pandemic.

#### 4.5.2 Pradhan Mantri Rojgar Protsahan Yojana (PMRPY)

The PMRPY was introduced on April 1, 2016, to encourage employers to generate new employment opportunities.

#### 4.5.3 National Career Service (NCS) Project

This project aims to transform the national employment service to offer various career-related services, including job matching, vocational guidance, awareness of skill development courses., apprenticeships, internships and more.

#### 4.5.4 Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

The MGNREGA aims to provide 100 days of guaranteed employment to every rural household each financial year, with adult members willing to engage in unskilled manual labour.

#### 4.5.5 Pradhan Mantri Garib Kalyan Rojgar Abhiyaan (PMGKRA)

The PMGKRA, a 125-day initiative, was launched on June 20, 2020, by the Hon’ble Prime Minister. Its goal is to support returnee migrant workers and rural populations affected by the COVID-19 pandemic. The program employs a multifaceted approach that includes providing immediate employment and livelihood opportunities, enhancing public infrastructure in villages, and creating assets to boost income generation. It focuses on 25 types of work across 116 selected districts in 6 states, with a budget of Rs. 50,000 crore.

### 4.5.6 Aajeevika - National Rural Livelihoods Mission (NRLM)

Aajeevika (NRLM) was launched in June 2011 by the Ministry of Rural Development, Government of India. Aajeevika - NRLM aims to boost rural household incomes by promoting sustainable livelihoods and better financial access, with partial support from the World Bank.

### 4.5.7 Deendayal Antyodaya Yojana - National Urban Livelihoods Mission (DAY-NULM)

This yojana aims to reduce poverty and vulnerability of poor urban households by providing access to gainful self-employment and skilled wage employment opportunities. It is implemented to provide appreciable improvement in the livelihoods of rural poor on a sustainable basis.

### 4.5.8 Prime Minister's Employment Generation Programme (PMEGP)

PMEGP is a major credit-linked subsidy programme launched to provide self-employment opportunities, establishing micro-enterprises in the non-farm sector. This programme is aimed at helping traditional artisans and unemployed youth.

### 4.5.9 Pradhan Mantri MUDRA Yojana (PMMY)

PMMY was launched by the Hon'ble Prime Minister on April 8, 2015. This scheme provides loans of up to 20 lakhs for non-corporate and non-farm small and micro enterprises. The loans under this scheme are provided by Commercial Banks, Regional Rural Banks, Small Finance Banks, Micro Finance Institutions, and Non-Banking Financial Institutions. Based on stages of growth and funding needs, the PMMY classified products into four categories: Shishu, Kishore, Tarun, and TarunPlus.

### 4.5.10 Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

PMKVY was launched in 2015 to provide training to the youth for skill development and provide monetary rewards for youth. The main objective of this yojana was to develop and enhance the employability skills of youth through training programmes.

### 4.5.11 Production-Linked Incentive (PLI) Scheme

Production-Linked Incentive (PLI) Scheme was launched in 2020. It is a strategic leap to boost self-sufficiency. Based on production and sales growth, it provides financial rewards to industries like electronics, textiles, pharmaceuticals, and automobiles. This results-oriented plan attracts local and international investments while promoting advanced technologies and large-scale production.

### 4.5.12 Pradhan Mantri Mega Integrated Textile Region and Apparel Parks (PM-MITRA)

The Pradhan Mantri Mega Integrated Textile Region and Apparel Parks (PM-MITRA) Scheme for setting up 7 Mega Textiles Parks aims to develop integrated large-scale and modern industrial infrastructure facilities for the entire value-chain of the textile industry including the weaving and processing sector and will enhance the production and competitiveness of the textiles industry and create employment opportunities.

### 4.5.13 Future Skills PRIME

MeitY has initiated “Future Skills PRIME”- a programme for Re-skilling/Up-skilling IT Manpower for Employability in 10 new/emerging technologies including Artificial Intelligence.

**Government flagship programmes have the potential to generate productive employment opportunities.**

From time to time, the government of India has launched many flagship programmes such as Digital India, Atal Mission for Rejuvenation of Urban Transformation (AMRUT), Make in India, Stand up India Scheme and Startup India Scheme. These initiatives focus on digital empowerment, urban development, manufacturing growth, entrepreneurship support for marginalized groups, and fostering innovation, ultimately enhancing economic opportunities and improving livelihoods.

**Self-Check Exercise-3**

Q1. What is the main goal of the Atmanirbhar Bharat Rojgar Yojana (ABRY)?

Q2. What is the objective of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)?

## 4.6 Summary

In this unit, we discussed employment dynamics and the evolution of employment policies in India. The unit began by exploring the relationship between employment and economic development, emphasizing how job creation fosters economic growth and societal well-being. Next, we examined rationalization, technological change, and modernization, focusing on how these factors impact the labour market and industrial productivity. We also reviewed recent employment programs and policies in India, providing an overview of various government initiatives to enhance employment opportunities and promote self-reliance. This comprehensive analysis helps us understand the challenges and opportunities in India's employment landscape.

## 4.7 Glossary

- **Economic Development**: A broader concept than economic growth, encompassing improvements in income, social welfare, living standards, education, and health.

- **Rationalization**: A process of restructuring industrial operations to improve efficiency, involving changes in methods, materials, and workforce management.
- **Technological Change**: The implementation of new technologies that affect production methods, market structures, and employment, leading to increased productivity and innovation.
- **Automation**: The use of technology to operate and control production processes with minimal human intervention, enhancing efficiency and reducing errors.

## 4.8 Answers to Self-Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 4.3.

Ans.2. Refer to Section 4.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 4.4.2.

Ans.2. Refer to Section 4.4.3.

**Self-Check Exercise-3**

Ans.1. Refer to Section 4.5.1.

Ans.2. Refer to Section 4.5.4.

## 4.9 References/Suggested Readings

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## 4.10 Terminal Questions

Q1. Discuss the impact of technological change and modernization on employment dynamics in India. How do these factors influence labour market trends and productivity?

Q2. Evaluate the effectiveness of recent employment programs and policies implemented by the Indian government. What are the key challenges and opportunities associated with these initiatives in promoting sustainable employment?

# UNIT – 5
# UNEMPLOYMENT

**STRUCTURE**

5.13 Terminal Questions

## 5.1 Introduction

Unemployment is a critical issue that reflects the health of an economy and its capacity to provide jobs for its population. In a growing economy, like India, production expansion should ideally lead to increased employment opportunities. However, despite significant economic growth, unemployment rates have also risen, revealing a mismatch between job creation and job seekers. This phenomenon, often called "jobless growth," highlights the gap between economic progress and employment expansion. This unit delves into the nature, measurement, and types of unemployment and the underlying causes and specific challenges related to rural and educated unemployment in India.

## 5.2 Learning Objectives

BY the end of this unit, you will be able to

- Define unemployment and its key indicators.
- Describe the various measures used to assess unemployment in India.
- Identify and explain different types of unemployment and their causes.

## 5.3 Unemployment: Meaning and Definition

To understand the concept of unemployment, it is necessary to understand the labour force concept. By the internationally accepted definitions, all persons who have a job or are working and though not working, are seeking and available for work are deemed to be in the labour force. However, persons who were neither employed nor looking for work or ready to work during the reference period for other reasons were classified as ‘not part of the labour force. These persons include students, homemakers, individuals living on rental income, pensioners, and casual workers unable to work due to illness, etc.  Therefore, unemployment is when a person actively searches for a job and cannot find work.

In India, the National Sample Survey Organization (NSSO), Employment and Unemployment Survey (EUS), was one of the major data sources on employment and unemployment. However, the EUS was discontinued after 2011-12. Thereafter, the Period Labour Force Survey was carried out, and its first report was made in 2019 as PLFS (2017-18).  The labour force, also known as the "economically active" population, comprises individuals who are either employed or unemployed.

According to PLFS (2019-20), persons who were either 'working' (or employed) or 'seeking or available for work' (or unemployed) constituted the labour force.

**Table: Workforce Participation Rate (WFPR) and Labour force participation rate (LFPR) in India**

| Category | WFPR (%) Population Census (2011) | LFPR (%) Labour Bureau (2011–12) |
|---|---|---|
| Rural male | 41.6 (17.5) | 79.4 (6.4) |
| Rural female | 16.7 (53.2) | 33.9 (48.0) |
| Urban male | 48.7 (15.5) | 73.7 (7.6) |
| Urban female | 11.9 (36.0) | 19.1 (46.9) |
| Persons rural | 29.5 | 57.9 |
| Persons urban | 30.9 | 48.0 |
| All males | 43.8 | 77.9 |
| All females | 15.2 | 30.0 |
| All persons all areas | 29.9 | 55.4 |

*Note* (1) Though the Labour Bureau (LB) estimates refer to the year 2011–12—close to the population census year, 2011—they are not comparable with each other because the population census estimates are work participation rates for all age groups covering only the main (equivalent to the usual principal status) workers whereas the LB estimates are for age groups 15 and above and they cover all workers (usual principal and subsidiary status) and those who are unemployed. (2) Figures in parentheses are coefficient of variation based on the state-level data

Source: Mitra and Okada (2018)

**Table: Labour Force Participation Rate in India**

all-India

| category of persons | LFPR during 2019-20 in | | LFPR during 2018-19 in | | LFPR during 2017-18 in | |
|---|---|---|---|---|---|---|
| | usual status (ps+ss) | CWS | usual status (ps+ss) | CWS | usual status (ps+ss) | CWS |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| | | | rural | | | |
| male | 56.3 | 55.4 | 55.1 | 54.5 | 54.9 | 54.4 |
| female | 24.7 | 21.1 | 19.7 | 16.7 | 18.2 | 16.1 |
| person | 40.8 | 38.6 | 37.7 | 36.0 | 37.0 | 35.7 |
| | | | urban | | | |
| male | 57.8 | 57.2 | 56.7 | 56.7 | 57.0 | 56.7 |
| female | 18.5 | 17.5 | 16.1 | 15.6 | 15.9 | 15.3 |
| person | 38.6 | 37.8 | 36.9 | 36.7 | 36.8 | 36.4 |
| | | | rural+urban | | | |
| male | 56.8 | 56.0 | 55.6 | 55.2 | 55.5 | 55.0 |
| female | 22.8 | 20.0 | 18.6 | 16.4 | 17.5 | 15.8 |
| person | 40.1 | 38.3 | 37.5 | 36.2 | 36.9 | 35.9 |

Source: Annual Report, PLFS, 2019-20

**Table: Unemployment rates (in percent) according to usual status (ps+ss) and current weekly status (CWS) during PLFS (2017 – 2018), PLFS (2018-19) and PLFS (2019-20)**

all-India

| status | PLFS (2019-20) | | | PLFS (2018-19) | | | PLFS (2017-18) | | |
|---|---|---|---|---|---|---|---|---|---|
| | male | female | person | male | female | person | male | female | person |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| | | | | | rural | | | | |
| usual status (ps+ss) | 4.5 (2.5) | 2.6 (0.6) | 4.0 (1.6) | 5.6 (3.1) | 3.5 (0.7) | 5.0 (1.9) | 5.8 (3.2) | 3.8 (0.7) | 5.3 (2.0) |
| CWS | 8.7 (4.8) | 5.5 (1.2) | 7.9 (3.0) | 8.7 (4.8) | 7.3 (1.2) | 8.4 (3.0) | 8.8 (4.8) | 7.7 (1.2) | 8.5 (3.1) |
| | | | | | urban | | | | |
| usual status (ps+ss) | 6.4 (3.7) | 8.9 (1.6) | 7.0 (2.7) | 7.1 (4.0) | 9.9 (1.6) | 7.7 (2.8) | 7.1 (4.0) | 10.8 (1.7) | 7.8 (2.9) |
| CWS | 10.6 (6.0) | 12.4 (2.2) | 11.0 (4.1) | 8.9 (5.0) | 12.1 (1.9) | 9.5 (3.5) | 8.8 (5.0) | 12.8 (2.0) | 9.6 (3.5) |
| | | | | | rural+urban | | | | |
| usual status (ps+ss) | 5.1 (2.9) | 4.2 (0.9) | 4.8 (1.9) | 6.0 (3.4) | 5.2 (1.0) | 5.8 (2.2) | 6.2 (3.4) | 5.7 (1.0) | 6.1 (2.2) |
| CWS | 9.3 (5.2) | 7.3 (1.5) | 8.8 (3.4) | 8.8 (4.8) | 8.7 (1.4) | 8.8 (3.2) | 8.8 (4.8) | 9.1 (1.4) | 8.9 (3.2) |

*Figures in parenthesis give the proportion of unemployed (PU) person in the population in per cent*

Source: Annual Report, PLFS, 2019-20

### Nature of unemployment in India

Unemployment in India is both open and disguised. Like all other developing countries, India is presently suffering from structural unemployment, which exists in open and disguised forms. Most of the unemployment in the economy is definitely structural. Between 1950 and 2011, the population in India increased at an alarming rate of around 2.1 per cent per annum. However, with this increase in population, the labour force has increased rapidly, and employment opportunities have not increased at the required rate. Hence there has been an increase in the unemployment rate over the period.

### Self-Check Exercise-1

Q1. What is the definition of unemployment?

Q2. How does the National Sample Survey Organization (NSSO) measure unemployment in India?

## 5.4 Unemployment: Concept and Measurement

### 5.4.1 Conceptual Framework of Key Employment and Unemployment Indicators

Key indicators used to evaluate labour market conditions include the Labour Force Participation Rate (LFPR), Work Participation Rate (WPR), Proportion Unemployment

(PU), and Unemployment Rate (UR). These metrics provide valuable insights into workforce engagement and employment trends. Their definitions are outlined below:

I. **Labour force participation rate (LFPR):** The Labour Force Participation Rate (LFPR) is defined as the percentage of people in a population working or actively looking for work. It reflects the number of individuals involved in the job market compared to the total population.

II. **Worker Population Ratio (WPR):** The Work Participation Rate (WPR) is defined as the proportion of the total population who are currently employed. It indicates how many individuals are engaged in work out of the total population.

III. **Proportion Unemployed (PU):** Proportion Unemployed (PU) refers to the percentage of persons unemployed in the population.

IV. **Unemployment Rate (UR):** Unemployment Rate (UR) is the percentage of unemployed persons in the labour force.

**Table: Key Labour Force Indicators**

| activity profile | | key indicators |
|---|---|---|
| activity status(code) | category of persons | |
| 11, 12, 21, 31, 41, 42, 51, 61, 62, 71, 72 | workers | **1. Labour Force Participation Rate (LFPR):** $\frac{no.\ of\ employed\ persons + no.\ of\ unemployed\ persons}{total\ population} * 100$ <br> **2. Worker Population Ratio (WPR):** $\frac{no.\ of\ employed\ persons}{total\ population} * 100$ |
| 81, 82 | unemployed | **3. Proportion Unemployed (PU):** $\frac{no.\ of\ unemployed\ persons}{total\ population} * 100$ |
| 91, 92 93, 94, 95, 97, 98, 99 | not in labour force | **4. Unemployment Rate (UR):** $\frac{no.\ of\ unemployed\ persons}{no.\ of\ employed\ persons + no.\ of\ unemployed\ persons} * 100$ |

Note: Activity status codes, 42, 61, 62, 71, 72, 82, and 98 are used only in the *current status* and the remaining activity status codes are used in both *usual status* and in *current status*

Source: Annual Report, PLFS (2019-20)

### 5.4.2 Measures of Unemployment

In this section, we will discuss various estimates of unemployment in India. The National Sample Survey Organization (NSSO) collects employment and unemployment data in India. The NSSO has conducted nine such quinquennial Employment Unemployment Surveys (EUS) up to 2011-12, and thereafter, the Periodic Labour Force Survey (PLFS) was launched to collect the data. The quinquennial EUS was started from the 27th round (1972-73), and the latest round available is the $68^{th}$ (2011-12). However, the quinquennial EUS has been discontinued, and a yearly PLFS has been conducted since 2017-18. The EUS and PLFS were conducted using standardised concepts and procedures based on recommendations from different committees.

The labour force survey classifies the individuals based on their activities during specific reference periods. The Usual Principal Activity Status (UPS) uses 365 days, the Current Weekly Status (CWS) covers the past seven days, and the Current Daily Status examines daily activities. Classification into employment categories relies on major time or priority criteria.

1. Usual Principal Activity Status (UAS)
2. Subsidiary Economic Activity Status (SES)
3. Current Weekly Activity Status (CWS)
4. Current Daily Activity Status (CDS)

**5.4.2.1 Usual Principal Activity Status (UPS)**

The Usual Activity Status (UAS) refers to a person's primary activity over the 365 days before the survey. The activity in which an individual spent the most time during this period is identified as their Usual Principal Activity Status. The activity status of an individual is first categorised as "employed", "unemployed", and "not in the labour force" to decide the UPS. Based on these three activity categories, it is determined whether the individual belongs to the labour force or not. However, if the individual is involved in more than one of these activity status categories, the main status activity category is determined based on the "relatively long time spent" criterion.

**5.4.2.2 Subsidiary Economic Activity Status (SES)**

The Usual Principal Activity Status (UPAS) identifies a person's main activity during the reference period of 365 days. If an individual also performed another activity for at least 30 days, it is considered a subsidiary economic activity. In cases of multiple activities, the one with the lesser duration is marked subsidiary.

**5.4.2.3 Current Weekly Activity Status (CWS)**

The Current Weekly Activity Status (CWS) consider a person's activity over the seven days preceding the survey, using priority and major time criteria. "Working" takes precedence over "seeking work," which ranks above "not working." A person is "working" if they worked at least an hour during the week, while "unemployed" individuals sought or were available for work.

**5.4.3.4 Current Daily Activity Status (CDS)**

A major-time and priority method evaluates an individual's current daily activity status (CDS) based on their actions over the reference week. Under this priority system, the status of 'working' is given precedence over 'not working but seeking or available for work', which is prioritised over 'neither working nor available for work.' The criteria used to determine the daily activity status are as follows:

i. If an individual either 'actually worked for at least one hour' or 'intended to work for an hour or more but could not,' they were assigned a work status code.

ii. A maximum of two economic activities (work-related activities) were recorded for each day.
iii. If the individual did not engage in any work for at least one hour on a given day, only one appropriate status code—either related to unemployment or being out of the labour force—was recorded, following the priority and major-time guidelines.

**Self-Check Exercise-2**

Q1. What are the major indicators used to assess unemployment?
Q2. Explain the Usual Principal Activity Status (UAS) and its significance.

## 5.5 Types of Unemployment

### 5.5.1 Structural Unemployment

Structural unemployment is long-lasting unemployment that arises due to structural shifts in an economy. It happens when the skills required in a particular region do not align with those available. However, if wages were completely flexible and the cost of occupational and geographical mobility were low, structural unemployment could be eliminated.

### 5.5.2 Frictional Unemployment

Frictional unemployment arises when individuals willingly change jobs or enter the workforce, causing temporary gaps in employment. Frictional unemployment naturally occurs, even in a growing and stable economy. Workers choosing to leave their jobs in search of new ones and entering the workforce for the first time constitute frictional unemployment. This form of unemployment is part of the natural unemployment rate, representing the lowest possible unemployment level caused by economic factors and labour mobility.

### 5.5.3 Demand Deficient (Cyclical) Unemployment

Frictional unemployment arises because the labour market is dynamic and information flows are imperfect, and structural unemployment arises because of a long-lasting imbalance in demand and supply due to structural shifts in an economy. Cyclical unemployment happens when business activity slows down due to changes in the business cycle. It occurs when overall demand for goods and services drops, leading to less worker demand, especially when wages do not adjust easily downward. A recent example of demand-deficient unemployment is the “Great Recession” of 2007 to 2009. During the Great Recession of 2007 to 2009, the unemployment rate in the United States rose from 4.4 per cent in the spring of 2007 to 10 per cent in the fall of 2009.

### 5.5.4 Seasonal Unemployment

Seasonal unemployment occurs when the need for workers changes at different times of the year. It is similar to the demand-deficient unemployment, which we discussed above. The seasonal unemployment can be expected regularly and follow a systematic pattern over the course of the year. The agricultural seasons are the best examples of seasonal unemployment. The demand for agricultural labourers declines after the planting season and remains low until the harvest season. Similarly, the demand for production workers like fruit pickers and holiday-related jobs (tourism) is based on seasonal changes and is operational only during a particular season in a year.

### 5.5.5 Disguised Unemployment

The Indian agriculture sector is characterised by a considerable amount of surplus labour. The surplus labour in the agriculture sector leads to disguised unemployment. Unemployment does not affect the aggregate output; the marginal productivity of each extra unit of labour employed will be zero. For example, in rural areas, where agriculture is the main source of employment, this type of unemployment can be seen often. In rural areas, if a piece of land requires two units of labourers on it and instead, four units of labourers are employed on it. It is considered disguised unemployment when two workers are employed, but their contribution is not fully utilised.

**Self-Check Exercise-3**

Q1. What is structural unemployment and how does it differ from frictional unemployment?

Q2. Describe demand-deficient unemployment and provide an example.

## 5.6 Causes of Unemployment

The discussion on unemployment in a developing nation like India highlights that structural unemployment is the most common type. The primary reasons behind unemployment are outlined below:

I. **Jobless Growth:** India's employment growth has lagged significantly behind its economic growth rate. The Gross Domestic Growth (GDP) was 6.2 per cent annually from 1980-81 to 2011-12. As against this, total employment growth was far slower at 2 per cent per annum from 1983 to 1994, 1.8 per cent from 1993-94 to 2004-05 and 0.45 per cent from 2004-05 to 2011-12. This reflects a pattern of economic growth without a corresponding rise in employment, a key factor behind the growing unemployment in developing nations.

II. **Population Growth and a Growing Workforce**

One of the main causes of unemployment in emerging countries like India is the country's fast population increase. With a sharp decline in the death rate since independence, the nation is now in the second stage of its demographic transition. However, despite a decrease in mortality, the birth rate has not decreased proportionately, resulting in an unprecedented population boom. This population boom has naturally resulted in a substantial increase in the labour force. Sadly, emerging nations have found it difficult to deal with this problem, which has led to a steady increase in the work force and unemployment rates.

III. **Inappropriate Technology:** Effective utilisation of production factors is essential for a nation's economic growth. In developing countries like India, capital is limited while labour is plentiful. Ideally, this situation should encourage the use of labour-intensive production methods. However, producers across various sectors increasingly adopt capital-intensive technologies, replacing human labour with machines. This shift contributes to the rise in unemployment despite the abundant workforce.

IV. **Inappropriate Educational System:**

The educational system in India is inappropriate. It is, in fact, the same education system Macaulay introduced in India during the colonial period. According to Gunner Mrydal, India’s educational policy does not aim to develop human resources. However, GoI has launched the New Education Policy 2020 and aims to address the many growing development imperatives of our country.

V. **Lack of Planning:** Poor planning is a major factor contributing to high unemployment in developing nations. A significant mismatch exists between the available workforce and the demand for labour.

**Self-Check Exercise-4**

Q1. How does "jobless growth" contribute to unemployment?

Q2. What role does inappropriate technology play in increasing unemployment?

## 5.7 Rural unemployment

Rural unemployment refers to unemployment that exists in rural areas. It can be categorized into open unemployment, disguised unemployment, and rural educated unemployment. In India, about 80 percent of the total population lives in villages, and unemployment is rural in nature. In rural areas, agriculture is one of the main occupations or sources of livelihood. However, agriculture employs nearly half of India's workforce.

### 5.7.1 Factors Affecting Rural Employment Situation

There are many factors which affect the employment situation in rural areas. Some of the major factors are the following:

I. **Population Explosion**

A key factor driving unemployment in both rural and urban areas of developing countries is rapid population growth. Due to the rapid increase in population, rural unemployment has increased rapidly. In rural areas, agriculture is one of the main occupations and it is impossible to absorb the rural labour force in the agriculture sector. Therefore, the disguised unemployment is also an important reason behind the rural unemployment in India.

II. **Limited Land**

Rural India has a limited area of geographical land. Rapid increase in population has failed all attempts of government to provide proper agricultural land to all those who do not have land.

III. **Lack of Industries**

As we know, during the slack season, the workforce in rural areas remains unemployed. However, employment opportunities can be increased if the government installs subsidiaries and other industries in villages and rural areas to provide gainful employment during the slack season. Due to the lack of village industries, there are very few employment opportunities during the slack season, which is an important reason behind rural unemployment.

**IV. Seasonal Nature of Agriculture**

Agriculture has always been a seasonal affair. It keeps people engaged only for a few months over the year. Afterwards, the rural workforce, which mainly depends upon agriculture, has nothing to do. Due to seasonal employment in agriculture, rural labourers get employment opportunities only during the peak season and remain unemployed in the slack season.

**V. Mechanization of Agriculture**

Over the period, agricultural mechanisation has improved at a high rate. Due to the mechanisation of agriculture, i.e., the use of machinery, the employment of manual labour in rural areas has been significantly affected.

**VI. Small Holding and Fragmentation of Agricultural Land**

Small land holdings and fragmentation of agricultural land are some of the important factors contributing to rural unemployment.

**VII. Fall of Indigenous Industries**

Apart from agriculture, village or cottage industries were other sources of rural employment. However, industrialisation destroyed these industries, leading to large-scale unemployment in rural areas.

### 5.8 Educated Unemployment

An individual with formal education who remains jobless is called an educated unemployed. In India, while access to education has improved over time, job opportunities have not grown at the same pace. The Periodic Labour Force Survey (2018-19) reported an unemployment rate of 11.0% among educated individuals (those with at least secondary education) aged 15 years and above in India. The rate stood at 11.2% in rural areas and 10.8% in urban regions, highlighting unemployment levels within this age.

**Table:** Unemployment rates (in per cent) according to usual status (ps+ss) for the persons of age 15 years and above with different educational attainments during PLFS (2017-18) and PLFS (2018-19)

**All India**

| general educational level | unemployment rate | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | rural | | | urban | | | rural+urban | | |
| | male | female | person | male | female | person | male | female | person |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| | | | | PLFS (2018-19) | | | | | |
| not literate | 1.4 | 0.0 | 0.8 | 3.4 | 0.9 | 2.4 | 1.8 | 0.1 | 1.1 |
| literate & up to primary | 2.7 | 0.6 | 2.2 | 3.4 | 1.5 | 3.0 | 2.9 | 0.8 | 2.4 |
| middle | 5.3 | 1.7 | 4.7 | 5.4 | 4.3 | 5.3 | 5.3 | 2.4 | 4.8 |
| secondary & above | 10.1 | 16.6 | 11.2 | 9.2 | 17.6 | 10.8 | 9.7 | 17.1 | 11.0 |
| all | 5.5 | 3.5 | 5.0 | 7.0 | 9.8 | 7.6 | 6.0 | 5.1 | 5.8 |
| | | | | PLFS (2017-18) | | | | | |
| not literate | 1.7 | 0.1 | 1.1 | 2.1 | 0.8 | 1.6 | 1.8 | 0.2 | 1.2 |
| literate & up to primary | 3.1 | 0.6 | 2.5 | 3.6 | 1.3 | 3.1 | 3.2 | 0.8 | 2.7 |
| middle | 5.7 | 3.7 | 5.4 | 6.0 | 5.1 | 5.9 | 5.8 | 4.0 | 5.5 |
| secondary & above | 10.5 | 17.3 | 11.5 | 9.2 | 19.8 | 11.3 | 9.9 | 18.5 | 11.4 |
| all | 5.7 | 3.8 | 5.3 | 6.9 | 10.8 | 7.7 | 6.1 | 5.6 | 6.0 |

**Source: PLFS, 2018-19**

### Self-Check Exercise-5

Q1. What are the main factors affecting rural unemployment in India?

Q2. How does seasonal agriculture contribute to rural unemployment?

## 5.9 Summary

In this unit, we have explored the concept of unemployment, starting with its meaning and definition. We explored the main indicators for measuring unemployment, such as the Labour Force Participation Rate (LFPR), Worker Population Ratio (WPR), and Unemployment Rate (UR). Additionally, we examined different methods used to assess unemployment in India, including the Usual Principal Activity Status (UAS), Subsidiary Economic Activity Status (SES), Current Weekly Activity Status (CWS), and Current Daily Activity Status (CDS). Additionally, we analysed the causes of unemployment, particularly in developing countries, highlighting issues such as jobless growth and inappropriate technology.

## 5.10 Glossary

- **Unemployment:** Unemployment is when a person actively searches for a job and cannot find work.
- **Labour Force:** All persons who are working (have a job) and though not working, are seeking and available for work are deemed to be in the labour force.

- **Unemployment Rate (UR):** The Unemployment Rate (UR) refers to the proportion of unemployed individuals within the total labour force, expressed as a percentage.
- **Frictional Unemployment:** Workers choosing to leave their jobs in search of new ones and workers entering the workforce for the first time constitute frictional unemployment.
- **Structural unemployment:** Structural unemployment arises when there is a mismatch between the skills demanded and supplied in a given area.
- **Rural Unemployment:** Rural unemployment refers to unemployment in rural areas. Rural unemployment can be categorised into open unemployment, disguised unemployment and rural educated unemployment.
- **Educated Unemployment:** If a person has received an education and is unemployed, he is called educated unemployed.

## 5.11 Answers to Self-Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 3.3.

Ans.2. Refer to Section 3.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 3.4.2.

Ans.2. Refer to Section 3.4.2.1.

**Self-Check Exercise-3**

Ans.1. Refer to Section 3.5.

Ans.2. Refer to Section 3.5.

**Self-Check Exercise-4**

Ans.1. Refer to Section 3.6.

Ans.2. Refer to Section 3.6.

**Self-Check Exercise-5**

Ans.1. Refer to Section 3.7.1.

Ans.2. Refer to Section 3.7.1.

## 5.12 References/Suggested Readings

1) Deepak Nayar. (2016, May 13). Put jobs first. *Mint*.
2) Ehrenberg, R. G., & Smith, S. R. (2015). *Modern labour economics: Theory and public policy*. Routledge.
3) Kapila, U. (2010). *Indian economy: Performance and policies*. Academic Foundation.
4) Ministry of Statistical and Programme Implementation. (2020). *Periodic labour force survey*.
5) Mitra, A., & Okada, A. (2018). *Labour market participation in India: A region- and gender-specific study*. Springer.

6) Puri, V. K., & Mishra, S. K. (2019). *Indian economy – Its development experience*. Himalaya Publishing House.

## 5.13 Terminal Questions

Q1. Define unemployment. What measures are used to assess unemployment in India?

Q2. What is meant by the labour force? Identify and explain the key indicators of employment and unemployment in developing economies.

**UNIT- 6**

**Planning of Human Capital**

**STRUCTURE**



## 6.1 Introduction

In the intricate web of labour economics, the concept of human capital stands as a pivotal force that shapes the course of economies, industries, and individual lives. This chapter delves into the multifaceted realm of human capital planning, elucidating the strategies and considerations that underpin the efficient utilization and development of this invaluable resource. From recruitment and training to retention and skill enhancement, human capital planning emerges as a dynamic process essential for sustained economic growth and social progress.

## 6.2 Learning Objectives

By the end of this unit, you will be able to:

1. Define human capital planning and understand its significance in economic development.
2. Identify and describe the key components of human capital planning, including labour market analysis, forecasting labour demand, and skill gap identification.

3. Apply the human capital model to analyse the economic decision-making process regarding investments in education and training.

### 6.3 Human Capital Planning

The planning of human capital through educational and on-the-job training initiatives is the main topic of this session. Businesses may buy machinery to raise production and sales revenue, much like they would invest in physical capital to acquire assets that increase long-term earnings. Such investments are distinguished by the fact that present expenditures are made in the hope of producing larger returns in the future. Similar to how buying equipment is considered an investment in physical capital, spending on education and training can also be considered an investment in human capital.

#### 6.3.1 Defining Human Capital Planning

Human capital planning involves deliberately and strategically managing an organization's workforce to ensure alignment with business goals and overall economic development. It encompasses a range of activities, including forecasting labour demand, identifying skill gaps, designing training programs, and fostering talent retention.

Economies driven by human capital tend to be more innovative, adaptive, and competitive. The education, skills, and experience individuals possess contribute to their personal success and the collective advancement of societies. Governments and industries recognise the symbiotic relationship between human capital development and economic growth.

#### 6.3.2 Key Components of Human Capital Planning

##### 6.3.2.1 Labour Market Analysis

Effective human capital planning starts with a thorough analysis of the labour market. This involves examining trends in demand for various skills, technological advancements, demographic shifts, and regional variations. Insights gained from such analysis aid in anticipating future labour needs and formulating informed policies.

##### 6.3.2.2 Forecasting Labour Demand

Accurate forecasting of labour demand is a cornerstone of human capital planning. Organizations need to predict how many workers with specific skills will be required to meet production targets or expand operations. Factors such as market trends, business cycles, and technological advancements influence these projections.

##### 6.3.2.3 Skill Gap Identification

Matching labour demand with the available workforce is often a challenge due to skill gaps. Identifying these gaps helps organizations and policymakers design effective training programs or incentives to bridge the divide. Skill gap analysis involves comparing the skills workers possess with those demanded by the labour market.

**Self-Check Exercise-1**

Q1. What is human capital planning?

Q2. Why is labour market analysis important in human capital planning?

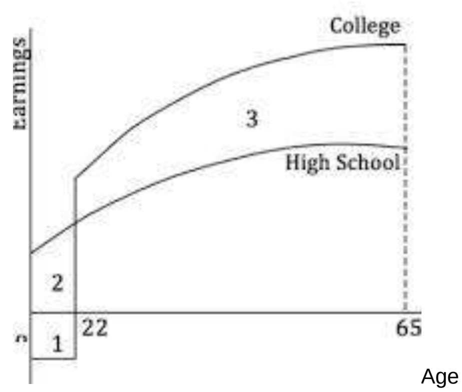
Q3. What are the key components of human capital planning?

### 6.4 The Human Capital Model

Let us now introduce a simple model through which we might analyse the decision to invest say, a college education. Assume you have just graduated from high school and are trying to determine whether to go to college. From a purely economic standpoint, a rational decision will involve a comparison of the associated costs or benefits. The monetary costs incurred in the purchase of a college education are of two general types. On the one hand, there are direct or out-of-pocket costs in the form of expenditures for tuition, special fees, books and supplies, and so forth. Expenditure for room and board is not included as a part of direct costs because, presumably, you would need food and shelter regardless of whether you attend college or enter the labour market. On the other hand, the indirect or opportunity cost of going to college is the earning one forgoes by not entering the labour market upon completing high school.

**Discounting and Net Present Value:**

To make an informed decision, it is essential to weigh the costs (areas 1 and 2) against the benefits (area 3). However, a complication arises at this point. The expenses and advantages of pursuing a college education arise at different stages over time. This is important because dollars expended and received at different points in time are of different values. Therefore, to effectively compare the costs and benefits of a college education, it is essential to evaluate them at the same point in time, such as the present. From the perspective of an 18-year-old, the objective is to calculate the NPV by assessing both the current and future costs along with the present and future benefits of obtaining a college education.



If an individual decides to enter the labour market upon graduation from high school at age 18, the age earning profile will be HH in comparison to the CC profile if she or he had gone to college. Going to college involves two types of costs: direct costs like tuition, fees, and books, and indirect costs, such as the money you could have earned if you were working instead of studying. However, upon entering the labour market at age 22, the college graduate will enjoy high annual earnings over her or his working life. To decide if spending money on a college education is a good financial choice, you need to compare the total costs and benefits by calculating their value in today's terms.

### 6.4.1 Time Preference

Time preference is the idea that people are impatient and subjectively prefer goods in the present over the same goods in the future. Thus, if an individual equates $100 worth of goods today with $110 worth of goods a year from now, we can say that his/her time preference rate is 10 per cent. The individual must be paid $10 or 10 per cent as an inducement to forgo $100 worth of present consumption.

Present Value Formula:

Because the preference for present consumption necessitates payment of a positive interest rate, a dollar received a year from now is worth less than a dollar obtained today, because a dollar received today can be loaned or invested at some positive interest rate and thereby can be worth more than a dollar a year from now. Thus, if the interest rate is 10 per cent one can lend $1 today and receive $1.10 at the end of the year; This can be shown algebraically as follows:

$Vp\ (1+r) = Vi$

Where;

$Vp$ = Present or current value, for example. $1.00 today.

$Vi$ = Value (of the $1.00) one year from now.

$I$ = Interest rate

The (1+r) term indicates that one receives back the original or present value ($1.00) plus the interest substituting out illustrative numbers, we have

$1.00 (1.10) = $1.10

This formulation tells us that, given a 10 per cent interest rate, $1.10 received next year is the equivalent of $1.00 in the hand today. The above equation focuses on determining the future value of the $1.00 one has today. As indicated earlier, our goal is to determine the present (today) values of expenditures and revenues incurred and received in the future. We can get at this by restating our original question. Instead of asking how much $1.00 obtained today will be worth a year from now. Let us enquire how much $1.10 received a year from now would be worth today.

Thus,

$Vp = Vi/(1+i)$

The equation is simply a discount formula for 1 year. Inserting our illustrative numbers.

$1.00 = $1.10/1.10

If the interest rate is 10 percent, receiving $1.10 a year from now holds the same value as $1.00 today. Looking at the figure above, since both costs and benefits occur over several years, we can expand the discounting formula mentioned earlier as follows:

Vp = Eo + E1/(1+i) +E2/(1+i)2 + E3/(!+i)3 + ……+ En/(1+i)n

Where, the E's present a stream of incremental earnings (Eo being any additional income received next year. E2 the incremental earnings received two years from now, and so forth); n is the duration of earning stream or in other words, the individual's expected life, and i the interest rate. Observe that incremental earnings (or costs), Eo, and incurrent immediately need not be discounted. But the incremental earnings received next year, or, one year hence, E1, must be discounted 1 year.

Restating the formula for our high school graduate who enters the labour force at age 18, we have

Vp = E18 + E19/(1+i) + E20/(1+i)2+……..+ E64/(1+i)46

Which can be written as

$$Vp = \sum_{n=18}^{64} \frac{En}{(1+i)^{n-18}}$$

This formula helps us determine the present value (Vp) of the total discounted additional earnings (En) a person earns throughout their working years, spanning from age 18 until retirement at age 65. Since n is 64, the n=18 superscript indicates that we are discounting future earnings over 46 (=64-18) years of working life.

Figure reminds us that the decision to invest in a college education entails both costs and benefits (enhanced earnings). How can both be accounted for in equation (4-3) or (4-4)? The simplest answer is merely to treat costs as negative earnings. Hence, the earnings for the 4 years the individual is in college is (Eo, E1, E2, E3) will be the negative sum of the duration and indirect costs incurred in each those years. For each succeeding year until retirement, incremental earnings will be positive. Thus, we are actually calculating the net present value of a college education in these two equations.

Decision Rule: Vp>0. The investment decision criterion based on this calculation is straightforward: an individual should proceed with the investment if the net present value (NPV) is greater than zero. A positive NPV indicates that the present value of benefits exceeds the present value of costs, making the investment economically sound.

Conversely, a negative NPV suggests that costs outweigh benefits, rendering the investment economically unjustifiable.

**Self-Check Exercise-2**

Q1. Define net present value in the context of human capital investment.

Q2. How does the present value formula help in decision-making for investments?

## 6.5 Summary

In this unit, we explored the concept of human capital and its planning. We discussed the importance of investing in human capital, such as education and training, and how it is analogous to investing in physical capital. We defined human capital planning and its key components: labour market analysis, forecasting labour demand, and skill gap identification. Additionally, we introduced the human capital model to illustrate the economic rationale behind investing in education, emphasizing the concepts of discounting and net present value. Finally, we examined the time preference and how it affects the valuation of future earnings and costs.

## 6.6 Glossary

- **Human Capital**: The collective skills, knowledge, and experience possessed by individuals, which contribute to economic productivity and personal success.
- **Human Capital Planning**: The strategic process of managing an organization's workforce to align with business goals, involving activities such as labour market analysis, forecasting labour demand, and skill gap identification.
- **Labour Market Analysis**: The examination of trends in demand for various skills, technological advancements, demographic shifts, and regional variations to anticipate future labour needs.
- **Net Present Value (NPV)**: A financial metric used to evaluate the profitability of an investment, calculated by discounting future costs and benefits to their present value.
- **Time Preference**: The preference for receiving goods or benefits sooner rather than later, reflecting the rate at which individuals value present consumption over future consumption.

## 6.7 Answers to Self-Check Exercise

**Self-Check Exercise-1**

Ans. 1. Refer to Section 3.

Ans. 2. Refer to Section 3.2.1.

Ans. 3. Refer to Section 3.2

**Self-Check Exercise-2**

Ans. 1. Refer to Section 4.1

Ans. 2. Refer to Section 4.2.

## 6.8 References/Suggested Readings

1) Ehrenberg, R. G., & Smith, S. R. (2015). *Modern labour economics: Theory and public policy*. Routledge.
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## 6.9 Terminal Questions

Q1. Explain the process of human capital planning and its significance in aligning workforce capabilities with organizational goals.

Q2. Discuss the human capital model and how it helps individuals and organizations make rational decisions about investments in education and training.

## UNIT – 7
# THEORIES OF WAGES

**STRUCTURE**



## 7.1 Introduction

### Classical Theories of Wage Determination

The Scottish economist and philosopher Adam Smith in his book "The Wealth of Nations" failed to propose a definitive theory of wages. However, he anticipated several theories that were developed by others. Adam Smith thought that wages were determined in the marketplace by means of the law of supply and demand, but gave no specific analysis of supply and demand for labour. Generally, the factor prices are determined by the interaction of demand and supply forces of the market, which should also be applicable in determining the wages for labour. However, this theory is not applicable while determining wages for labour.

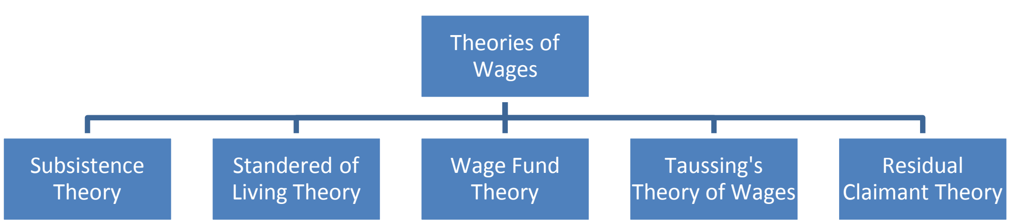
### 7.1.1 Theory of Wages

In this unit, we shall be concerned with the share of income that is assigned to labour in the pricing process. That share is called wages. According to J. R. Turner, "A wage is a price. It is a price which is paid by the employer to the worker on account of labour performed." In simple words, it may be defined as the price paid by an entrepreneur to the workers employed for productive purposes. Thus, it is the share of national dividend which accrues to labour in the broad sense of the term including all kinds of workers. Whether they receive salaries, pay or wages; whether they are paid daily, weekly, monthly or yearly; whether they are skilled or unskilled labourers; whether their work is manual or mental.

Wage payment is the reward for the labourers. Sometimes, a distinction is made between nominal and real wages. The money wage represents the money income of labourers while the real wage represents his command over goods and services, which he can have with the help of his/her money wage. Real wage also includes facilities such as medical treatment and subsidized housing etc. Here, our main purpose is to bring out the forces that determine wage rate. Since a wage is a price paid for the services of labour, the theory of wage determination is simply a special case of the general theory of value. Like other prices, the price of labour or wage is determined by its market demand and market supply. However, unlike other commodities and factors of production, labour has certain peculiarities. Hence a separate theory of wages determining the reward of labour is required. The main peculiarities of labour are the following:

I. The labour demand is derived demand: The demand for a commodity depends upon its utility. However, the demand for labour depends not on its utility to the employer but on its productivity.
II. Labour cannot be separated from labourers: Due to the inseparability of labourers from labour, various personal factors affecting the labourers must be considered when discussing the theory of wage determination.
III. Labour is a commodity, but labourers are not.
IV. Labour power is the most perishable commodity.
V. The labour supply increases and decreases slowly: If the demand for an ordinary commodity increases, its price rises, and it will be produced in increasing quantity. This is not the case with labour. If the demand for labour increases, its supply can increase only after a sufficient period.

Several theories have been developed over the period to explain how wages are determined. These are the following:




## 7.2 Learning Objectives

By the end of this unit, you will be able to

- To understand the theories of wages.
- To critically examine the wage theories.

## 7.3 Subsistence Theory of Wages

The subsistence theory of wages originated with the Physiocrats, a French school of thought that flourished in the 18th century. The father of economics, Adam Smith, also subscribed to this theory. It is referred to as the Brazen Law of Wages and the Iron Law of Wages by the German economist Lassele. Malthus and Ricardo both made contributions to this notion. The subsistence theory of wages states that workers' long-term earnings are set at a level that is just enough to cover their basic needs. We refer to this wage level as a subsistence wage level. Put simply, this idea states that salaries would eventually tend to be about the same as what is needed for clothing, food, and housing in order to sustain oneself.

The subsistence wage theory was based on Malthus's theory of population. The main assumptions of Malthus's theory of population are the following:

I. Low of diminishing returns in production. Which states that there were definite limits to a continued high rate of expansion of food production.
II. Population increases faster than food production.

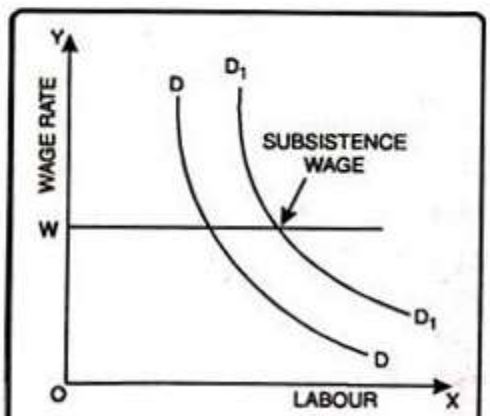


Fig. 1.

The subsistence theory of wages states that worker wages will eventually equal the subsistence level. Worker famine will result if salaries drop below OW in Fig. 1. The labour supply will further decline as a result. The demand and supply factors will raise the pay rate to the subsistence level as the labour supply declines. But, if the wage rate rises above the subsistence level, it will incentivise workers to have more children, which will further increase the labour supply and, once more, cause wages to drop below the subsistence level.

**Criticism**

I. This theory assumes that an increase in wages will always lead to an increase in population, which is contrary to facts.
II. This theory explains wage determination only from the supply-side conditions of labour and does not consider the reason why labour is demanded.
III. The theory is only applicable in the long run.
IV. The influence of the trade unions on wages was ignored.
V. The theory fails to describe why wages are unequal in various occupations, regions and between different persons.

**Self-Check Exercise-1**

Q1. What is the basic premise of the Subsistence Theory of Wages?

Q2. How does the Subsistence Theory of Wages illustrate the link between population growth and wage levels?

## 7.4 Wage Fund Theory

J. S. Mill developed the wage fund theory. This theory suggests that wages are determined by the balance between the demand and supply of labour, often described as the ratio between population and capital. Here, *population* refers specifically to the working class or individuals employed for wages, while *capital* pertains to circulating capital—particularly the portion directly used to pay for labour, not its entirety.

$$\text{Wage Rate} = \frac{\text{Wage Fund}}{\text{No. of Labourers}}$$

A portion of the capital, or the wage fund, was fixed as a result of previous accumulation or savings.

The average wage rate was calculated by dividing the wage fund by the total number of workers, which represented the demand for labour. It implies that only if the pay fund grows or the labour supply declines would the overall wage rate rise. This theory applies to underdeveloped countries where the population is increasing at a faster rate than the rate of savings (wage fund).

**Criticisms**

I. This theory does not explain how the wage fund arises and why it remains fixed.
II. The size of the wage fund is not fixed independently of the quantity and equality of the labourers.
III. The theory doesn't explain the wage difference in different occupations.
IV. In the real world, wages do not correspond to the total amount of capital available. In some countries, e.g., new countries, wages are high even though capital is scarce.

V. This theory is not scientific because it calculates the wage rate after assuming that wage funds are provided.
VI. When setting the wage rate, this approach disregards the effectiveness and calibre of the workforce.
VII. According to this view, salaries can only rise at the expense of profit. This isn't accurate. Productivity output will rise as a result of the law of increasing returns, and this growth may be enough to raise profits and wages.
VIII. According to this idea, circulating capital is used to pay wages. However, wages are paid from current production during short-term manufacturing processes and from capital during long-term production processes.

**Self-Check Exercise-2**

Q1. According to the Wage Fund Theory, what determines the total wages paid to labour?

Q2. What are the criticisms of the Wage Fund Theory regarding its explanation of wage determination?

### 7.5 The Residual Claimant Theory of Wages

Walker introduced the residual claimant theory. The wage fund idea was superseded by this theory. This theory states that the worker is a residual claimant of the industry's product, according to this view. According to this approach, the industry's overall output should be split into four categories: rent, interest, profit, and wages. After land, capital, and entrepreneurs are paid, the worker/labourer will receive the remaining portion of the overall product. Rent, interest, and profits must, therefore, be subtracted from the total amount of produce before wages are calculated.

**Criticisms**

I. In real life, it is found that at times of inflation, all rents, interests, profits and wages increase.
II. Although the theory states that labourers receive the residual share, in reality, the entrepreneur claims the remainder. This is because entrepreneurs take on business risks, whereas other production factors receive predetermined payments.
III. The theory fails to account for the role of trade unions in raising wages.
IV. It overlooks how the supply of labour affects wage determination

**Self-Check Exercise-3**

Q1. Who is the "residual claimant" in the Residual Claimant Theory of Wages?

### 7.6 Marginal Productivity Theory of Wages

Thunness first propounded the marginal productivity theory. However, later economists like Wiksteed, Walras, and J. B. Clark modified this theory. The concept of this theory can be traced to Recardo and West (Applied marginal productivity doctrine only to land). The essence of marginal productivity theory is that the price of a factor of production depends upon its marginal productivity. This theory was first put forward to explain the determination of wages, i.e., reward for labour, but subsequently the price of another factor of production such as land and capital, etc.

The theory explains that wages to the labour are paid according to its ability to contribute to production, i.e., marginal product. Under perfect competition, every labourer will receive a wage equal to the value of its marginal product. If a worker contributes more to production, he is paid more wages, and if he contributes less, the wage also will be low. Here, the $MP_L$ refers to a change in total revenue by putting on more labourers and other things remaining constant.

### 7.6.1 Marginal Productivity Theory (Clark's Version)

J. B. Clark, an American economist, developed the marginal productivity distribution theory and presented it in his book "The Distribution of Wealth". He assumed a completely static society, free from disturbances caused by economic growth and change. According to this theory, labour is treated as a homogeneous factor by taking an identical labour unit. This theory states that the employee will reach an equilibrium position when the wage rate is equal to the marginal productivity of labour. This theory assumes the total supply of labour available for employment in the whole economy as given and constant. This theory suggests that in a competitive labour market, wages are set based on the additional output produced by an extra unit of labour.

### 7.6.2 Marginal Productivity Theory: Marshall – Hicks Version

Alfred Marshall, a contemporary of J. B. Clark, gave a different version of marginal productivity theory. Marshall disagreed with Clark's view that the marginal productivity of labour solely determines wages. He argued that treating the marginal productivity principle as a complete theory of wage determination is incorrect. According to Marshall, wages, like the prices of other factors of production, are influenced by both the demand for and supply of labour. Marshall argued that the marginal productivity (MP) principle addresses only the demand aspect of wage determination. While he acknowledged that wages generally move toward the level of the marginal product of labor, he repeatedly stressed that wages are not solely determined by it.Since like all other marginal quantities, marginal product is determined with price (wage) by the intersection of demand and supply.

**Criticisms**

Marginal productivity theory has been a pillar in the new classical theory of income distribution, and even in modern microeconomics, it is an important factor in determining factor prices.

I. There exist many versions of marginal productivity theory.
II. Clark's version states that in the long run, under conditions of competitive equilibrium and fixed supplies, factor prices are determined by marginal productivity and the price of a factor in all its various uses tends to be equal. On the other hand, Marshall's version states that only the demand for a factor is determined by the marginal product of a factor. Even in the Marshallian version, the price of a factor in equilibrium will be equal to its marginal product, and the price of a factor in its various uses will tend to be equal in the long run.
III. Marginal productivity theory is based on several unrealistic assumptions.
IV. Under imperfect competition, factor rewards are not equal to the value of the marginal product. According to John Robinson, "A factor is exploited if it is paid less than the value of its marginal productivity".
V. In the condition of monopsony, factors do not get a reward equal to MRP: when a factor is paid less than its marginal product, John Robinson calls it monopolistic exploitation.
VI. This theory cannot explain the rewards of the factor used in fixed proportions.
VII. This theory neglects the role of labour unions in influencing wage rates.,
VIII. This theory ignores the positive relationship between factor rewards and productivity.

**Self-Check Exercise-4**

Q1. Explain how the Marginal Productivity Theory of Wages determines the wage rate for labor.

Q2. What is the difference between Clark's and Marshall–Hicks versions of the Marginal Productivity Theory?

## 7.7 Bargaining Theory

According to the bargaining theory of wages, the parties' relative negotiating power determines pay, working conditions, and hours. Adam Smith alluded to this viewpoint when he observed that employers had a stronger negotiating position than employees. In particular, businesses could sustain financial losses longer than workers and were better equipped to withstand workers' demands through concerted efforts. John Davison developed this idea in 1898 with his Bargaining Theory of Wages. He maintained that determining wages is complex and impacted by several interrelated elements that impact both employers' and employees' bargaining strength. According to this idea, there is no one standard wage rate, and a single factor or group of factors does not determine salaries.

Wages instead fall into a spectrum of potential rates. The highest salary a company is ready to pay before deciding not to recruit a particular worker is represented by the top limit of this range. Worker productivity, market rivalry, investment size, and the employer's perspective on future business conditions are some of the elements that influence this limit. The lower limit, however, denotes the lowest amount employees are ready to accept for their labour. Laws governing the minimum wage, living standards, opinions about employment prospects, and knowledge about pay for comparable positions are some of the variables influencing this cap. Both boundaries are negotiable and subject to change. The relative bargaining power of the two parties ultimately determines the actual compensation within this range.

The bargaining theory is highly appealing to labour unions because, unlike the subsistence and wage fund theories, it strongly justifies the need for collective bargaining. The core idea is that a union's strength far exceeds individual workers. However, history shows workers have improved their conditions even without organised labour groups, suggesting that factors beyond bargaining power have influenced wage outcomes. While the bargaining theory effectively explains short-term wage variations, such as wage differences across occupations, it falls short in accounting for long-term trends in average wage levels.

**Self-Check Exercise-5**

Q1. What role does negotiation play in the Bargaining Theory of Wages?

Q2. How does the Bargaining Theory address the power dynamics between employers and workers?

### 7.8 Marxian Surplus Value Theory

Karl Marx accepted Ricardo's labour theory of value, which states that a product's value is determined by the amount of labour required to produce it. However, Marx's perspective on wages differed from that of classical economists. Instead of attributing low wages to population growth, Marx argued that widespread unemployment, created and sustained by capitalists, kept wages at subsistence levels. Marx maintained that under capitalism, labour is treated as a commodity. Workers receive wages just sufficient to meet basic needs, but capitalists exploit this system by making labourers work beyond the hours necessary to earn that income. The extra output, referred to as surplus value, is taken by the capitalist, increasing profits without fair compensation to workers. Over time, this theory, along with the labour theory of value and the subsistence wage concept, was challenged and ultimately deemed invalid, leading to the collapse of the surplus-value argument.

**Self-Check Exercise-6**

Q1. What is the concept of "surplus value" according to Marxian economics?

Q2. How does the Marxian Surplus Value Theory explain the exploitation of labor under capitalism?

## 7.9 Summary

This unit explores various wage theories, including subsistence, wage fund, residual claimant, marginal productivity, bargaining, and Marxian surplus value theories, each proposed by economists to explain wage determination. The Subsistence Theory suggests that, in the long run, wages are set at a level just sufficient to meet basic living needs. The Wage Fund Theory ties wages to the balance between labour demand and supply, often linked to the ratio of population to capital. The Marginal Productivity Theory suggests that a worker's wage is based on the value they add to the production process. In contrast, the Bargaining Theory highlights that wages, working conditions, and hours are shaped through negotiations between employers and employees, depending on their bargaining strength. Meanwhile, the Marxian Surplus Value Theory argues that a product's worth stems from the labour involved in its creation, but workers receive only a fraction of this value as wages.

## 7.10 Glossary

- **Subsistence Wage:** The minimum wage level allows workers to cover their essential living expenses.
- **Wage Fund:** A pool of money allocated for paying workers, where the average wage is calculated by dividing this fund by the total number of employees.
- **Marginal Productivity:** Marginal productivity or marginal product refers to the extra output, return, or profit yielded per unit by advantages from production inputs.
- **Surplus Value:** Value created by the unpaid labour of wage workers, over and above the value of their labour power, and appropriated without compensation by the capitalist.

## 7.11 Answers to Self-Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 7.3.

Ans.2. Refer to Section 7.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 7.4.

Ans.2. Refer to Section 7.4.

**Self-Check Exercise- 3**

Ans.1. Refer to Section 7.5.

**Self-Check Exercise- 4**

Ans.1. Refer to Section 7.6.

Ans.2. Refer to Sections 7.6.1 & 7.6.2.

**Self-Check Exercise- 5**

Ans.1. Refer to Section 7.6.

Ans.2. Refer to Section 7.6.

**Self-Check Exercise- 6**

Ans.1. Refer to Section 7.8.

Ans.2. Refer to Section 7.8.

## 7.12 References/Suggested Readings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### 7.13 Terminal Question

Q1. Critically evaluate the Marginal Productivity Theory of Wages. Discuss the differences between Clark's version and the Marshall-Hicks version, highlighting their implications for wage determination in modern labour markets.

Q2. Examine the relevance of the Marxian Surplus Value Theory in contemporary economic systems. How does this theory explain the relationship between labour and capital, and what are its critiques in the context of wage determination?

# UNIT – 8
# MINIMUM WAGES: VARIOUS CONCEPTS

**STRUCTURE**



## 8.1 Introduction

After India's independence, the Minimum Wages Act was implemented in 1948. Labour laws made by Britisher were exploitative. The Wages were low and different in every part of the country. There was no such term as "Minimum Wage" and the conditions of labourers were so bad. The Minimum Wages Act of 1948 draws its foundation from Article 43 of the Indian Constitution, which emphasizes that "The State shall endeavour to secure by suitable legislation or economic organization or in any other way to all workers, agricultural, industrial or otherwise, work, a living wage (emphasis added) conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities".

According to the International Labour Organization (ILO), "minimum wage is the lowest amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, that cannot be reduced by collective agreement or an individual contract". The main goal of minimum wage laws is to shield workers from extremely low earnings, ensuring they receive fair compensation for their work and can maintain a basic standard of living. This unit delves into the principles and aims of the Minimum Wages Act of 1948, a crucial law introduced in India after gaining independence. The Act was established to prevent worker exploitation by setting wage floors and guaranteeing fair pay for labour provided.

We will also discuss various types of wages—living wage, fair wage, and minimum wage—and the challenges faced in implementing the Minimum Wages Act across different sectors and regions in India.

## 8.2 Learning Objectives

By the end of this unit, you should be able

- Understand the significance and objectives of the Minimum Wages Act of 1948.
- Differentiate between living wage, fair wage, and minimum wage.
- Identify the challenges and problems associated with the implementation of minimum wages in India.

## 8.3 Objectives of Minimum Wages Act

The Minimum Wages Act of 1948 was enacted with several key objectives aimed at protecting the interests of workers. These objectives include:

1. Establishing minimum wage rates for employees and ensuring these rates are reviewed and updated at least every five years.
2. Guaranteeing fair wages that support an adequate standard of living for all workers.
3. Regulating the daily working hours of employees to prevent overwork.
4. Safeguarding workers from exploitation by employers.
5. Ensuring employees earn enough to maintain a respectable quality of life.
6. Meeting the basic physical needs of workers while promoting good health and comfort.
7. Imposing penalties on employers who fail to pay the minimum wage.
8. Setting up advisory boards to oversee the implementation of the Act's provisions.
9. Defining the roles and responsibilities of inspectors to ensure compliance with the Act.
10. Protecting workers' rights from unfair treatment or exploitation by employers.
11. Providing avenues for workers to seek justice if denied fair wages.
12. Empowering both Central and State Governments to frame rules for effective enforcement of the Act.

### Self-Check Exercise-1

Q1. What are the primary objectives of the Minimum Wages Act, 1948?

Q2. How does the Minimum Wages Act aim to prevent the exploitation of workers?

## 8.4 Various Concepts of Minimum Wages

In economic terms, wages refer to the financial compensation provided by an employer to a worker under a service contract. Practically, wages often include additional benefits like dearness allowance. Historically, workers with little bargaining power had minimal influence over wage decisions. After gaining independence, the Indian government took significant steps to address wage-related issues. In 1948, it established a Committee on Fair Wages to define wage standards, particularly in sectors where workers were underpaid and lacked union representation. Employment is generally pursued to earn wages that support a decent and dignified living. Fair wages not only meet basic needs but also ensure workers feel justly compensated for their efforts. Ensuring fair wages is a shared responsibility of society and the government to prevent poverty, promote human resource development, and uphold social justice—crucial for maintaining economic stability and law and order. Recognizing the state's role in providing fair employment opportunities, the government formed a tripartite committee through the Central Advisory Council in November 1948. This committee, comprising representatives from employers, employees, and the government, was tasked with examining and recommending fair wage standards.

The Committee on Fair Wages categorized wages into three levels:

1. Living Wage
2. Fair Wage
3. Minimum Wage

### 8.4.1 Living Wage

The committee described the living wage as the highest standard of pay that should allow a worker to meet not only basic needs like food, clothing, and shelter but also offer a level of comfort. This includes providing for children's education, healthcare, essential social necessities, and financial security to safeguard against significant hardships, such as old age.

### 8.4.2 Fair Wage

A fair wage refers to compensation that is just and appropriate for the work performed. The Fair Wage Committee emphasized that the aim is not only to determine fair wages in theory but also to ensure that current employment levels are sustained or improved. To achieve this, wage levels should support efficient production in industries. Wage boards must consider the industry's capacity to pay while setting fair wages. The committee highlighted the importance of linking fair wages to worker productivity. It stressed that ensuring workers first receive a living wage is crucial, and only after meeting this basic level should wages reflect productivity. Additionally, the committee clarified the distinction between minimum and living wages, noting that a fair wage should lie between the two—higher than the minimum wage but not exceeding the living wage.

### 8.4.3 Minimum Wage

The International Labour Organization (ILO) defines minimum wages as the lowest amount of compensation that employers are legally required to pay their workers for a specific period of work, which cannot be altered through individual contracts or collective agreements. This wage ensures that a worker and their family can meet their basic physical needs.

The concerned committee emphasized that minimum wages should not only guarantee basic sustenance but also help maintain workers' efficiency. Therefore, these wages should cover essential needs such as basic education, healthcare, and necessary amenities. The statutory minimum wage is established through the procedures outlined in the Minimum Wages Act, 1948. Although the initial bill was presented in Parliament on April 11, 1946, its passage was delayed due to India’s constitutional changes. It was eventually enacted in March 1948. Once the minimum wage rates are legally set, employers are required to pay them, regardless of their financial capacity.

**Self-Check Exercise-2**

Q1. Define the concept of a living wage. How does it differ from a minimum wage?

Q2. What are the key factors that influence the determination of a fair wage?

## 8.5 Challenges in Implementing Minimum Wages

Although minimum wages aim to reduce poverty and inequality, their implementation in India faces several challenges. When set and enforced effectively, minimum wages can significantly improve the earnings of low-paid workers. However, numerous concerns arise regarding how these wages are determined and applied. This section explores key issues associated with enforcing minimum wage laws in India.

### I. Guidelines for Determining Minimum Wages

The Minimum Wages Act of 1948 in India does not set a specific wage rate but outlines the framework for establishing minimum wages. These guidelines are based on recommendations from the Committee on Fair Wages (1949), the 15th Indian Labour Conference (1957), and a 1992 Supreme Court ruling. While these norms are beneficial for workers with basic skill levels, they often fail to address the needs of employees with varying skill sets. Additionally, the involvement of multiple intermediaries, particularly in subcontracted industries, frequently leads to wage-related malpractices, including wage theft.

### II. Gender Disparity

A significant concern in minimum wage determination is gender disparity. Jobs predominantly held by women often have lower minimum wages compared to those with a higher proportion of male workers. For instance, in Kerala in 2013, the minimum wage for workers in women-dominated cashew processing units was ₹221, while male-dominated coir manufacturing offered ₹268—a difference of 18%. Similarly, in tea plantations, where most workers are women, the minimum wage stood at ₹172, whereas male-dominated rubber tapping jobs offered ₹210.

### III. Level of Minimum Wages

The Minimum Wages Act, 1948 outlines the process for determining and revising minimum wages but does not specify the criteria or the appropriate wage level. While wage-fixing authorities often refer to the guidelines established by the 15th Indian Labour Conference, they may not consistently adhere to them. Consequently, there are significant disparities in minimum wage rates for similar occupations across various states, which do not always correspond to differences in the cost of living.

### IV. Consultation with Social Partners

Globally, minimum wages are determined through various approaches, including legislation, decisions by wage boards or councils, or rulings by labour courts and tribunals. In India, two primary methods are used to establish and revise minimum wages: the committee method and the notification method. However, both employers and employees have expressed concerns over the effectiveness of these processes. In certain instances, wage boards and government authorities have taken up to five years to finalize decisions (Anant & Sundaram, 1998). Evidence suggests that procedures vary significantly across states, largely depending on the institutional capacity of individual state governments.

### V. Period Revision to, and Adjustments of Minimum Wages

The Minimum Wage Act of 1948 authorizes states to establish and regularly revise minimum wages at intervals not exceeding five years, following the same procedure used for their initial fixation. The purpose of these revisions is to align minimum wages with the socio-economic conditions of each state. However, in practice, these revisions have often not adhered to the prescribed timeline. In some cases, the gap between revisions has extended significantly, averaging around nine years (Jackson, 1972; Handy & Papola, 1974). Certain states have gone beyond the five-year limit without adjustments, while in some sectors, there is a lack of clarity regarding applicable minimum rates. Moreover, revisions are sometimes not adjusted for inflation, which diminishes the purchasing power of workers and fails to ensure an equitable share in economic growth.

### VI. Coverage, Exemptions and Exclusions

In 2009–10, approximately 66 per cent of wage workers in India were covered under minimum wage legislation. Coverage rates varied widely, with about 93.4 per cent of agricultural workers and only 30.5 per cent of construction workers falling under the law (Rani et al., 2013). Informal sector workers accounted for 73.1 per cent of those covered, while about 70 per cent of workers belonging to Scheduled Castes (SCs), Scheduled Tribes (STs), and Other Backward Classes (OBCs) were included. State-level differences in coverage were significant, ranging from as low as 12.8 per cent in Chhattisgarh to as high as 94 per cent in Odisha. In nearly 40 per cent of states, the minimum wage coverage was below 50 per cent. These disparities in coverage, along with exemptions and exclusions, pose challenges to the effective enforcement of minimum wage laws.

**Self-Chek Exercise-3**

Q1. Discuss the main challenges in implementing the Minimum Wages Act in India.

Q2. How does gender disparity affect the implementation of minimum wages in various sectors?

## 8.6 Summary

In this unit, we discussed the Minimum Wages Act, 1948, and its critical role in protecting workers from exploitation. We examined the different concepts of wages, including living wage, fair wage, and minimum wage, and explored the challenges in implementing minimum wage standards in India. Issues such as norms for fixing wages, gender disparity, revision and adjustment delays, and varying coverage under the Act were highlighted as significant obstacles to achieving fair and consistent wage practices across the country.

## 8.7 Glossary

- **Minimum Wage:** The lowest remuneration that employers can legally pay their workers.
- **Living Wage:** A wage that provides a decent standard of living, covering basic needs and some comfort.
- **Fair Wage:** A reasonable wage level that reflects the work done, maintaining the industry's efficiency.
- **Wage Disparity:** Differences in wage levels due to factors such as gender, location, or industry.
- **Wage Revision:** The periodic adjustment of wage levels to reflect changes in economic conditions.

## 8.8 Answers to Self–Check Exercise

### Self-Check Exercise-1

Ans.1. Refer to Section 8.3.

Ans.2. Refer to Section 8.3.

### Self-Check Exercise-2

Ans.1. Refer to Section 8.4.

Ans.2. Refer to Sections 8.4.1 & 8.4.3.

### Self-Check Exercise-3

Ans.1. Refer to Section 8.5.

Ans.2. Refer to Section 8.5.

## 8.9 References/ Suggested Readings

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**8.10 Terminal Questions**

Q1. Analyze the effectiveness of the Minimum Wages Act, 1948, in addressing wage disparities in India. What are the main challenges, and how can they be overcome?

Q2. Compare the concepts of living wage, fair wage, and minimum wage. Discuss their relevance in the current Indian labour market scenario.

## UNIT – 9

# WAGE DETERMINATION

**STRUCTURE**



## 9.1 Introduction

Wages or salaries refer to the monetary compensation given to employees for their services, excluding payments for overtime work. Wages represent the financial remuneration provided by employers under an employment agreement for the work performed by employees. Typically, they consist of basic pay along with certain allowances. However, they generally do not cover benefits such as housing facilities, perks, bonuses, severance pay, or commissions. In this unit, we will discuss the process of wage determination, focusing on the principles and practices that influence how wages and salaries are set. We will explore the principles of wage determination, including factors like labour productivity, market rates, and managerial attitudes.

Additionally, we will examine wage and salary administration practices, the relationship between labour productivity and wages, and the determinants of labour productivity. By the end of this unit, you will have a comprehensive understanding of how wages are determined and administered in various contexts.

**Principles of Wage Determination**

Wage and salary determination should rely on the relative value of various jobs rather than the identities of the individuals holding those positions. Therefore, it is essential to assess the contribution each job makes. This is the core purpose of job evaluation, which helps employers understand the significance of a position in enhancing organizational performance.

**Norms for Fixation of Wages in Industry**

While calculating the minimum wage, a standard working-class family is typically considered to have four consumption units, excluding the earnings of women, children, and adolescents. The minimum dietary requirement should be based on an intake of 2700 calories per day for an average adult, as suggested by Akroyd for India. Clothing needs are estimated at an annual per capita consumption of 16.62 meters. For housing, the minimum wage should account for rent aligned with the basic area standards set by various government industrial housing schemes. Additionally, expenses for essentials like fuel and lighting should constitute 20 per cent of the total minimum wage. Any departure from these guidelines should be properly justified by the concerned authorities.

## 9.2 Learning Objectives

By the end of this unit, you will be able to

- Understand the principles of wage determination and how they influence wage setting.
- Learn the key aspects of wage and salary administration and their regulatory frameworks.
- Analyze the relationship between labour productivity and wages and identify the determinants of labour productivity.

## 9.3 Principles of Wage Determination Process

**I. Preserving Real Income**

This is the argument used by employees and unions viewing wages as an income. During rising inflation, indexation becomes a severe problem of an institutionalised wage-price spiral. Hence, underlaying aspect that has also impacted upon real wage preservation arguments have been a basic minimum wage and comparative wage justice.

**II. Labour Productivity**

A valid economic theory connects wages to labour productivity. Rewarding labour with a wage hike after technological and capital investment, for labour efficiency not be justified.

III. **The Capacity of Business to Afford Wage Increase**
It emphasizes wages as a cost of production and the threat of wage increases to squeeze profits.

IV. **The capacity of the Economy to Absorb Wage Increase**
It views the macro impact of wage hikes upon inflation, competitiveness, other internal and external balances, and the effect on business profits and investment.

V. **Supply and Demand of Labour**
The wage structure and levels within an organization are largely influenced by labour market conditions, with supply and demand forces operating at national, regional, and local levels.

VI. **Prevailing Market Rate**
Also known as the 'comparable wage' or 'going wage rate,' this is a common basis for setting compensation. Organizations typically align their wage policies with industry and community standards. Some companies offer higher wages to build goodwill or secure an ample labour supply, while others may pay less to maintain workforce adequacy at lower costs.

VII. **Living Wage**
A living wage refers to earnings sufficient to support an employee and their family at a basic, reasonable standard of living. Despite its significance, employers often prefer wage determination based on employee productivity rather than individual needs.

VIII. **Managerial Attitude**
Management's perspective plays a crucial role in wage decisions. Companies may set higher wages to enhance their reputation, attract skilled workers, boost employee morale, reduce turnover, or improve the overall standard of living for their workforce.

IX. **Psychological and Social Factors**
Employee motivation and effort are influenced by how wages are perceived. Psychologically, individuals often view their earnings as a reflection of personal success. From a social and ethical standpoint, fairness in compensation is vital—ensuring that equal workers receive equal pay regardless of factors such as caste, gender, religion, or ethnicity.

**Self-Check Exercise-1**

Q1. What are the main principles of wage determination, and how do they affect wage setting in an organisation?

Q2. How does the capacity of a business to afford wage increases influence wage determination?

## 9.4 Principles of Wage and Salary Administration

In India, various laws govern wage and salary administration, including the Minimum Wages Act (1948), Equal Remuneration Act (1976), Companies Act (1956), and Payment of Wages Act (1936). These regulations ensure fair and transparent compensation practices. Below are key principles to be followed for effective wage and salary administration:

1. Develop a wage policy that safeguards the interests of employers, employees, consumers, and the broader community.
2. Document the wage policy clearly to promote consistency and uniform application across the organization.
3. Ensure that wage and salary management aligns with the organization's overall financial planning process.
4. Periodically assess and revise wage policies to keep pace with evolving economic and organizational conditions.
5. Management should effectively communicate the existing wage policies to ensure employees understand them.
6. Compare wage decisions with pre-established standards to maintain alignment with the organization's wage policy.
7. Build a robust data management system and organizational structure to facilitate timely compensation decisions.
8. Design wage and salary plans that are straightforward to speed up administrative procedures.
9. Ensure wage structures can adapt to both internal changes and external market conditions.

**Self-Check Exercise-2**

Q1. Outline the key guidelines for effective wage and salary administration.

Q2. How do government regulations impact wage and salary administration in India?

## 9.5 Labour Productivity and Wage Relationships

Measuring productivity and linking it to wages is challenging because assessing individual contributions to productivity is not straightforward. However, productivity remains a key factor in determining wages. Wage adjustments beyond a certain point should account for changes in productivity. The productivity of labour per unit of time plays a crucial role in influencing employment levels and national income. While full employment can increase overall output, it alone is insufficient to eliminate poverty, especially in underdeveloped countries where labour productivity remains low. It is essential to raise output per unit of labour employed. To achieve the highest possible total output, it is essential to fully utilize the available labour force and enhance production efficiency per worker. Increasing productivity per unit of labour within a given timeframe is fundamental to maximizing overall output, considering the resource constraints of the country. Productivity can be measured through various concepts depending on the context and purpose. When focusing on a single factor of production, typically labour, productivity is often represented in terms of physical output per labour unit., this is known as physical productivity, i.e., pounds of yard produced per man hour, number of bicycles produced per Monday, yards of cloth per man per day etc. When the units of production are not homogeneous and thus cannot be compared or averaged, and the composition of production of the undertaking changes over time, the production value reached by multiplying the production units by their prices is used, and this is called value of the productivity. When the production value is divided by units of labour input, it's called average productivity. Marginal productivity means the additional output realised by the employment of one more unit of labour. This concept is generally compared with average productivity.

While overall productivity focuses on a single input factor like labour, specific productivity aims to assess how a particular production factor contributes to output changes. This measurement typically involves using statistical methods to analyze input and output data over a given period. Labour productivity is an important indicator of labour efficiency. The relationship between labour productivity and wages has been an essential economic concern. By increasing productivity and raising wages, expanding their activities, and paying higher dividends to shareholders. Infect growth of real wages along with labour productivity is a necessary precondition for macroeconomic stability, maintaining competitiveness, hedging against inflation and reducing the risk of the wage-price spiral. Economists, employers, and politicians have all examined economic indicators and their interconnections. The relationship between wages And Labour productivity is important for every economic sector since the standard of living and distribution of incomes between labour and capital depends upon it.

**Self-Check Exercise-3**

Q1. Explain the relationship between labour productivity and wages.

Q2. What challenges are associated with linking wages to productivity?

### 9.6 Determinants of labour productivity

Labour productivity is influenced by various factors, many of which extend beyond economic considerations. Although it is not possible to cover all such elements, the key determinants include:

i. The quality of the workforce plays a crucial role in determining labour productivity. Over time, a well-trained and skilled workforce is essential for achieving higher productivity levels. The size and effectiveness of the labour force are influenced by investments in human capital, such as improved living standards, access to quality healthcare and nutrition, better education and training facilities, and opportunities for individuals to develop and utilize their talents.

ii. The amount of capital available to each worker significantly influences labour productivity. Therefore, the ratio of capital to labour within industries and across the broader economy plays a vital role in determining output per worker.

iii. The level of Technology is a very important factor in determining the state of productivity. Hence, the adoption and development of modern technology is essential for developing countries to raise their productivity.

iv. The efficiency of an enterprise's production largely relies on the effectiveness and quality of its management. Two fundamental factors necessary to bring about higher production per worker employed are a combination of the factors produced in a manner that yields the highest possible return and humane treatment of the worker.

v. Convenient access to high-quality raw materials is a crucial factor in increasing the output per worker in an enterprise.

vi. Economic organizations such as decision-making patterns and social Institutions such as family attitudes have their impact on labour productivity and go a long way in determining the productive efficiency of an economy.

As in practice, we usually require a comparison of productivity over time and space, the device of index numbers is used to denote changes in productivity. If we take physical production as the unit of output and man hours as the unit of table input, the changes in labour productivity in the current year over the base year may be calculated as

Index of Labour Productivity = Production in the current year / Production in the base year/ Man hours worked in the current year/Man hours worked in the base year *100.

**Self-Check Exercise-4**

Q1. Identify and describe the main determinants of labour productivity.

Q2. How does technology influence labour productivity?

## 9.7 Problems in Sharing Gains of Productivity

Expert bodies have suggested different formulas for distributing the benefits of productivity. This formula has been developed on the assumption that increases in productivity are not possible unless each factor is motivated to contribute its best not only to the industrial unit to which it belongs but also to the economic well-being of the society at large. In the process, an attempt was made to find a scientific way of distributing that gain of productivity in a fair and equitable manner one school of thought is that the sharing of gain should be left to mutual negotiations between workers and employers.

**Self-Check Exercise-5**

Q1. What are the common problems in sharing the gains of productivity between workers and employers?

## 9.8 Summary

In this unit, we discussed the process of wage determination, including various principles that influence wage setting such as labour productivity, market rates, and managerial attitudes. We explored the regulatory frameworks that govern wage and salary administration, including acts like the Minimum Wages Act and the Payment of Wages Act. Additionally, we examined the relationship between labour productivity and wages, the determinants of productivity, and the challenges involved in sharing productivity gains.

## 9.9 Glossary

- **Prevailing Market Rate:** It is also termed as the 'comparable wage' or 'going wage rate' and is the most popular criterion.
- **Living Wage:** It implies that wages paid should be sufficient to maintain an employee himself and his family at a reasonable level of existence.
- **Real Income:** Real income, also known as real wage, is how much money an individual or entity makes adjusting for inflation.
- **Labour Productivity:** Labour productivity is defined as output per worker or per hour worked.

## 9.10 Answers to Self–Check Exercise

**Self-Check Exercise-1**
Ans.1. Refer to Section 9.3.
Ans.2. Refer to Section 9.3.
**Self-Check Exercise-2**
Ans.1. Refer to Section 9.4
Ans.2. Refer to Section 9.4.
**Self-Check Exercise-3**
Ans.1. Refer to Section 9.5.
Ans.2. Refer to Section 9.5.
**Self-Check Exercise-4**
Ans.1. Refer to Section 9.6.
Ans.2. Refer to Section 9.6.

**Self-Check Exercise-5**

Ans.1. Refer to Section 9.7.

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## 9.12 Terminal Questions

Q1. Discuss the principles of wage and salary administration. How do these principles ensure fairness and efficiency in wage setting?

Q2. What are the factors that determine labour productivity? Explain how labour productivity is related to wage levels and why this relationship is significant for economic stability.

## UNIT-10

## Wage and Inflation

### STRUCTURE



### 10.1 Introduction

Wage inflation refers to the scenario where wages and other employment-related costs rise faster than productivity gains per hour worked, leading to increased unit labour costs. Although labour unions often dispute the existence of wage inflation, many economists recognize its presence and the unions' role in it. Esteemed economists such as John M. Clark, Gottfried Haberler, F. A. Hayek, Summer Slichter, and Neil H. Jacoby have acknowledged this phenomenon. In this unit, we will explore the varying impacts of wage inflation. We will examine how wage inflation can lead to price inflation under certain conditions, and alternatively, how it might result in unemployment.

### 10.2 Learning Objectives

By the end of this unit, you will be able to

- Understand the relationship between wages and inflation.
- Identify the various effects of wage inflation on the economy.
- Analyze the cost-price relationship and its impact on market dynamics.

### 10.3 Wage and Inflation

**Wage** refers to the monetary compensation paid by an employer to an employee in exchange for the work performed. Wages can be paid on an hourly, daily, weekly, or monthly basis and can vary significantly depending on the industry, job role, skill level, and geographic location. Wages are a crucial component of the labour market and are influenced by various factors, including:

1. **Supply and Demand**: The availability of workers and the demand for specific skills play a significant role in determining wage levels. High demand for scarce skills typically drives wages up, while an oversupply of labour can exert downward pressure on wages.

2. **Minimum Wage Laws**: Governments often set minimum wage laws to ensure that workers receive a basic level of income. These laws can impact wage levels, particularly for low-skilled and entry-level positions.

3. **Collective Bargaining**: Labour unions represent workers to discuss and improve wages and working conditions. Collective bargaining helps employees gain better pay and benefits.

4. **Education and Skills**: Higher levels of education and specialised skills generally lead to higher wages. Employers offer higher wages to workers with important skills and qualifications.

5. **Industry and Occupation**: Wages vary across different industries and occupations. Jobs in high-growth sectors or those requiring specialised skills tend to offer higher wages compared to low-growth or low-skill jobs.

6. **Economic Conditions**: The condition of the economy affects wage levels. During economic expansions, wages may rise due to increased demand for labour, while during recessions, wage growth may stagnate or decline.

Inflation refers to the increase in the general price level of goods and services, reducing the value of money. It is calculated as a percentage change in price indices like the Consumer Price Index (CPI) or Producer Price Index (PPI). Several factors can contribute to inflation, including:

1. **Demand-Pull Inflation**: This happens when the total demand for goods and services surpasses the available supply, causing prices to rise. It is often associated with economic growth and increased consumer spending.

2. **Cost-Push Inflation**: This type of inflation arises from an increase in the cost of production, such as rising wages, raw materials, or energy prices. When producers face higher costs, they may pass these increases on to consumers in the form of higher prices.

3. **Built-In Inflation**: Also known as wage-price inflation, this occurs when workers demand higher wages to keep up with rising living costs, leading to higher production costs and, consequently, higher prices for goods and services. This can create a self-perpetuating cycle of rising wages and prices.

4. **Monetary Policy**: Central banks, such as the Federal Reserve in the United States, influence inflation through monetary policy. By adjusting interest rates and controlling the money supply, central banks can either stimulate or restrain economic activity and influence inflation rates.
5. **Exchange Rates**: Fluctuations in exchange rates can impact inflation. A depreciating currency can make imports more expensive, contributing to higher domestic prices, while an appreciating currency can have the opposite effect.
6. **Expectations**: Inflation expectations play a crucial role in shaping actual inflation. If businesses and consumers expect prices to rise, they may adjust their behaviour accordingly, such as negotiating higher wages or increasing prices, which can contribute to inflationary pressures.

Inflation affects various aspects of the economy, including purchasing power, interest rates, and investment decisions. Moderate inflation is generally considered beneficial for economic growth, while hyperinflation or deflation can have severe negative consequences. Central banks and policymakers strive to maintain stable inflation rates to ensure economic stability and growth.

**Self-Check Exercise-1**

Q1. What are the main factors that influence wage levels in an economy?

Q2. How can inflation impact the purchasing power of consumers?

### 10.4 Effects of Wage Inflation

The likelihood of wage inflation leading to price inflation is influenced by several factors, including the proportion of wages in overall costs, trends in other expenses, and the strength of demand. When labour costs make up a small portion of total sales revenue, the impact on prices from rising labour costs tends to be minimal. Conversely, when labour costs represent a significant portion of sales revenue, the effect on prices is more pronounced. Companies facing increased unit labour costs have three main options: (1) increase prices, (2) reduce profit margins, or (3) cut other costs. Since labour costs, both direct and indirect, are often the largest expenses, efforts to reduce costs typically lead to higher unemployment.

The Effects of wage inflation can be categorised into the following categories

**1. Price Inflation**

- **Cost-Push Inflation**: Wage inflation can lead to higher production costs. As businesses face increased labour expenses, they often pass these costs onto consumers in the form of higher prices for goods and services, leading to cost-push inflation.
- **Reduced Purchasing Power**: As prices rise, the purchasing power of money diminishes. Consumers find that their income buys fewer goods and services than before, which can erode their standard of living.

**2. Profit Margins**

- **Reduced Profit Margins**: Companies may choose to absorb the higher labour costs rather than raise prices, which narrows profit margins. This can impact their ability to invest, expand, or maintain operations.

**3. Employment**

- **Unemployment**: To manage rising labour costs, businesses might cut jobs or reduce hiring. Programs aimed at cost reduction often result in layoffs, contributing to higher unemployment rates.
- **Shift in Labour Demand**: Higher wages can lead businesses to seek labour-saving technologies or move operations to regions with lower labour costs, potentially reducing domestic employment opportunities.

**4. Consumer Behavior**

- **Increased Spending**: Higher wages can boost consumer spending as individuals have more disposable income. This can stimulate economic growth, but if not matched by productivity gains, it can contribute to inflationary pressures.
- **Saving and Investment**: Higher wages may also lead to increased savings and investment, which can have positive long-term effects on economic stability and growth.

**5. Economic Competitiveness**

- **Reduced Competitiveness**: Higher labour costs can make domestic products more expensive compared to foreign goods, potentially reducing exports and increasing imports. This can negatively affect the trade balance and economic competitiveness.

**6. Income Distribution**

- **Wage Disparities**: Wage inflation can exacerbate income inequality if higher wages are concentrated among certain sectors or skill levels. This can lead to social and economic disparities.

**7. Government Fiscal Policy**

- **Public Sector Wages**: Wage inflation in the public sector can increase government spending, leading to larger budget deficits or higher taxes to cover the increased costs.
- **Inflation Targeting**: Governments and central banks may implement policies to control inflation, such as raising interest rates, which can have broad economic impacts, including slowing down economic growth.

**8. Investment and Business Decisions**

    - **Business Costs**: Higher labour costs can affect business decisions regarding investment, expansion, and pricing strategies. Companies may delay or reduce investment in response to increased costs.

- **Capital-Labour Substitution**: Businesses may invest in automation and technology to reduce reliance on labour, which can alter the pattern of employment and efficiency within the economy.

- **Self-Check Exercise-2**

  Q1. Explain how wage inflation can lead to price inflation.

  Q2. What are the potential impacts of wage inflation on employment rates?

### 10.5 Cost and Price Relationship

The relationship between cost and price is a core concept in economics and business. Costs encompass all expenses incurred in the production of goods or services, such as labour, materials, and overhead. These costs directly influence the prices that businesses set to ensure profitability. When production costs increase, businesses may raise prices to maintain their profit margins. Conversely, if costs decrease, companies might lower prices to stay competitive. This relationship is crucial for understanding market dynamics, pricing strategies, and economic stability. Analyzing cost-price interactions helps businesses make informed decisions and policymakers assess economic conditions and implement appropriate measures.

#### 10.5.1 Wage-Push Inflation

The rise of strong trade unions is often linked to the increase in inflation, particularly in developed nations. When unions demand higher wages without corresponding improvements in productivity or increases in the cost of living, it can lead to cost-push inflation. The workers in a situation of high demand and employment are more agreeable to concede to these wage claims because they hope to pay these rises in costs to the consumers in the form of hike in prices. If this happens, we have cost-push inflation.

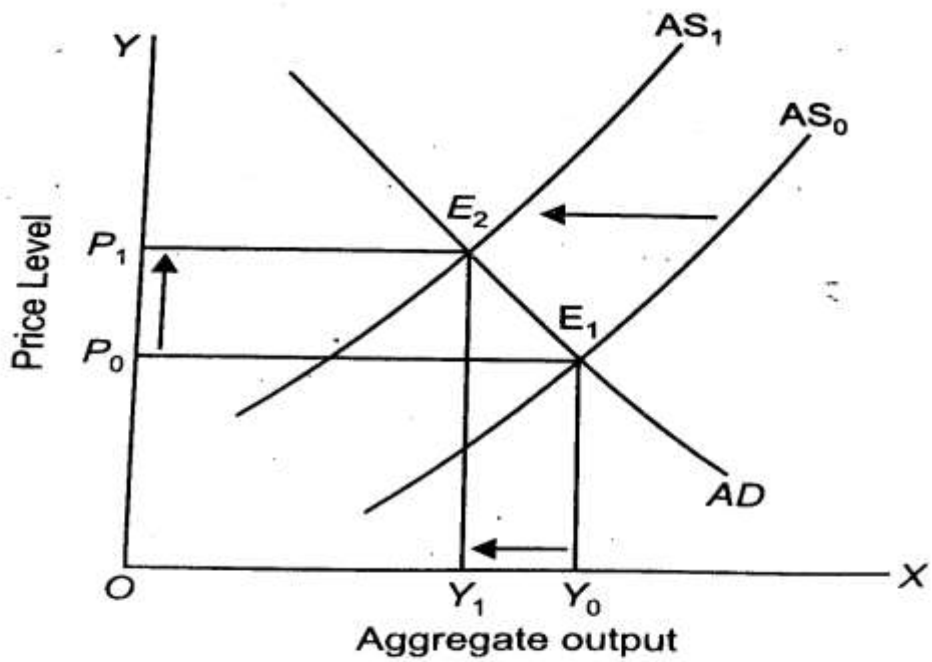


Fig. (10.1) Cost-Push Inflation

The cost-push inflation is illustrated in Fig. (10.1) with the help of aggregate demand and aggregate supply. Aggregate demand and supply are measured along the X-axis and price level along the Y-axis. As seen in the above diagram, when there is an upward shift in the AS curve from AS0 to AS1 due to a rise in wages, the price level rises from OP0 to OP1, which causes a left-hand shift in the AS curve.

**Self-Check Exercise-3**

Q1. Describe how an increase in production costs can affect the prices of goods and services.

Q2. Explain the concept of cost-push inflation with the help of aggregate demand and supply curves.

## 10.6 Summary

This unit covered the concept of wage and its relationship with inflation. We explored the different effects of wage inflation on aspects such as price levels, profit margins, employment, consumer behaviour, economic competitiveness, income distribution, and government fiscal policy. Additionally, we examined the cost-price relationship and introduced the concept of wage-push inflation, illustrating how it can lead to cost-push inflation through trade union activities and employer responses.

## 10.7 Glossary

- **Wage Inflation**: The rise in wages and employment-related costs outpacing productivity gains.

- **Cost-Push Inflation**: Inflation caused by increased production costs, including higher wages.
- **Purchasing Power**: The value of money in terms of the quantity of goods and services it can buy.
- **Profit Margin**: The difference between sales revenue and production costs.
- **Wage-Push Inflation**: Inflation resulting from higher wages without corresponding productivity gains.

## 10.8 Answers to Self-Check Exercise

### Self-Check Exercise-1

Ans.1. Refer to Section 3.

Ans.2. Refer to Section 3.

### Self-Check Exercise-2

Ans.1. Refer to Section 4.

Ans.2. Refer to Section 4.

### Self-Check Exercise-3

Ans.1. Refer to Section 5.

Ans.2. Refer to Section 5.1.

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## 10.10 Terminal Questions

Q1. What is the relationship between wages and inflation? What are the main causes of wage inflation?

Q2. With the help of a diagram, explain how wage inflation can lead to cost-push inflation.

**UNIT – 11**

# INDUSTRIALISATION AND EMERGENCE OF TRADE UNIONISM (PART-1)

**STRUCTURE**



## 11.1 Introduction

In this unit, we will explore the relationship between industrialisation and the emergence of trade unionism, with a particular focus on the Indian context. The unit will cover the historical development of trade unions, their significance, and the evolution of labour movements from pre-1918 to the post-independence period. By understanding these concepts, we will gain insights into the socio-economic changes brought about by industrialisation and the role of trade unions in shaping labour relations.

## 11.2 Learning Objectives

By the end of this unit, you will be able to

- Understand the relationship between industrialisation and the emergence of trade unionism.
- Explain the historical development of trade unions in India across different periods.

- Analyze the socio-economic impact of trade unions on labour relations.

## 11.3 Industrialization and Trade Unionism

### Industrialisation

Industrialisation is the period of social and economic change that transforms a human group from an agrarian society to an industrial one. Industrialisation refers to the broad process of economic and social transformation driven by technological advancements. It involves shifting an economy from agriculture to manufacturing, emphasizing large-scale production, energy use, metallurgy, and mechanized methods. Industrialisation is a transformation away from an agriculture or resource-based economy towards an economy based on mechanised manufacturing. Industrialisation leads to Greater average income and improved living standards in an economy.  Early industrialisation Orchid in Europe and North America during the 18th and 19th centuries, and later in other parts of the world.  The most recent example of industrialisation is China, where government policy changes in the late 20th century led to the Nation's transition from an economy based on subsistence farming to a global manufacturing Powerhouse. An economy is divided into three main sectors: primary, secondary, and tertiary. The primary sector involves activities like farming, livestock rearing, and mining. The secondary sector focuses on manufacturing and processing goods, while the tertiary sector provides services. The shift from an agriculture-based economy to an industrial one is known as the Industrial Revolution. This transformation began in the mid-18th century and continued into the early 19th century, starting in Great Britain and later spreading to countries like Belgium, Germany, and France.

In Europe, there was a significant increase in domestic production of goods for export, made possible by the growing population of consumers. The Second Industrial Revolution Reform later changed that it came about during the mid-19th century after the refinement of the steam engine, the invention of the internal combustion engine, the harnessing of electricity, Construction of canals, Railways and electric power lines. Finally, the presence of an industry in one country can make it more difficult for other countries to develops the same type of industry as found in the computer software and in internet industries.  After a brief period of global monopolization, major companies primarily based in the US retained dominance. Their economic strength and control over media hindered the growth of similar industries in other countries.

### Trade Unionism

A trade union emerged from the factory system and is founded on the principle that unity among workers leads to strength, while division leads to weakness. Trade union means a combination formed for the purpose of regulating the relation Union Act 1926; however, it includes a combination formed for the purpose of regulating the relations not only between workmen and employers but also between workmen and workmen or between employees and employers.  The industrial revolution in India has changed the traditional Outlook in the labour management relationship. With the introduction of the modern factory system, the personal relationship between employer and employee has disappeared and has given rise to many social and economic levels, which made it imperative on the part of the workers to devise an effective means to contact employees and to bargain with them. Trade unions are unique organizations whose role is variously interpreted and understood by different interest groups in the society. Traditionally trade unions' role has been to protect jobs and real earnings, secure better conditions of work and life and fight against exploitation and arbitrariness to ensure fairness and equity in the employment context. In the wake of a long history of union movement and accumulated benefits under collective agreements, a plethora of legislations and industrial jurisprudence, growing literacy and awareness among the employees and the spread of a variety of social institutions including consumer and Public Interest groups to protect the role must have undergone qualitative change. It can be said that the protective role of trade unions remains in form but varies in substance.

**Self-Check Exercise-1**

Q1. Define

1) Industrialization
2) Trade Unionism

Q2. What is the connection between industrialization and the emergence of trade unions?

## 11.4 Meaning of Trade Unions

A trade union, also known as a labour union, is a group of workers united to pursue shared goals like better wages, fair working hours, and improved workplace conditions. India has a large number of trade unions, though their growth has been gradual. Despite this slow progress, these unions have played a key role in enhancing the economic, political, and social conditions of workers. Economically, they have worked to improve workers' livelihoods, while politically, they have supported anti-imperialist, anti-capitalist, and egalitarian movements. The influence of trade unions differs across industries, with many remaining small despite some having large memberships. Widespread illiteracy, poverty, and lack of awareness among workers often lead to their exploitation by unethical union leaders. In a democratic society, trade unions naturally hold political influence. Historically, India's trade union movement has been intertwined with its political and freedom struggles, continuing to face modern-day challenges in the 21st century.

**Self-Check Exercise-2**

Q1. Define Trade Union.

## 11.5 History of Trade Unions

The labour movement in India dates back approximately 14 decades, beginning around 1860. In its early stages, the movement was primarily driven by philanthropists and social reformers who sought to improve the harsh working conditions faced by labourers. These initial efforts were challenging, as early strike committees, which identified themselves as trade unions, demanded union rights without the capacity to fulfill their responsibilities fully. Over time, the status of trade unions has significantly improved, with both their numbers and membership funds increasing. The evolution of the Indian labour movement over the past 145 years can be broadly divided into six distinct phases.

### 11.5.1 Pre–1918 Period

The earliest labour agitation in India began in Bengal in 1860, led by Dinabandhu Mitra, a playwright and social reformer. Supported by journalists, this movement protested against the harsh treatment of plantation workers. In response, the British government set up the Indigo Commission, which exposed the severe exploitation of workers by foreign planters under laws tailored for their benefit. This led to the eventual abolition of indigo cultivation, accelerated by the advent of synthetic dyes.

In 1875, Sorabji Shapurji in Bombay raised concerns about poor working conditions, prompting the appointment of the first Factory Commission. This resulted in the Factories Act of 1881, though it inadequately addressed issues like child labour and the working conditions of women, causing widespread dissatisfaction. Consequently, a second Factory Commission was formed in 1884. That same year, N. M. Lokhande organized a conference of Bombay factory workers, submitting a memorandum signed by 5,300 workers. Their demands included a weekly rest day, half-hour breaks, work hours from 6:30 a.m. to sunset, timely wage payments, and injury compensation.

By 1889, textile workers in Bombay sought Sunday holidays, timely wages, and accident compensation. Despite these efforts, significant reforms were slow, prompting further petitions in 1890 with support from 17,000 workers. That year, the Bombay Mill Hands Association—the first labour organization in India—was formed under Lokhande's leadership. He also launched a labour journal to amplify workers' voices and presented their demands to the 1890 Factory Labour Commission, which included philanthropist Mr. Bengalee.

Post-1890, several labour associations emerged, such as the Amalgamated Society of Railway Servants (1897), the Printers' Union in Calcutta (1905), the Bombay Postal Union (1907), and the Kamgar Hityardhak Sabha (1910). This period also saw numerous strikes: in 1894, Bombay faced two major strikes, and in 1895, 8,000 Ahmedabad mill workers protested changes in wage systems, successfully halting work. Kolkata’s jute workers struck in 1896, while in 1897, Bombay mill workers demanded daily wage payments following a plague epidemic. A prolonged six-month strike occurred in 1903, ending with workers returning amid hardship. In 1905, Kolkata’s Government Press workers protested against unpaid holidays, irregular fines, low overtime pay, and denied medical leave. Lastly, in 1907, Eastern Railway workshop workers in Samastipur successfully struck for wage increments amid regional famine conditions.

### 11.5.2 1918 – 1924 Period

The period from 1918 to 1924 marks a significant era in the development of modern trade unionism in India. During these years, several prominent trade unions emerged, including the Madras Labour Union, Ahmedabad Textile Labour Association, Indian Seamen's Union, Kolkata Clerks' Union, and the All India Postal and RMS Association. A notable milestone was the establishment of the All India Trade Union Congress (AITUC) in 1920. Although workers experienced some wage increases, these were insufficient to match the rising cost of living. Additionally, the influenza epidemic caused a labour shortage in certain industries, further intensifying the need for organized labour representation.

Several factors contributed to the growth of trade unions during this period:

1. Economic Conditions:

The economic hardships faced by workers played a crucial role in the formation of trade unions. Two primary factors contributed to the soaring demand for Indian goods:

- Limited shipping facilities reduced the import of essential goods, previously sourced from foreign countries.
- There was heightened demand for Indian products from allied and neutral nations during and after World War I.

These factors led to significant price hikes in Indian commodities. While employers benefited from substantial profits, workers' wages failed to keep pace with inflation, causing a decline in their living standards. The influenza epidemic further exacerbated labour shortages in industrial hubs, motivating workers to organize for better bargaining power.

2. Political Environment:

The growing momentum of India's independence movement also fueled the labour movement. Political leaders recognized the importance of organized labour in the national struggle and actively supported the establishment of trade unions. This collaboration provided the labour movement with much-needed leadership and legitimacy.

3. Global Influences:

The 1917 Russian Revolution, which established the world's first workers' state, inspired labour activists in India. The revolutionary spirit encouraged Indian workers to organize and advocate for their rights.

4. Post-War Unrest:

The widespread discontent following World War I led to increased awareness among industrial workers, further propelling the growth of trade unions.

5. Establishment of the International Labour Organization (ILO):

Another catalyst was the formation of the ILO in 1919, with India as a founding member. The ILO's constitution required member states to send government representatives. Without consulting labour unions, the government appointed Shri N. M. Joshi as India's representative. This decision prompted workers to organize more formally, culminating in the establishment of the AITUC in 1920. The ability to participate in ILO conferences influenced the government's approach to labour issues.

An important legal development during this time was the Buckingham Mill case of 1920. The Madras High Court issued an injunction against the Madras Labour Union's strike committee, preventing them from encouraging workers to breach their employment contracts. This ruling revealed the vulnerability of trade union leaders to prosecution and imprisonment for their legitimate activities. Consequently, it underscored the need for legal protection for trade unions, prompting demands for appropriate legislation.

**11.5.3 1925 – 1934 Period**

During this period, the All India Trade Union Congress (AITUC) experienced a division, leading to the emergence of leftist and rightist factions. In 1929, this split resulted in the formation of the All India Trade Union Federation, a breakaway group from the AITUC. The rise of communist influence within the labour movement was primarily driven by the economic hardships faced by workers.

This era also witnessed a notable decline in industrial conflicts, which can be attributed to two key factors:

1. Legislative Measures:

The Trade Disputes Act of 1929 played a crucial role in reducing industrial strife by imposing restrictions on strikes and lockouts.

2. Legal Framework for Trade Unions:

- The Trade Unions Act of 1926 marked a significant development, allowing trade unions to register officially. This act granted them legal recognition and protection, enabling them to engage in dispute resolution processes.
- The Trade Disputes Act of 1929 established mechanisms such as ad hoc conciliation boards and courts of inquiry to address and settle industrial disputes. This legislation also prohibited strikes and lockouts in public utility services, safeguarding essential community services from disruption.

Together, these legal reforms contributed to greater industrial harmony and enhanced the institutional framework for resolving labour disputes.

**11.5.4 1935 – 1938 Period**

During this period, efforts were made to unify trade unions, leading to a resurgence of trade union activities. In 1935, the All India Red Trade Union Congress merged with the AITUC, and by 1938, an agreement was reached between the All India National Trade Union Federation (INTUC) and AITUC, resulting in the NTUC affiliating with the AITUC.

Several factors contributed to the revival of the trade union movement:

1. Political Changes:
   The shift in the political landscape played a crucial role. Notably, after the Congress Party formed governments in several provinces in 1937, it worked towards strengthening trade unions and improving labour conditions.
2. Increased Awareness Among Workers:
   The working class became more conscious of their rights and demanded better working conditions and terms of employment.
3. Change in Management Attitude:
   Employers began adopting a more cooperative approach towards trade unions, which encouraged better industrial relations.

A significant legislative development during this time was the enactment of the Bombay Industrial Disputes Act of 1938, which aimed to address and resolve industrial disputes effectively.

### 11.5.5 1939 – 1946 Period

World War II, much like World War I, disrupted industrial relations and led to widespread unrest and heightened trade union activities. Several factors contributed to this industrial turmoil:

1. Rising Prices vs. Wages: Wages failed to keep pace with the rapidly increasing cost of living, causing dissatisfaction among workers.

2. Split within AITUC: The nationalist movement led to internal divisions within the All India Trade Union Congress (AITUC), affecting the unity of the labour movement.
3. Post-War Retrenchment and Unemployment: The post-World War II period saw widespread layoffs, leading to significant unemployment issues.

Trade union membership grew considerably during this time. Registered trade unions increased from 667 in 1939-40 to 1,087 in 1945-46. Notably, the number of women members in registered unions also rose from 18,612 in 1939-40 to 38,570 in 1945-46. Additionally, the period witnessed a surge in strikes reflecting workers' discontent. To address industrial disputes and improve working conditions, the Industrial Employment (Standing Orders) Act, 1946 was enacted. This legislation aimed to standardize employment terms in industrial establishments and reduce conflicts between employers and workers.

### 11.5.6 1947 and Since

In the years surrounding India’s independence in 1947, political leaders from various ideological backgrounds sought to establish their own labour wings. The Indian National Congress (INC), being the most influential political party at the time, founded the Indian National Trade Union Congress (INTUC) in May 1947. In 1964, the Communist movement split into two factions: the Communist Party of India (CPI) and the Communist Party of India (Marxist) [CPI(M)]. The 1970s marked a significant rise in unionization among white-collar workers. With the expansion of the tertiary sector and government initiatives aimed at employing the educated unemployed, there was a substantial increase in the number of white-collar employees in industrial enterprises. Many of these workers joined existing blue-collar unions, while new unions emerged in sectors like insurance, education, and healthcare.

Government-led Five-Year Plans further facilitated the growth of trade unions. Currently, India has 68,544 registered trade unions with approximately 6.9 million active members, averaging 8,938 members per union. The five major trade union organizations, representing around 75% of the total membership, are:

1. Indian National Trade Union Congress (INTUC) – Affiliated with the Indian National Congress.
2. Hind Mazdoor Sabha (HMS) – Previously associated with the Socialist Party of India.
3. Bharatiya Mazdoor Sangh (BMS) – Linked to the Bharatiya Janata Party (BJP).
4. All India Trade Union Congress (AITUC) – One of the oldest trade union federations.
5. Centre of Indian Trade Unions (CITU) – Affiliated with the Communist Party of India (Marxist).

**Self-Check Exercise-3**

Q1. Discuss the factors that contributed to the growth of trade unions between 1918 and 1924.

Q2. How did the Trade Unions Act of 1926 impact the labour movement in India?

## 11.6 Summary

In this unit, we discussed the intricate relationship between industrialization and the emergence of trade unionism. We explored the meaning and significance of trade unions, tracing their historical development from the pre-1918 period through to the post-independence era. The role of trade unions in improving working conditions, advocating for labour rights, and shaping socio-economic policies was examined, along with key legislative milestones that influenced their evolution.

## 11.7 Glossary

- **Industrialization**: The transformation of an economy from agricultural-based to manufacturing-based through mechanisation.
- **Trade Union:** A group formed by workers to safeguard and promote their rights and interests.
- **Industrial Revolution:** A significant era of industrial growth starting in the late 18th century that reshaped global economies.

- **Trade Unions Act, 1926:** A law established to regulate the registration of trade unions and offer legal safeguards in labour disputes.

## 11.8 Self-Assessment Test

**Self-Check Exercise-1**

Ans.1. Refer to Section 11.3.

Ans.2. Refer to Section 11.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 11.4.

**Self-Check Exercise-3**

Ans.1. Refer to Section 11.5.

Ans.2. Refer to Section 11.5.

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## 11.10 Terminal Questions

Q1. Discuss the factors that led to the growth of trade unions in India during the period from 1918 to 1924.

Q2. Explain the impact of the Trade Unions Act of 1926 on the Indian labor movement and industrial relations.

## UNIT - 12
# TRADE UNIONISM IN INDIA (PART – II)

**STRUCTURE**



### 12.1 Introduction

In this unit, we will explore the role and impact of trade unions within the Indian context. Trade unions are vital institutions that represent the collective interests of workers, advocating for their rights and improving working conditions. This unit will provide a comprehensive overview of the development and influence of trade unions in India. We will begin by examining the historical growth of trade unionism and its significance in shaping labour relations. Following this, we will address the various challenges and issues faced by trade unions, as well as their contributions to labour rights and socioeconomic progress.

### 12.2 Learning Objectives

After going through this unit, you will be able to

- Identify the historical development and role of trade unions in India.
- Analyze the challenges faced by trade unions in India.
- Evaluate the benefits of trade unions for workers and the economy.

### 12.3 Trade Unions in India

The trade union Movement in India is over a century old. It is useful to take stock to see whether the trade unions in India are at the centre stage or at the periphery. In order to do that, one May pursue the following relevant though selective statistics. In India, the total workforce ( 467 Million) constitutes 38.59 % of the total population. Out of the total workforce, 228.8 million are engaged in agriculture, 110.7 million in Secondary and 127.8 million in tertiary sector. However, the majority of the workforce is engaged in the informal sector. It has also been reported that by December 1991, the claimed membership of the Indian Trade Union movement was 3.05 Crore (30.5 million) With 82.24 per cent of the Trade Union membership being accounted for by the organized sector. Is the unorganized sector meagerly represented? The world labour report summarizes the trade union situation in India `` Indian unions are too very fragmented". In many workplaces, multiple trade unions compete for the support of the same group of workers, often leading to rivalry that can range from mild to, at times, aggressive. Determining the exact number of trade unions at the national level is challenging since many operate independently without affiliating with any all-India federation. Initially, Indian trade unions were largely formed on ideological lines, with strong ties to political parties. However, in recent times, personal rivalries and, occasionally, caste or regional considerations have become more prominent. Besides the issues of low membership and fragmentation, various studies have highlighted a decline in union membership and increasing disconnect between unions and workers, largely due to changes in the workforce and the decreasing influence of national federations over enterprise-level unions.A new trend in unionization shows a shift from region or industry-based unions to independent enterprise-level unions, which focus solely on workplace-specific issues without national-level affiliations. This lack of connection to larger federations limits their voice in national policy discussions. Studies also indicate a growing shift in employment from the organized to the unorganized sector, with an increase in subcontracting. Many workers in these sectors have contractual relationships rather than formal employment, making union representation difficult.

Trade unionism in India faces several challenges, including political influence, the existence of numerous unions, inter-union rivalry, financial constraints, and reliance on external leadership. Among the central trade union organizations, the Bharatiya Mazdoor Sangh holds a significant position.

The learned economist and visionary Mananiya Dattopantji, who has dedicated his life to serving society, along with some like-minded Nationalists, found it on the auspicious Lokmanya Tilak Jayanti, 23rd July 1955. Starting from aero in 1955, BMS is now a well-knit organization in all the states and in private and public sector undertakings. Several organizations of state and central government employees are also affiliated with BMS.

The Sangh also enjoys the premier position in several industries. It is associated with over 5,680 unions, representing a membership exceeding 7.639 million. Although not affiliated with any International Trade Union Confederation, BMS has relations with Central labour organizations of other countries. BMS representatives have participated in International Labour Organisation sessions at Genova for the past 25 years.

**Self-Check Exercise-1**

Q1. What are some of the key challenges faced by trade unions in India?

Q2. How has the structure of trade union membership in India shifted in recent year?

## 12.4 Growth of Trade Union Movement in India

### I. The First Labour Strike

The labour movement in India began with scattered instances of worker unrest. The first notable strike occurred in 1877 at Empress Mills in Nagpur when workers protested against wage cuts. In 1894, approximately 5,000 textile workers in Bombay submitted a petition demanding timely wage payments, a weekly holiday, and a half-hour break during the workday. Between 1882 and 1890, an estimated 25 strikes took place. However, these early strikes were poorly coordinated, short-lived, and largely unsuccessful. The harsh treatment by employers often forced workers to quit rather than protest. Interestingly, efforts to improve working conditions were initially driven by the British, not for workers' welfare but to protect their industries. The Lancashire and Manchester Chamber of Commerce, concerned that India's lower labour costs gave its factory products an unfair advantage, called for an investigation into the working conditions.

### II. The First Factories Act, 1875

A committee was first established to investigate the working conditions in factories, causing support for legal regulations. The initial Factories Act was enacted in 1881, followed by establishing the Factory Commission in 1885. A witness to the Commission described harsh conditions in Khandesh's ginning and processing factories, where workers, including women, toiled day and night for eight consecutive days with little rest, earning only three to four annas for 18 hours of work. The 1891 Factories Act followed these findings, and a Royal Commission on Labour was appointed in 1892 to continue the investigation and reform efforts.

### III. The First Workers' Organization in India

Significant efforts to organize workers in India were led by figures like Narayan Lokhande, considered the father of the modern trade union movement in India. The Bombay Mill Hands Association, founded in 1890 under Lokhande's leadership, was India's first workers' organization. Although it functioned mainly as a welfare organization without formal membership or financial resources, it set the foundation for the establishment of similar groups such as the Kamgar Hitvardhak Sabha and the Social Service League. By the turn of the century, more formal trade unions emerged, including the Amalgamated Society of Railway Servants of India and Burma and the printers' unions in Kolkata. The first organized trade union formed permanently was in the postal offices of Bombay and Calcutta in 1906, with strikes becoming increasingly common in major industries.

**IV. Madras Labour Union**

Established in 1918, the Madras Labour Union primarily represented textile workers at the British-owned Buckingham and Carnatic Mills, while also including members from various other occupations. Nationalist leader Thiru Vi. Ka and B. P. Wadia founded the union, with workers contributing a monthly membership fee of one anna. Workers' main grievances at the time were harsh treatment by British supervisors and short midday breaks. The union achieved success in extending break hours and initiated welfare measures such as establishing an affordable grain shop and a library. However, tensions escalated when workers demanded higher wages, resulting in a strike followed by a lockout. Management filed a lawsuit against Wadia, accusing him of encouraging the workers, and the court ruled the union as part of an unlawful conspiracy. The dispute was later resolved with the reinstatement of most workers, excluding thirteen strike leaders, after which Wadia distanced himself from the union.

**V. Textile Labour Association**

During the period when the Madras Labour Union was being formed, Anusuyaben Sarabhai initiated social welfare efforts for mill workers in Ahmedabad. Her work culminated in the creation of the Mazdoor Mahajan Textile Labour Association in 1920. Mahatma Gandhi considered this union a model for his ideas on industrial relations, using it as a "laboratory" for his experiments. The union's rise was partly due to inflation after World War I, which outpaced wage growth, and the growth of the nationalist Home Rule movement. At the time, workers had little understanding of trade unions and relied heavily on outside leaders, including social workers, politicians, and various ideologues.

**VI. Formation of AITUC**

The All India Trade Union Congress (AITUC) was formed in 1920, largely due to the influence of the International Labour Organisation (ILO), which was established after World War I to address global disparities. India, as a founding member of the ILO, was required to have a representative labor organization to participate in its conferences. The AITUC was thus established to represent Indian labour interests, with Lala Lajpat Rai as its first president. By 1922, the AITUC had 64 affiliated unions and over 140,000 members. That same year, the India Factories Act was enacted, limiting the workday to ten hours.

**VII. Trade Unions Act**

Enacted in 1926, the Indian Trade Unions Act granted legal recognition to trade unions, permitting any group of seven workers to form one. The Act provided protection to unions from civil and criminal liabilities arising from lawful activities. It continues to serve as the foundation of trade union legislation in India.

**Ideological Dissension**

The Indian labour movement saw ideological splits soon after the AITUC was formed, dividing into three factions: communists led by M. N. Roy and S. A. Dange, nationalists led by Mahatma Gandhi and Jawaharlal Nehru, and moderates led by N. M. Joshi and V. V. Giri. The groups disagreed on major issues, including international affiliations and the relationship between trade unions and broader political movements. The communists wanted to align with leftist international organizations, while the moderates preferred affiliation with more moderate bodies like the International Federation of Trade Unions, Amsterdam. Whereas, the nationalists were focused on independence and viewed union activities through that lens.

**VIII. Formation of NTUF**

In the mid-1920s, the communists made significant efforts to gain control of the AITUC, forming rival unions led by nationalists. By 1928, the communists had enough influence to propose their candidate for the presidency of AITUC, but Jawaharlal Nehru narrowly won the election. In 1929, the communists managed to pass a resolution linking the AITUC with international communist bodies, which caused a division within the labour movement. In response to this affiliation, the moderates withdrew and established the National Trade Union Federation (NTUF). Over time, further divisions occurred, with the communists forming the Red Trade Union Congress, which the British later banned. By 1940, the NTUF had dissolved and merged with the AITUC, recognizing that their earlier disputes over international affiliations were irrelevant to most workers.

**IX. Formation of INTUC, HMS, and UTUC**

After the formation of a national government, Sardar Vallabhbhai Patel strongly pushed for a new central labour organization, resulting in the establishment of the Indian National Trade Union Congress (INTUC) on May 3, 1947. This organization was created to align with the government, as the AITUC was seen as being influenced by foreign interests. The inaugural meeting was attended by approximately 200 unions representing over 575,000 members. In 1948, Congress socialists who had stayed with the AITUC broke away to form the Hind Mazdoor Panchayat (HMP), which later united with the Roy faction's Indian Federation of Labour to establish the Hind Mazdoor Sabha (HMS). Despite these developments, ideological disagreements persisted, prompting Marxist groups from West Bengal to create the United Trade Union Congress (UTUC).

**Self-Check Exercise-2**

Q1. What was the main reason behind the first recorded strike by Indian workers in 1862?

Q2. Write a short note on the growth of the trade union movement in India.

## 12.5 Problems of Trade Unions

I. **Uneven Growth**

Trade unionism in India displays uneven development across different industries and regions. Unions are more prevalent in large industries, with the level of unionization differing significantly from one sector to another. Union activities are primarily concentrated in a few states and major industrial hubs due to the clustering of industries in these areas. For instance, textile workers in Mumbai, Ahmedabad, Indore, and Kanpur, as well as plantation labourers in Assam, West Bengal, Tamil Nadu, and Kerala, have notable union presence. Growth in trade unions has mainly occurred in sectors such as plantations, coal mining, food processing, textiles, printing, chemicals, utility services, transportation, communication, and commerce. Furthermore, Trade union activities are limited to large-scale industry sectors and manual labour and trade unions are unevenly distributed in different states. Trade unions don't exist for a variety of small-scale businesses.

II. **Outside Leadership**

In India, the majority of trade unions are led by professional political figures rather than leaders emerging from the working-class base. Trade unions lack self-reliance. Such outsiders are generally professional men such as lawyers or social and political workers. They have no technical knowledge of the industry concerned and of the union due to this reason. Additionally, irregular payment of membership subscriptions limits the financial resources of trade unions, restricting their ability to support labour welfare activities. Professional political leaders often use workers to further their political goals, which can be detrimental to the working class. Strikes are sometimes extended by these leaders to enhance their personal prestige, and negotiations with employers frequently break down under such leadership. As a result, the interests and well-being of workers are often overlooked. This external political leadership remains a significant drawback for trade unions in India.

III. **Multiple Unions**

The presence of multiple unions at both plant and industry levels poses a significant challenge to maintaining industrial peace and harmony in India. This situation arises when two or more unions within the same organization or industry compete for dominance, often leading to overlapping functions. The existence of multiple unions stems from factors such as craft-based unions and the formation of several unions within a single industry. This phenomenon is not unique to India and can also be observed in developed countries like the UK and the USA. While multiple unionism can have both positive and negative effects on industrial relations, the adverse impacts often outweigh the benefits. On the positive side, it can promote healthy competition, ensure democratic practices, prevent authoritarian leadership, and foster transparency within the labour movement. However, the competition among unions frequently leads to unhealthy rivalries, eroding mutual trust and cooperation among leaders. Such divisions significantly weaken the trade union movement in India, resulting in smaller unions with limited financial resources and diminished collective bargaining power. The multiplicity of unions further contributes to inter-union conflicts, undermining the effectiveness of labour negotiations and overall worker representation. There are further problems due to the multiplicity of trade unions:

**1) Limited Representation**

The existence of multiple trade unions results in each union representing only a small segment of the workforce. This fragmentation makes it challenging for all unions to unite under a common charter of demands, ultimately reducing their collective bargaining strength.

**2) Inter – union Rivalry**

The presence of several unions within an organization often leads to competition among them. Such rivalry causes workers to lose faith in union activities. Opportunistic employers may exploit this division, refusing to negotiate by claiming uncertainty over which union to engage with.

**3) Lack of Commitment**

Many trade unions are aligned with political parties, prioritizing political agendas over workers' welfare. This political allegiance can hinder unions from effectively advocating for employees' rights and interests.

**4) Financial Problem**

With numerous unions vying for membership, the average size of each union is small. To attract members, unions often keep subscription fees minimal, which weakens their financial base. Additionally, many workers fail to pay their dues on time, further straining union finances. Weak finances cause severe handicaps for each of the unions and a weak union cannot initiate a strong argument during negotiations.

**IV. Low Membership**

The average membership per trade union in India has shown a significant decline over time. In 1992-93, the average membership was 632 members, a sharp drop from 3,594 in 1927-28. This small size limits the unions' financial resources, making it difficult to hire experts to support and advise members, thereby weakening their bargaining power with employers.

**V. Weak Financial Position**

Most trade unions in India face financial challenges due to their low annual income. To attract more members, unions often set their subscription rates too low, which limits the funds available for member welfare programs. Although it's argued that workers cannot afford higher subscriptions, this belief is outdated since workers' average incomes have increased over the years. Raising subscription rates could improve union finances.

**VI. Lack of Interest**

Many workers remain indifferent to union activities. Even those who join often show little enthusiasm in participating. This general disinterest allows external political leaders to exploit the situation for their personal agendas rather than focusing on workers' welfare.

**VII. Absence of Paid Office Bearers**

Due to limited finances, most unions cannot afford full-time, paid office bearers. Part-time leaders often lack the time and energy to engage fully in union activities, hindering effective representation and organization.

**VIII. Unpaid Subscription Dues**

A significant challenge to union finances is the non-payment of membership dues. Many unions retain the names of defaulting members without enforcing expulsion rules. This issue is compounded by the lack of staff to manage subscriptions. Implementing a check-off system, where employers deduct union dues directly from wages, could streamline collection and improve financial stability.

**IX. Other Problems**

The other factors responsible for the unsound functioning trade union in India are

**1) Illiteracy**

Many Indian workers lack awareness of the benefits of trade unionism due to illiteracy and ignorance, which results in a reliance on external leaders rather than fostering strong internal leadership.

**2) Uneven Growth**

Trade union activities are mainly concentrated in major metropolitan areas and large industries, such as cotton textiles. Despite significant wage growth since the enactment of the Trade Unions Act in 1926 (which set a subscription fee of 25 paise per month), membership fees have not increased proportionately. Raising fees or finding alternative financial sources is necessary to strengthen unions' financial health.

**Self-Check Exercise-3**

Q1. What are the major problems faced by Tread Unions?

## 12.6 Advantages of Trade Unions in India

**I. Enhanced Bargaining Power**

An individual worker has limited negotiating strength when dealing with an employer. Constantly changing jobs due to dissatisfaction with wages or working conditions is impractical and emotionally draining. By joining a trade union, workers can collectively bargain for improved conditions. The potential or actual occurrence of a strike, organized by the union, is a powerful tool that can compel employers to meet workers' demands.

**II. Reduction in Discrimination**

Decisions related to wages, promotions, transfers, and work assignments can often be subjective, influenced by personal relationships between supervisors and employees. This can lead to favoritism and bias. Trade unions play a vital role in ensuring fair treatment by urging management to implement transparent personnel policies. Union oversight helps minimize discriminatory practices in the workplace.

**III. Improved Sense of Security**

Employees often join unions to safeguard themselves from uncertainties such as workplace accidents, illnesses, injuries, and job loss. Trade unions advocate for workers' welfare, ensuring retirement benefits and pressing management to invest in services that enhance workers' security and overall well-being.

**IV. Greater Participation in Decision-Making**

Trade unions provide employees with an avenue to be involved in decisions affecting their work and welfare. Through collective bargaining, workers can influence company policies and practices, promoting a sense of involvement in workplace governance.

**V. Platform for Self–Expression**

The need to express thoughts, opinions, and concerns is fundamental to all individuals, including workers. Trade unions offer a platform where employees can share their ideas and grievances. These collective voices are communicated to the management, ensuring that workers' perspectives are considered in policy-making processes.

**VI. Betterment of Relationship**

Trade unions help bridge the communication gap between workers and management, fostering healthier industrial relations. They provide mechanisms for addressing and resolving workplace disputes, contributing to a more harmonious working environment.

**Self-Check Exercise-4**

Q1. What are the advantages of trade unions in India?

## 12.7 Summary

This unit explored the framework and essential features of trade unions in India. It started with a general introduction to trade unions, followed by outlining objectives aimed at understanding their functions and challenges. The exploration continued with a detailed look at the history and current state of trade unions, followed by an analysis of how trade unionism has evolved over time. The unit then examined the current challenges confronting trade unions. Over time, many trade unions in India have come under the influence of external political figures, often sidelining workers' needs and aspirations. The Trade Union Act of 1926 did not provide an effective system for recognizing representative unions, which led to the rise of multiple unions, sometimes backed by management or outside parties. Financial constraints have been a persistent issue, with average membership numbers remaining low. Economic liberalization in the early 1990s further strengthened employers' positions, enabling them to shut down non-viable operations. Additionally, the growing emphasis on productivity, efficiency, and performance in modern corporate environments has heightened the challenges to the survival of trade unions..

## 12.8 Glossary

- **Trade Union:** A trade union is an organization comprising workers and union representatives, working together to safeguard and advance their shared interests.
- **Problem of Trade Unions:** Uneven growth, outside leadership, multiple unions, inter-union rivalry, lack of commitment, financial problems, low membership and lack of interest.
- **Advantages of trade Unions:** Greater Bargaining Power, minimised discrimination, sense of security, Sense of participation, Platform of self–expression, and betterment of the relationship.

## 12.9 Answers to Self–Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 12.3.

Ans.2. Refer to Section 12.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 12.4.

Ans.2. Refer to Section 12.4.

**Self-Check Exercise-3**

Ans.1. Refer to Section 12.5.

**Self-Check Exercise-4**

Ans.1. Refer to Section 12.6.

## 12.10 References/Suggested Readings


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## 12.11 Terminal Questions

Q1. Discuss Trade Unionism and the growth of the trade union movement in India.

Q2. What are the problems faced by trade unions in India?

## UNIT – 13

# INDUSTRIAL DISPUTES

**STRUCTURE**

## 13.1 Introduction

Industrial disputes are prevalent in both developed and developing nations. Industrialization has widened the gap between management and workers, mainly due to the workers' lack of ownership in the means of production. This divide often leads to friction and conflicts, resulting in industrial disputes. These disputes generally arise from two main categories: economic and non-economic causes. Economic causes involve issues related to compensation, such as wages, bonuses, allowances, working conditions, hours of work, unpaid leave, unjust layoffs, and retrenchments. Non-economic causes include factors like worker victimization, mistreatment by staff, sympathy strikes, political influences, and disciplinary issues.

## 13.2 Learning Objectives

By the end of this unit, you will be able to understand

- The meaning of Industrial Disputes
- Forms of Industrial Disputes
- Causes of Industrial Disputes
- Methods of Settlement of Industrial disputes and Prevention Mechanism
- Machinery for Settlement of Industrial Disputes

## 13.3 Meaning of Industrial Disputes

According to section 2 of the Industrial Dispute Act, of 1947, "Industrial dispute means any dispute or difference between employers and employers and between employers and workmen or between workmen and workmen, which is connected with the employment or non – employment or the terms of employment or with the conditions of labour of any person". Industrial disputes are indicators of underlying industrial unrest, much like how boils signify a disorder in the body. During such disputes, both management and workers attempt to exert pressure on one another. Management may implement a lockout, while workers may respond through actions like strikes, gheraos, or picketing.

**Self-Check Exercise-1**

Q1. Define Industrial Dispute.

## 13.4 Forms of Industrial Disputes

Some forms of disputes are given as follows:

### 13.4.1 Strike

A strike is a significant tool used by trade unions to press for their demands. It involves a collective decision by workers to halt work, aiming to exert pressure on the employer to meet their demands. According to the *Industrial Disputes Act of 1947*, a strike refers to “the cessation of work by a group of individuals employed in any industry, acting together, or a coordinated refusal to work or accept employment under a common understanding.”

I. Economic Strike

This form of strike occurs when trade union members stop working to push for financial benefits such as higher wages, bonuses, and improved working conditions.

II. Sympathetic Strike

In this case, workers cease work to show solidarity with members of other unions who are already on strike in different establishments.

III. General Strike

A general strike involves workers from most or all unions within a particular industry or region halting work to demand common benefits. It can also be an extension of a sympathetic strike to express widespread worker dissatisfaction.

IV. Sit Down Strike

In a sit-down strike, employees remain at their workplace but refuse to work. Also known as a "tools-down" or "pen-down" strike, workers maintain control over the workplace while suspending their duties.

V. Slow Down Strike

Under this form, employees continue working but deliberately reduce their productivity to pressure the employer. This organized “go-slow” tactic affects output without completely stopping work.

### 13.4.2 Lock Out

A lockout is a strategy used by employers to exert pressure on their workers. It involves temporarily shutting down the workplace until employees agree to resume work under the terms set by the employer. According to the *Industrial Disputes Act of 1947*, a lockout refers to the closure of a workplace, suspension of operations, or an employer's refusal to engage workers. Employers often resort to lockouts to control aggressive or disruptive worker actions. Typically, a lockout represents a power struggle between management and employees.

### 13.4.3 Lay Off

A lay-off refers to an employer's inability, refusal, or failure to provide work to an employee who remains on the company's payroll and has not been formally retrenched. Employers usually resort to layoffs due to factors like power shortages, lack of raw materials, machinery breakdowns, or other operational challenges.

### 13.4.4 Gherao

Derived from Hindi, the term "Gherao" means *to surround*. It refers to a form of collective protest where workers prevent members of an industrial establishment's management from leaving their workplace or residence by forming a human blockade to obstruct their exit.

A human barricade is created in the form of a ring or a circle at the centre of which the persons concerned virtually remain prisoners of the persons who resort to gherao. Gheraos are quite common in India these days. Gheraos are used not only in industrial establishments but also in educational and other institutions. During a gherao, the targeted individuals are prevented from performing any work.

Gheraos have faced both legal and moral criticism. Legally, they are considered to impose unlawful restrictions on an individual's freedom of movement, leading courts to deem them illegal. Gheraos can subject the targeted person to physical pressure and create disturbances in law and order. From a moral perspective, compelling someone to meet demands through a gherao is seen as unfair since it involves coercion and causes humiliation. Furthermore, any commitment made under such pressure is not binding, allowing the individual to retract it later. As noted by the National Commission on Labour, gheraos should not be recognized as a legitimate form of industrial protest, as they rely on physical force rather than economic means.

**Self-Check Exercise-2**

Q1. Define

1) Strike
2) Lockout
3) Layoff

Q2. Explain the forms of Industrial Dispute.

## 13.5 Industrial Disputes in India

As discussed above, the two most prominent forms of protests are strike and lockouts. The disputes result in the loss of production and national income. Therefore, it is not only necessary to know the nature and trends of these disputes but also important to know the factors responsible for their emergence.

### I. Increasing Trend of Man Days Lost

In the first three decades after independence, there was an alarming rising trend of the man-days lost. In 1951, there was a loss of 38 lakh man days where it was about 70 lakh man days lost in 1956. Which jumped to 138 lakh man-days lost in 1966 and again to 206 lakh man-days lost in 1970. Due to the rapid rise in prices in 1974, a record 402 lakh man-days were lost. During 1981, it stood at 366 lakh man days out of which strikes accumulated for 58 per cent of the total time loss and lockouts had a share of 42 per cent. An interesting fact is that the share of man days lost due to strikes was 11 percent and those due to lock outs, was 89 percent in 2003.

The main factors behind the spread of industrial unrest are political instability in the country, growing indiscipline among the workers, the discredited trade union leader who lost their image during the period of emergency and more frequent use of lockouts by the employers after New Economic Policy 1991.

**II. Rise in the Share of Lock Outs in Man Days**

The share of the lockout in total days lost has been on the rise. In 1951, 26 per cent of the man-days lost was through lockouts. This share rose to 40 percent in 1960, to 47 percent in 1971 and to 80 percent in 2004.

A trend analysis from 12961 to 1981 reveals that whereas the average life of a strike has remained between 8 to 13 days the average life of lockouts increased from 11-man days in 1961 to 13-man days in 1976 and further to 112 during 2004. The share of days lost due to lockouts increased from 68 percent in 1994 to 90 percent during 2003.

**Self-Check Exercise-3**

Q1. Write a short note on industrial disputes in India.

## 13.6 Industrial Peace

Industrial peace refers to the state of harmony in industrial relations, focusing on the prevention and resolution of industrial disputes. It involves laws and mechanisms aimed at addressing workplace conflicts through conciliation and arbitration, especially when disputes extend beyond a single state's boundaries. In essence, industrial peace arises from a formal no-strike agreement within a collective bargaining contract or is implied through the signing of such an agreement, ensuring cooperation between employers and employees. Actually, it is a matter of controversy whether an explicit no - strike clause can give rise to a peace obligation binding on individual employees as well or only on the unions which have signed the relevant collective agreement. It is widely acknowledged that an economy structured for planned production and distribution, with the goal of achieving social justice and the welfare of the masses, can operate efficiently only in a climate of industrial harmony.

**Self-Check Exercise-4**

Q1. Define Industrial Peace.

## 13.7 Causes of Industrial Disputes

The causes of industrial disputes can be broadly categorized into two main groups.

I. Economic causes and

II. Non – Economic Causes

Economic causes include:

I. Wages
II. Bonus
III. Dearness Allowances
IV. Conditions of Work and Employment
V. Working Hours
VI. Leave and Holidays with pay
VII. Unjust dismissals of retrenchment

Non–economic causes include

I. Recognition of Trade Unions
II. Victimization of Workers
III. Ill-treatment by supervisory staff
IV. Sympathetic strikes
V. Political causes

5.1. Wages and Allowances

Rising living costs have consistently driven workers to demand better wages to cope with expenses and improve their standard of living. In 1973, wage-related issues accounted for 34.1% of industrial disputes, increasing slightly to 36.1% in 1974. By 1985, this share dropped to 22.5%, with subsequent figures showing 25.7% in 1986, 26.6% in 1992, 25% in 1996, and 20.2% in 2000.

5.2. Personnel and Retrenchment

Dismissals, layoffs, and retrenchments have been major triggers for disputes. In 1961, 29.3% of conflicts arose from these issues, slightly decreasing to 24.3% by 1973. Personnel-related disputes peaked at 32% in 1971 and 29.9% in 1979. The trend saw fluctuations with 23.1% in 1985, 19.8% in 1996, and a decline to 12.1% in 2000.

5.3. Bonus

Bonuses have played a significant role in sparking industrial conflicts. In 1961, disputes related to bonuses stood at 6.9%, rising to 10.3% in 1973. The figures further increased to 13.6% in 1976 and 15.2% in 1977. A notable spike occurred in 1982 with 43.7% of disputes linked to bonuses, though this drastically dropped to 7.3% in 1985. By 1992, the percentage declined to 4.2%, followed by 3.6% in 1996 and a slight rise to 8.5% in 2000.

5.4. Indiscipline and Violence

Workplace misconduct and violence have remained persistent causes of disputes. In 1973, only 5.7% of conflicts stemmed from such issues, but the figure rose to 15.7% in 1987. In 1985, indiscipline and violence contributed to 16.1% of disputes, highlighting the ongoing challenge these factors pose to industrial harmony.

5.5. Leave and Hours Work

Disputes related to leave entitlements and working hours, although less frequent, have been notable. In 1973, they accounted for 1.5%

of disputes, increasing slightly to 2.2% in 1977. The share remained at 1.5% in 1996 but declined to 0.9% by 2000.

5.6. Miscellaneous Causes

A variety of other factors have contributed to industrial disputes over the years. In 1973, miscellaneous causes represented 24.1% of conflicts, declining to 19.5% in 1977. However, the figures rose to 29.2% in 1985, 27.8% in 1996, and further to 33.2% in 2000.

Common miscellaneous causes include:

I. Resistance to modernization, such as opposition to new machinery or relocation of factories.
II. Lack of recognition of trade unions.
III. Spread of rumours by disruptive elements.
IV. Unsatisfactory working conditions and methods.
V. Poor communication between management and workers.
VI. Inappropriate behaviour from supervisors.
VII. Rivalries between trade unions.

**Self-Check Exercise-5**

Q1. Discuss the economic causes of industrial disputes.

Q2. What are the causes of industrial disputes?

## 13.8 Measures to Improve Industrial Relations

The following measures should be taken to achieve good industrial relations:

I. Foreword Looking Management

Every industrial organization should adopt a progressive approach to management, fulfilling its responsibilities toward business owners, employees, customers, and the broader society. Management should acknowledge workers' right to form unions to safeguard their economic and social welfare. Instead of reacting to issues after they arise, management should proactively identify potential challenges and address them promptly, preventing dissatisfaction and unrest among employees.

II. Strong and Stable Trade Union

A robust and well-organized trade union is vital for healthy industrial relations. Weak unions may be overlooked by employers, as they may not effectively represent the workforce. To ensure meaningful negotiations regarding employment conditions, each enterprise should have a stable union that genuinely represents the majority of its workers. This helps in securing agreements that are respected and upheld by both parties.

III. Atmosphere of Mutual Trust

Building a foundation of cooperation, confidence, and mutual respect between management and workers is crucial. Employers should maintain an open-minded approach, recognizing employees' rights, while unions should encourage their members to align with the organization’s shared goals. Both sides should rely on collective bargaining and other peaceful dispute resolution methods to maintain industrial harmony.

**Self-Check Exercise-6**

Q1. What are the measures to improve the industrial relations?

## 13.9 Methods of Settlement of Industrial Disputes and Prevention Mechanism

### 1.1. Prevention of Industrial disputes

Industrial disputes can negatively affect business owners, workers, the economy, and the nation, leading to losses in productivity, market share, profits, and even plant closures. Hence, preventing such disputes is crucial.

#### I. Model Standing Order

Disputes over employment terms have long been a source of conflict between workers and management. Standing orders serve to regulate employment conditions from the time an employee joins until they leave the organization. Acting as a code of conduct, they guide employees on acceptable workplace behavior. The Industrial Employment (Standing Orders) Act, 1946 mandates employers to define clear employment conditions and communicate them to their workforce. These orders cover areas like hiring, termination, grievance redressal, misconduct, and disciplinary actions. By addressing these potential conflict areas, standing orders help prevent workplace disputes from escalating.

#### II. Code of Discipline

The Code of Discipline is a voluntary set of principles aimed at promoting discipline and fostering healthy relations between management and workers. Adopted at the 16th Indian Labour Conference in 1958, it was designed to encourage mutual respect and cooperation. Although initially welcomed with optimism, its practical application has faced limitations. Both employers and employees sometimes fail to fully adhere to the code, hindering its effectiveness in promoting harmonious industrial relations.

#### III. Labour Welfare Officer

Under the *Factories Act, 1948*, factories with 500 or more workers are required to appoint a Labour Welfare Officer. This officer ensures workers' health, safety, and welfare within the workplace. Acting as a bridge between employees and management, the officer facilitates effective communication, ensures compliance with standing orders, and oversees grievance procedures, thereby helping maintain a peaceful work environment.

#### IV. Labour Participation in Management

**a) Work Committee**

A Works Committee comprises representatives from both employees and employers, with the number of worker representatives being equal to or greater than that of the employer’s representatives. The Royal Commission on Labour regarded the Works Committee as an internal mechanism to prevent and resolve industrial disputes. It recommended three key measures to enhance industrial relations:

i. Strengthening stable trade unions.
ii. Establishing Works Committees within industries.
iii. Appointing Labour Welfare Officers to address workers' welfare.

**Functions of Work Committee**

The Indian Labour Conference in 1959 declared the following items with which the works committee would deal

1) Ensuring essential facilities like clean drinking water, restrooms, healthcare, and canteen services.
2) Improving working conditions, including adequate lighting, proper ventilation, temperature control, and sanitation.
3) Promotion of thrift and saving.
4) Educational and recreational activities.
5) Administration of festivals and national holidays.
6) Safety and accident prevention, occupational diseases and protective equipment.

**b) Joint Committee or Joint Management Council**

The joint management council originated in the Government's industrial policy resolution, in April 1956. After the publication of the second five-year plan, a term was appointed to study the working "workers' participation in management" in some European countries. The 15the session on the Indian Labour Conference accepted the recommendation of the team. The main objectives of the joint council are a) To foster harmonious relations between management and employees b) To ensure improved welfare services and other facilities for workers while educating them to comprehend and share managerial responsibilities.

**Functions**

The 15th session of the Indian Labour Conference outlined the following key functions of the Joint Management Council:

(a) The joint management council should make efforts

- Encourage employees to share constructive suggestions.
- Enhance working and living conditions for employees.
- Strengthen communication between management and the workforce.

(b) Rights to Access Information and Provide Suggestions

The Joint Management Council should have the authority to access information, discuss, and offer recommendations on:

- Overall operations of the organization.
- The organization's general economic status.
- Methods of production and work processes.
- Status of production, marketing, and sales.

- Long-term development strategies.
- Annual financial statements and profit reports.

(c) Areas of Responsibility

The council should take responsibility for:

- Managing welfare and safety initiatives.
- Planning work schedules, breaks, and holidays.
- Overseeing vocational training programs.
- Rewarding valuable suggestions made by employees.

(d) Consultation on Key Matters

- Management should consult the council regarding:
- Introduction of new production methods.
- Downsizing, closures, or suspension of operations.
- Administration and necessary amendments to standing orders.

## V. Collective Bargaining

Collective bargaining in India has evolved significantly since independence, playing a vital role in maintaining industrial peace and enhancing productivity. Historically, during the laissez-faire era, employers exercised unrestricted authority over hiring and firing. In contrast, countries like the United States grant workers the right to organize and bargain collectively, while Japan enshrines this right in its constitution. In India, collective bargaining emerged later, prompting the government to introduce the Industrial Disputes Act, 1947, aimed at fostering harmony between labour and capital. The Act focuses on two primary objectives: investigation and settlement of industrial disputes. Despite this legal framework, the adjudicatory system faces criticism for delays, high costs, government interference, and unpredictable outcomes. Consequently, both employers and employees increasingly favour direct negotiations to resolve disputes over wages and working conditions.

### Essential Conditions for Effective Collective Bargaining

a) Favourable Political and Social Climate

A supportive political and social climate is crucial for effective collective bargaining. Countries where governments back collective bargaining and public sentiment is favourable have seen positive outcomes. In India, political influences and the presence of multiple trade unions aligned with different parties sometimes hinder fair negotiations, as decisions may be politically motivated rather than issue-based.

b) Problem Solving Attitude

Both parties should approach negotiations with a cooperative mindset, aiming for mutual solutions. A flexible, give-and-take attitude is essential, avoiding rigid or confrontational stances.

c) Trade Unions

In a democratic setup like India's, employees have the right to form trade unions to safeguard their interests. Robust trade unions enhance the effectiveness of collective bargaining, while weaker ones may reduce its impact.

d) Access to Relevant Data

Reliable data is fundamental for informed decision-making during negotiations. The availability of accurate information improves the chances of successful bargaining outcomes.

e) Continuous Dialogue

Ongoing communication increases the likelihood of reaching agreements. Even in deadlocks, maintaining discussions with a problem-solving perspective is crucial. Temporarily setting aside contentious issues can help ease tensions and move negotiations forward.

The primary objectives of collective bargaining are:

- Safeguard the interests of both employers and employees.
- Establish and sustain cordial and cooperative relations between management and workers.
- Promote industrial democracy through inclusive decision-making.
- Minimize the need for government intervention in labour relations.

The importance of Collective Bargaining

- Enhances Mutual Understanding: Strengthens relationships between employers and employees.
- Promotes Industrial Democracy: Encourages participation in workplace decisions.
- Benefits Both Parties: Facilitates solutions that consider the interests of both employers and workers.
- Adapts to Changing Conditions: Offers flexibility to address evolving economic and workplace dynamics.
- Accelerates Decision Implementation: Ensures quicker enforcement of negotiated agreements.

## VI. Tripartite Bodies

Industrial relations in India have been significantly influenced by principles and policies developed through tripartite consultative mechanisms at both the industry and national levels. The primary goal of this system is to promote cooperation and goodwill, enabling employers, workers, and the government to resolve differences through mutual agreement.

To prevent industrial disputes, India has established two key bodies: the India Labour Conference (ILC) and the Standing Labour Committee (SLC). Representatives of workers and employers are nominated to these organizations by the central government, following consultations with national-level associations of employers and workers.

The Labour Ministry finalizes the agenda for ILC and SLC meetings after considering proposals from member organizations. Both bodies operate with minimal procedural constraints to encourage open, productive discussions. The ILC convenes annually, while the SLC meets as required to address pressing labour issues.

**Self-Check Exercise-7**

Q1. Define

1) Collective Bargaining
2) Labour Participation in Management
3) Tripartite Bodies

Q2. Discuss the methods of settlement of industrial disputes and prevention mechanisms.

## 13.10 Machinery for Settlement of Industrial Disputes

### 1) Conciliation

Conciliation is a process where representatives of employers and employees are brought together by a neutral third party to discuss their issues, reconcile differences, and reach a mutual agreement. The third party facilitates the discussion without imposing a solution. It serves as a form of state intervention to address industrial disputes. Under the Industrial Disputes Act, both central and state governments are authorized to appoint conciliation officers and establish a Board of Conciliation when necessary.

### 2) Arbitration

Arbitration involves a neutral third party who hears both sides of the dispute, gathers relevant information, and delivers a binding decision. Unlike conciliation, where the facilitator assists in discussions, the arbitrator makes the final decision.

Advantages of Arbitration:

- It is mutually established by the disputing parties, fostering trust in the process.
- The procedure is formal yet flexible, adapting to the needs of the parties involved.
- Based on mutual agreement, it promotes healthy industrial relations.

Disadvantages of Arbitration:

- It can be costly, with expenses shared between labour and management.
- Dispute resolution may be delayed.

- If the arbitrator lacks competence or is biased, the judgement may be unfair.

**3) Types of Arbitration**

**I. Voluntary Arbitration**

In this type, both parties mutually appoint an arbitrator, who intervenes only when the dispute is formally referred.

**II. Compulsory Arbitration**

Here, the disputing parties are required to submit the issue to an arbitrator, regardless of their consent. This usually occurs when voluntary settlements fail or when significant public interest is involved. The government can mandate this process to prevent prolonged disputes.

**4) Adjudication**

Adjudication is a legal process where the government appoints a legal authority to resolve an industrial dispute with a binding decision. It acts as the final solution when other methods fail. The Industrial Disputes Act outlines a three-tier adjudication system comprising the Labour Court, Industrial Tribunal, and National Tribunal.

**Self-Check Exercise-8**

Q1. Define

1) Conciliation
2) Arbitration
3) Adjudication

## 13.11 Summary

Industrial disputes are not solely triggered by workers' dissatisfaction over economic issues; they can also emerge from non-economic factors. There have been instances where strikes were effectively organized to oppose management’s decision to relocate a plant from one state to another. Additionally, issues such as the conduct of supervisors and rivalries between trade unions can also lead to disputes.

The concept of industrial relations is fundamentally based on the dynamics of friction, which plays a crucial role in fostering harmonious relations between labour and management. It is unrealistic to envision any society entirely free from some level of tension between these two groups.

## 13.12 Glossary

- **Industrial Disputes:** Conflicts between employers and employees over employment terms or working conditions.
- **Strike:** Workers' collective stoppage of work to press for demands, as defined by the Industrial Disputes Act, 1947.
- **Lock Out:** Employer’s closure of a workplace to compel workers to accept certain terms.

- **Lay–Off:** Temporary inability of an employer to provide work due to factors like power shortages or machinery breakdowns.
- **Retrenchment:** Termination of employment for reasons other than punishment, excluding illness or voluntary resignation.

## 13.13 Answers to Self-Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 13.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 13.4.

Ans.2. Refer to Section 13.4.

**Self-Check Exercise-3**

Ans.1. Refer to Section 13.5.

**Self-Check Exercise-4**

Ans.1. Refer to Section 13.6.

**Self-Check Exercise-5**

Ans.1. Refer to Section 13.7.

Ans.2. Refer to Section 13.7.

**Self-Check Exercise-6**

Ans.1. Refer to Section 13.8.

**Self-Check Exercise-7**

Ans.1. Refer to Section 13.9.

Ans.2. Refer to Section 13.9.

**Self-Check Exercise-8**

Ans.1. Refer to Section 13.10.

## 13.14 References/Suggested Readings

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## 13.15 Terminal Questions

Q1. Examine the different forms of industrial disputes such as strikes, lock-outs, lay-offs, and gheraos.

Q2. Analyze the causes of industrial disputes and the measures that can be taken to improve industrial relations.

# UNIT-14

# Collective Bargaining

**STRUCTURE**



## 14.1 Introduction

In this unit, we will explore collective bargaining, a crucial process in labour relations where employers and employees negotiate to establish fair working conditions. We will examine its features, underlying theories, key constituents, and the essential prerequisites for effective bargaining. This comprehensive overview will provide a solid foundation for understanding how collective bargaining operates and its significance in promoting industrial harmony.

## 14.2 Learning Objectives

After completion of this unit, you will be able to

- Understand the term collective bargaining and its features.
- Analyze different theories and their application in collective bargaining.

- Identify the key constituents and prerequisites required for successful collective bargaining.

## 14.3 Collective Bargaining

According to Article (2) of the Collective Bargaining Convention, 1981 (No.154), the term collective bargaining "extends to all negotiations which take place between an employer, a group of employers or one or more employers' organisations, on the one hand and one or more workers', on the other for:

a) Determining working conditions and terms of employment; and/or
b) Regulating relations between employers and workers; and/or
c) Regulating relations between employers or their organisations and a workers' organisation or workers' organisations".

Collective bargaining is the process of negotiation between employers and employees to establish agreements on working conditions. Typically, it involves discussing wages, working hours, benefits, workplace safety, and other employment terms. This process empowers employees, often represented by a union, to negotiate on equal footing with employers. The goal is to create a mutually beneficial agreement that addresses the needs and concerns of both parties, promoting fair labour practices and reducing workplace conflicts. Effective collective bargaining fosters a cooperative relationship between workers and management, contributing to a more productive and harmonious work environment.

**Self-Check Exercise-1**

Q1. Define collective bargaining and explain its significance in labour relations.

## 14.4 Features of Collective Bargaining

Collective bargaining has several important features that distinguish it as a vital process in labour relations:

1. **It's a Group Action:** Collective bargaining involves joint action rather than individual efforts. Both the parties of the settlement are represented by their groups. The employer is represented by its delegates and, on the other side employees are represented by their trade unions.
2. **Continuous Process**: Collective bargaining is an ongoing process that doesn't end with a single agreement. It includes regular meetings and adjustments to maintain relevance over time.
3. **Bipartite Process**: It involves two parties—employers and employees (usually represented by unions)—negotiating directly to reach mutual agreements. There is no intervention
4. **Negotiation**: The process is characterized by discussions and negotiations where both parties present their demands and work towards a compromise. of any third party.

5. **Voluntary**: Collective bargaining usually occurs voluntarily, depending on both parties' willingness to negotiate.
6. **Legally Recognized:** Collective bargaining and the resulting agreements are often recognized and protected by labour laws and regulations, providing a legal framework for enforcement.
7. **Conflict Resolution:** It serves as a mechanism for resolving workplace disputes and conflicts, reducing the likelihood of strikes and other industrial actions.
8. **It is Flexible:** Collective bargaining is flexible, with no rigid rules for forming an agreement. It allows for flexibility and compromise, fostering a spirit of give and take until a mutually acceptable agreement is reached by both parties.
9. **Industrial Democracy at Work:** Collective bargaining represents industrial democracy in action, allowing employees to have a voice in determining their working conditions and promoting democratic principles within the workplace.
10. **Dynamic**: The process is dynamic, adapting to changing economic conditions, workforce needs, and industry trends, ensuring that agreements remain relevant and effective over time.

**Self-Check Exercise-2**

Q1. Identify and explain two key features of collective bargaining.

### 14.5 Pre-Requisites of Collective Bargaining

Collective bargaining can be a powerful tool for resolving disputes and advancing labour interests if certain fundamental conditions are met. These conditions include:

1. The presence of a truly representative, enlightened, and robust union that operates strictly within constitutional trade union frameworks.
2. Consensus on fundamental objectives and mutual recognition of rights and responsibilities.
3. Delegation of authority to local management, particularly in companies with multiple units.
4. A progressive and strong management aware of its responsibilities to business owners, employees, consumers, and the nation.
5. Adopt a fact-finding approach and be open to using new techniques and tools to address industrial challenges.

**Self-Check Exercise-3**

Q1. What are the essential conditions required for effective collective bargaining?

### 14.6 Theories of Collective Bargaining

There are three important concepts of collective bargaining which have been discussed as follows:

#### 1. The Marketing Concept and the Agreement as a Contract

According to this theory, the marketing concept views collective bargaining as a labour contract, essential in a market or exchange relationship. It ensures that organised workers have a say in the terms of their labour sale, applying the same rules as commercial contracts. Through collective bargaining, employees negotiate terms collectively, gaining strength against economic uncertainties, mass production, and job competition. While equal bargaining power may not be fully achieved, it solidifies workers' collective influence.

**2. The Government Concept and the Agreement as Low**

The government concept sees collective bargaining as a constitutional system within the industry, forming a political relationship. Here, the union and management share sovereignty, using their power for the workers' benefit. The agreement, akin to a constitution, is a compromise between union and management, establishing rules and mechanisms for enforcement and interpretation. When management fails to comply, grievance procedures and arbitration provide judicial mechanisms, creating a joint industrial government defending autonomy from external interference.

**3. The Industrial Relations (managerial) Concept as Jointly Decided Directives**

The industrial relations concept views collective bargaining as a form of industrial governance, where unions and management share decision-making roles. This functional relationship allows union representatives to participate in managerial discussions, leading to mutually beneficial agreements. This approach, rooted in the Industrial Disputes Act of 1947, reflects the evolution of bargaining from simple labour contracts to a system of shared governance within the industry.

**Self-Check Exercise-4**

Q1. Summarize the marketing concept of collective bargaining.

Q2. How does the government concept view the role of collective bargaining within industry?

## 14.7 Constituents of Collective Bargaining

**1. The Creation of the Trade Agreement**

The union and management negotiate contracts by presenting demands, compromising, and agreeing on employment conditions. Collective bargaining coverage varies by industry, with negotiations often drawing public attention, especially regarding wage increases.

**2. The interpretation of the Agreement**

The administrative process involves daily application and interpretation of contract terms, addressing unforeseen issues and disputes. Each case must be resolved while maintaining the contract's intended spirit.

**3. Enforcement of the Agreement**

Timely and proper contract enforcement is crucial for successful collective bargaining. Mismanagement can undermine expected benefits and spark new disputes. Precedents from resolving daily issues help guide future enforcement, ensuring ongoing effective labour relations.

**Self-Check Exercise-5**

Q1. Explain the process involved in creating a trade agreement through collective bargaining.

Q2. What are the key factors in the interpretation and enforcement of collective agreements?

## 14.8 Summary

In this unit, we explored collective bargaining, focusing on its definition, features, and theories. We examined how it functions as a negotiation process between employers and employees, including its prerequisites and key constituents. The unit covered various concepts of collective bargaining, such as the marketing, government, and industrial relations perspectives, and discussed the creation, interpretation, and enforcement of trade agreements.

## 14.9 Glossary

- **Collective Bargaining**: Collective bargaining is the process of negotiation between employers and employees to determine working conditions.
- **Marketing Concept**: View of collective bargaining as a labour contract within a market relationship.
- **Government Concept**: Perspective seeing collective bargaining as a constitutional system with shared sovereignty.
- **Industrial Relations Concept**: View of collective bargaining as a form of industrial governance.

## 14.10 Answers to Self-Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 4.

**Self-Check Exercise-3**

Ans.1. Refer to Section 5.

**Self-Check Exercise-4**

Ans.1. Refer to Section 6.

Ans.2. Refer to Section 6.

**Self-Check Exercise-5**

Ans.1. Refer to Section 7.

Ans.2. Refer to Section 7.

## 14.11 References/Suggested Readings

## 14.12 Terminal Questions

Q1. Discuss the various theories of collective bargaining and their implications for labour relations. How do these theories influence the practical application of collective bargaining?

Q2. Analyse the features and prerequisites of collective bargaining. How do these factors contribute to the success or failure of collective bargaining processes in different industries?

**UNIT-15**

# Government Policies for Labour

**STRUCTURE**



## 15.1 Introduction

In this unit, we will explore the evolution and impact of labour policies in India, focusing on their role in shaping employment practices and promoting economic development. We will examine the government's labour policy framework, the classification of central labour laws, and the significant reforms introduced through new labour codes. Additionally, we will discuss how these policies address issues like worker welfare, social equity, and industrial relations, ensuring a balanced and just work environment in the modern era.

## 15.2 Learning Objectives

By the end of this unit, you will be able to

- Understand the relationship between labour policies and national economic development.
- Identify the key features of central labour laws and their classifications.
- Evaluate the impact of recent labour policy reforms in India.

## 15.3 Labour Policy of Government

Labour plays a crucial role in boosting productivity, requiring management to foster conditions that maximize worker contributions. In 21st-century India, labour movements and trade unions must shoulder greater responsibilities amid evolving challenges. The Five-Year Plans aim to enhance labour's role in national development. Industrial harmony, essential for economic progress, requires cooperation among employers, employees, and the community for collective prosperity.

Labour legislation is needed to address:

1. The partnership between workers and employers in maintaining production and growing the national economy.
2. The obligation to protect workers' well-being and ensure fair economic gains.
3. Improving workers' conditions and providing basic amenities.
4. Preventing industrial disputes, ensuring health and safety, and protecting vulnerable groups like women and children.

**Self-Check Exercise-1**

Q1. How does industrial harmony contribute to economic progress?

Q2. What is the primary purpose of labour legislation in India?

## 15.4 Central Labour Laws and their classification

The key Central Labour laws can be categorised Plantation based on their focus in the following areas.

I. **Laws related to Industrial Relations such as:**
   1) Trade Unions Act, 1926
   2) Industrial Employment Standing Order Act, 1946
   3) Industrial Disputes Act, 1947

II. **Law related to Wages such as:**
   1) Payment of Wages Act, 1936
   2) Minimum Wages Act, 1948
   3) Payment of Bonus Act, 1965

**III. Law related to working hours, conditions of services and Employment such as;**

1) Factories Act, 1948
2) Plantation Labour Act, 1951
3) Mines Act, 1952
4) Working Journalists and other Newspaper Employees' (Conditions of Service and Misc. Provisions) Act, 1955
5) Motor Transport Workers Act, 1961
6) Beedi & Cigar Workers (Conditions of Employment) Act, 1966
7) Contract Labour (Regulations & Abolition) Act, 1970
8) Sales Promotion Employee Act, 1976
9) Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
10) The Employees Liability Act, 1938
11) Dock Workers (Safety, Health and Welfare) Act, 1986
12) Building & Other Construction Workers (Regulation of Employment & Conditions of Service) Act, 1996
13) Building & Other Construction Worker Cess Act, 1996
14) Cine Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981

**IV. Laws related to Equality and Empowerment of Women**

1) Maternity Benefit Act, 1961
2) Equal Remuneration Act, 1976

**V. Laws related to Deprived and Disadvantaged Sections of the Society**

1) Bonded Labour System (Abolition) Act, 1976
2) Child Labour (Prohibition & Regulation) Act, 1986
3) Children (Pledging of Labour) Act, 1933

**VI. Laws related to Social Security**

1) Workmen's Compensation Act, 1923
2) Employees' State Insurance Act, 1948
3) Employees' Provident Fund & Miscellaneous Provisions Act, 1952
4) Payment of Gratuity Act, 1972

**VII. Laws related to Labour Welfare**

1) Limestone & Dolomite Mines Labour Welfare Fund Act, 1972
2) Beedi Workers Welfare Fund Act, 1976
3) Beedi Workers Welfare Cess Act, 1976
4) Iron Ore Mines, Manganese Ore Mines & Chrome Ore Mines Labour Welfare Fund Act, 1976
5) Iron Ore Mines, Manganese Ore Mines & Chrome Ore Mines Labour Welfare Cess Act, 1976
6) Cine Workers Welfare Fund Act, 1981. (A)
7) Cine Workers Welfare Cess Act, 1981. (A)
8) The Mica Mines Labour Welfare Fund Act, 1946. (A)

**VIII. Laws related to Employment & Training**

1) Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
2) Apprentices Act, 1961. (B)

**IX. Others**

1) Weekly Holiday Act, 1942
2) Personal Injuries (Emergency) Provisions Act, 1962
3) Personal Injuries (Compensation Insurance) Act, 1963.
4) Labour Laws (Exemption from Furnishing Returns and Maintaining Register by Certain Establishments) Act, 1988

**Self-Check Exercise-2**

Q1. List two laws related to industrial relations.

Q2. Which act regulates the minimum wages in India?

## 15.5 Key Features of Labour Legislation

The key features of labour legislation are the following:

**1) Social Equity:** Labour laws are founded on the principle of fairness. They set a standard for the future while considering past and present conditions. As society evolves, these laws may require revisions. The government holds the authority to implement such changes through designated legal provisions.

**2) Social Justice:** In the workplace, social justice means sharing profits fairly between employers and workers. It also protects workers' health, safety, and lives from harmful effects.

**3) International Uniformity:** Labour laws are also formulated in accordance with international standards. The International Labour Organization (ILO) works to eliminate injustice and improve working conditions worldwide, aiming for lasting peace based on social justice. The ILO's key principles include:

- Labour is not just a commodity.
- Freedom of expression and association is crucial for progress.
- Poverty anywhere threatens prosperity everywhere.
- A continuous effort is needed to fight against want, involving workers, employers, and governments working together for common welfare.

**4) National Economy:** When creating labour laws, the country's economic situation is considered to ensure the laws meet their objectives. Without these laws, workers could be exploited by employers. Labour legislation protects workers by setting rules for working conditions, hours, safety, minimum wages, bonuses, and equal pay for equal work.

The first significant labour law was the Apprentices Act of 1850, which aimed to help children, especially orphans and poor children, learn trades for their livelihood. Over time, more laws were introduced to protect workers, including those in factories, especially children, from exploitation.

India's labour policy is guided by the Constitution's Directive Principles, evolving to meet the needs of economic development and social justice. The Seventh Plan emphasized using the country's human resources for development and improving their skills for progress.

**Self-Check Exercise-3**

Q1. What is the significance of the Apprentices Act, 1961?

Q2. Which act provides for social security through the Employees' Provident Fund?

Q3. Name one law that focuses on labour welfare in the mining sector.

## 15.6 Important Labour Laws in India

The important labour laws in India are as follows:

1) Apprentices Act, 1961
2) Employees State Insurance Act, 1948
3) Employees Provident Fund and Misc. Provisions Act, 1952
4) The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
5) Factories Act, 1948
6) Industrial Disputes Act, 1947
7) Labour Laws (Exemption From Furnishing Returns & Maintaining Registers By Certain Establishments) Act, 1988
8) Payment of Bonus Act, 1965
9) Payment of Gratuity Act, 1972
10) Workmen's Compensation Act, 1923
11) Trade Union's Act, 1926
12) Shop and Establishment Act, 1954
13) Laws Related to Wages
14) Laws Related to Child Labour
15) Laws Related to Contract Labour
16) Maternity Benefit Act, 1961

**Self-Check Exercise-4**

Q1. Which act provides for social security through the Employees' Provident Fund?

Q3. Name one law that focuses on labour welfare in the mining sector.

## 15.7 New Labour Codes

The new Labour Codes aim to empower workers and contribute to a self-reliant India. Since independence, around 90% of the workforce, which totals over 50 crore people, still works in the unorganized sector with limited social security. For the first time, the government has taken significant steps to protect workers in both organized and unorganized sectors by simplifying 29 existing laws into 4 comprehensive Labour Codes. These reforms ensure that all workers receive minimum wages and social security benefits. The push for these changes accelerated after the success of GST, with extensive consultations ensuring broad support for these critical reforms.

### 15.7.1 The Codes on Wages, 2019

The new Minimum Wages Code has consolidated four labour laws, granting all workers the right to a minimum wage for the first time. This code, introduced in 2019, benefits 50 crore workers in both organized and unorganized sectors by ensuring wage, social, and health security. Key features include regular reviews of minimum wages every five years, timely wage payments, and equal pay for male and female workers. Additionally, the introduction of a floor wage aims to reduce regional wage disparities, and the wage ceiling under the Payment of Wages Act has been raised from ₹18,000 to ₹24,000.

### 15.7.2 The Code on Social Security, 2020

To secure all workers' rights, the Central Government has merged nine labour laws into the Social Security Code, ensuring coverage for insurance, pensions, gratuity, and maternity benefits. This code creates a comprehensive social security framework, with contributions from both employers and workers. The government may also contribute to support disadvantaged workers. ESIC facilities will be extended to all sectors, expanding from 566 to 740 districts, including hazardous workplaces and platform workers. The code also includes pension schemes for all workers, removal of minimum service requirements for gratuity, and a national database for unorganized sector workers, linked with a Universal Account Number (UAN).

### 15.7.3 Occupational Safety, Health and Working Conditions Code, 2020

To enhance workplace safety and health, the Occupational, Safety, Health, and Working Conditions (OSH) Code, 2020, consolidates 13 labour laws. This code protects workers in factories, mines, plantations, transport, and other sectors, including contract and migrant workers. Key features include easier registration for inter-state migrant workers, mandatory annual health check-ups, and provision of appointment letters. The code also supports women's rights, allowing them to work in any establishment, including at night, with proper safety measures. Additionally, maternity leave was extended to 26 weeks, and crèche facilities are required in workplaces with 50 or more workers.

### 15.7.4 Industrial Relations Code, 2020

The Central Government has merged three labour laws into the Industrial Relations Code, 2020, to protect trade unions and workers. The Code includes provisions for workers such as benefits under the Atal Bimit Vyakti Kalyan Yojna for job loss, re-skilling wages during retrenchment, and faster resolution of disputes through Tribunals. It also establishes rules for trade union recognition and strengthens laws and schemes for inter-state migrant workers, including Garib Kalyan initiatives.

## 15.8 Benefits of Codification

The benefits of codification are the following:

- Single Registration; Single License; Single Statement; Minimum Forms
- Common definitions
- Reduction of Committees
- Web-based surprise inspection
- Use of technology – Electronic registration and licensing
- Reduction of compliance costs and disputes

**Self-Check Exercise-5**

Q1. How many existing laws have been simplified into the new Labour Codes?

Q2. What is the purpose of the Code on Social Security, 2020?

Q3. What key feature does the Occupational Safety, Health, and Working Conditions Code, 2020 include?

## 15.8 Summary

In this unit, we discussed the critical aspects of India's labour policy, including the role of labour in economic development, the classification of central labour laws, and the recent reforms in labour legislation. We examined how these laws and codes aim to improve working conditions, ensure fair wages, and protect the rights of workers across various sectors. The unit highlighted the importance of industrial harmony, social justice, and the evolving needs of the labour force in a modern economy.

## 15.9 Glossary

- **Industrial Harmony**: Cooperation among employers, employees, and the community for collective prosperity.
- **Labour Legislation**: Laws designed to protect workers' rights, ensure fair working conditions, and regulate labour relations.
- **Social Equity**: The principle of fairness in applying and creating labour laws.
- **Codification**: Consolidating and simplifying laws into comprehensive legal codes.
- **Minimum Wage**: The lowest legal wage that can be paid to workers, ensuring basic income security.

## 15.10 Answers to Self-Check Exercise

### Self-Check Exercise-1

Ans.1. Refer to Section 3.

Ans.2. Refer to Section 3.

### Self-Check Exercise-2

Ans.1. Refer to Section 4.

Ans.2. Refer to Section 4.

### Self-Check Exercise-3

Ans.1. Refer to Section 5.

Ans.2. Refer to Section 5.

Ans.3. Refer to Section 5.

### Self-Check Exercise-4

Ans.1. Refer to Section 6.

Ans.2. Refer to Section 6.

### Self-Check Exercise-5

Ans.1. Refer to Section 7.

Ans.2. Refer to Section 7.2.

Ans.3. Refer to Section 7.3.

### 15.11 References/Suggested Readings


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### 15.12 Terminal Questions

Q1. Examine the role of India's labour legislation in promoting industrial harmony and protecting workers' rights.

Q2. Critically analyze the impact of the new labour codes on employment practices and social security in the organize and unorganized sectors.

**UNIT – 16**

# SOCIAL SECURITY AND LEGISLATIVE MEASURES FOR LABOUR

**STRUCTURE**



## 16.1 Introduction

Social security is widely seen as a fundamental building block of a just and equitable society. Although welfare, pension, and charity have existed since the earliest civilisation, the modern idea of social security emerged mainly after the Industrial Revolution. The profound changes in social and economic structures wrought by the Industrial Revolution created the environment for the development of organised systems of welfare provision spearheaded by the state. The International Labour Organization defines – social security as comprising of nine elements; medical benefits, sickness benefits, unemployment benefits, old–age support, employment injury support, family support, maternity benefits, invalidity benefits and survivor’s benefits.

Over 85 percent of the labour force is employed in the unorganized sector., it is no surprise that the provision of comprehensive social security for the unorganised sector has been a stated objective of the Indian government. In the spirit of extending social security to the unorganized sector and keeping in mind long-term demographic trends which indicate a rapidly ageing population and a non-–declining unorganized sector workforce, the government of India passed the Unorganised Workers Social Security Act in 2008.

## 16.2 Learning Objectives

After going through this unit, you will be able to

- Understand the meaning of social security measures.
- Comprehend the need for social security measures.
- Explicate the Social Security schemes in India.
- List the problems in implementing social security schemes.

## 16.3 Meaning of Social Security

The International Labour Organization (ILO) defines social security as "the protection which society provides for its members through a series of public measures against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, invalidity and death; the provision of medical care and provision of subsidies for families with children". Social security refers to the protection provided by society through designated organizations to safeguard its members against recurring risks.

**Self-Check Exercise-1**

Q1. Define Social Security.

## 16.4 Need for Social Security

In India, around 90% of households rely on the unorganized sector for their livelihood. Globally, most rural and informal sector workers lack access to social security measures. In developing countries, the majority of the population belongs to these sectors, often without insurance or benefits like maternity leave, retirement plans, or health coverage. They also lack representative organizations to advocate for their rights. The poor are especially vulnerable due to limited health security. They spend a significant portion of their income on medical expenses and lose earnings during illness. Many reside in remote rural areas with limited or no access to healthcare, while traveling to distant hospitals adds to their costs. Workers need reliable social security for themselves and their families, while employers are responsible for ensuring adequate coverage for their employees.

Needs Necessitates Social Security

I. Physical Risks: Includes sickness, disability, old age, maternity, accidents, and death.

II. Economic Risks: Arise from unemployment and the financial strain of supporting a large family.

a. Social Impact of Social Security Measures
   I. Short–term Effects: Ensures proper medical care and reduces the risk of accidents and illnesses, benefiting both workers and society.
   II. Long–term Effects:
      - Increases productivity and fosters a sense of security among workers.
      - Lowers absenteeism, reduces labour turnover, and stabilizes the workforce.
      - Enhances living standards and improves livelihoods.

b. Significance of Social Security Methods
   - Supports the development of a welfare state and promotes a stable, efficient labour force.
   - Minimizes losses from industrial disputes, illness, and disability.
   - Reduces the adverse social effects of industrialization, such as unemployment, disability, frustration, and dissatisfaction.

c. Aims of Social Security Measures

Social security aims to improve working conditions and ensure the well-being of workers and their families.

- Reduction in the hours of work.
- Better lighting and ventilation.
- Proper disposal of trade.
- Waste and adequate provision for the bathrooms etc.
- Improve the safety measures to reduce accidents and disability.

**Self-Check Exercise-2**

Q1. What are two examples of physical risks that social security helps to protect against?

Q2. How does social security improve the lives of workers in the long term?

## 16.5 Approaches to Social Security

I. Social Assistance
II. Social Insurance

### I. Social Assistance

A system designed to offer financial support to individuals with limited income, ensuring they meet a basic standard of living through state-funded resources. The key aspect of this system is that recipients are not required to contribute to the benefits they receive. This *non-contributory scheme* focuses on supporting vulnerable groups such as children, mothers, the elderly, and individuals with disabilities, playing a vital role in maintaining economic stability.

**II. Social Insurance**

Another approach provides benefits as a legal entitlement to low-income individuals, combining contributions from beneficiaries, employers, and the government. In this *contributory scheme*, all three parties contribute to a shared fund, from which benefits are distributed during times of need. This system works best when the workforce is well-organized, legally structured, and financially secure, ensuring workers can claim benefits as a right through compulsory mutual support.

**Self-Chek Exercise-3**

Q1. What is the main difference between social assistance and social insurance?

Q2. Who typically benefits from social assistance programs?

## 16.6 Social Security Schemes Adopted for Socio-Economic Upliftment of Labour in India

The principal social security laws for workers are the following:

**a. The Employees State Insurance Act, 1948 (ESI Act)**

The ESI Act empowers the “appropriate government” to extend its provisions to various industrial, commercial, and agricultural sectors. Many states have expanded their coverage to sectors like shops, hotels, restaurants, cinemas, road transport, and newspaper establishments with 20 or more eligible employees.

**1) Administration**

The Employees' State Insurance Corporation (ESIC) administers the ESI scheme. It is chaired by the Union Minister of Labour and includes representatives from central and state governments, employers, employees, medical experts, and parliamentarians. The ESIC headquarters is in Delhi, with 58 field offices nationwide (23 regional, 26 sub-regional, 4 divisional, 2 camp, and 3 liaison offices). Additionally, 610 branch offices and 187 pay offices handle benefit disbursements. A proposal to raise the coverage salary limit from ₹15,000 to ₹25,000 per month has faced resistance from some trade unions due to concerns over service quality.

**Coverage of this Scheme**

- Approximately 91.48 lakh employees, including 15.43 lakh women, benefit from the scheme, covering around 354 lakh beneficiaries.
- Healthcare services are provided through a network of 1,427 dispensaries, 2,100+ panel clinics, 307 diagnostic centers, 143 ESI hospitals, and 43 hospital annexes with over 2,700 beds.
- Cash benefits are distributed through 610 branch offices.

**Finance of the Scheme**

The scheme is financed through contributions from employees, employers, and government support:

- Employer's contribution: 4.75% of the wage bill.
- Employee's contribution: 1.75% of wages.
- Medical care costs: State government covers 1/8, and ESIC covers 7/8 of the expenses.

**Benefits to the Employees**

- Outpatient and inpatient services
- Medicines, diagnostic tests, specialist consultations
- Maternal care (antenatal, natal, postnatal), family planning, and emergency services

**Sickness Benefit**

Cash payments during illness, up to 91 days per year

**Extended Sickness Benefit**

Coverage for chronic diseases, up to two years for continuously employed individuals

**Maternity Benefit**

12 weeks for childbirth, 6 weeks for miscarriage, and 30 days for related illnesses

**Disablement Benefit**

- Temporary disablement: 150% of standard benefits during the recovery period
- Permanent disablement: Lifetime pension as per the medical board's decision.

**Dependents Benefit**

In case of a work-related death:

- Widow: 60% of the insured person's wage
- Children: 40% of the wage

**Funeral Benefits**

Lump sum up to ₹10,000 to cover funeral expenses, provided to the closest family member or the individual incurring the costs.

**Rehabilitation**

Ongoing medical care for permanently disabled or retired workers for a nominal monthly fee of ₹10.

**b. The Workmen's Compensation Act, 1923**

This Act provides financial compensation to workers who suffer injuries while engaged in hazardous occupations. To qualify, the injury must cause total or partial disability for more than three days. Additionally, the worker should have been continuously employed in the specified occupation for at least six months.

**Compensation Rates:**

- In case of death: 40% of the deceased worker's monthly wage, multiplied by the prescribed factor, or ₹20,000—whichever is higher.
- Total permanent disability: 50% of the monthly wage, multiplied by the prescribed factor, or ₹24,000—whichever is higher.
- Partial permanent disability: Compensation is calculated as a proportion of the amount payable for total permanent disability.
- Temporary disablement: Affected workers receive half-monthly payments, amounting to 25% of their monthly wages.

### c. The Employees' Provident Fund & Miscellaneous Provisions Act, 1952 EPF & MP Act

This Act applies to specific factories and establishments with 20 or more employees, ensuring post-employment financial security through provident funds, superannuation pensions, and family pensions in cases of service-related deaths. The Employees' Provident Fund Organisation (EPFO) administers the scheme across India, covering more than 4 lakh establishments. Presently, over 3.9 crore members and their families benefit from the social security programs under EPFO. The schemes include:

- Employees' Provident Fund (EPF)
- Employees' Pension Scheme (EPS)
- Employees' Deposit Linked Insurance Scheme (EDLI)

### d. The Maternity Benefit Act, 1961

This Act applies to all establishments across India, including factories, mines, manufacturing units, and shops with at least ten employees. It ensures financial support to women during maternity leave.

**Key Provisions:**

- Eligible women receive maternity benefits equal to their average daily wages for a total of 12 weeks—6 weeks before and 6 weeks after childbirth.
- In case of miscarriage or medical termination of pregnancy (MTP), a woman is entitled to 6 weeks of paid leave.
- To qualify, a woman must have worked for at least 80 days in the 12 months preceding the expected delivery date.
- A leave period of 2 weeks is granted after a tubectomy procedure.
- If complications arise due to pregnancy, delivery, miscarriage, or a tubectomy operation, an additional one-month paid leave is provided.

### e. Central Government Health Scheme (CGHS)

Introduced on July 1, 1954, this scheme aims to provide comprehensive medical care to central government employees and their families while eliminating the complexities of medical reimbursement.

**Eligible Beneficiaries:**

- Current and former Members of Parliament
- Sitting and retired Supreme Court and High Court judges
- Freedom fighters
- Central government pensioners
- Employees of autonomous bodies/semi-government organisations
- Accredited journalists
- Former Governors and Vice Presidents of India
- Medical Facilities Provided:

**Outpatient care in various medical disciplines**

- Emergency services under the allopathic system
- Free supply of prescribed medicines
- Laboratory and radiological diagnostic tests
- Home visits for critically ill patients
- Specialist consultations at dispensaries and hospitals
- Family welfare services
- Access to specialised treatments at both government and recognised private hospitals
- 90% advance payment for specialised medical procedures requiring hospitalisation

### f. National Social Assistance Programme (NSAP)

Launched in 1995, the NSAP is a nationwide social security initiative aimed at providing financial support to impoverished households during old age, loss of a breadwinner, and maternity. Its key components include the National Old Age Pension Scheme, National Family Benefit Scheme, and National Maternity Benefit Scheme.

### g. National Old Age Pension Scheme

This scheme provides financial aid to destitute individuals aged 65 and above with no substantial income or family support.

### h. National Family Benefit Scheme (NFBS)

The NFBS offers ₹10,000 to families below the poverty line upon the death of the primary breadwinner aged between 18 and 65. The assistance goes to the head of the bereaved household after local verification.

### i. Janani Suraksha Yojana

Introduced on April 12, 2005, this scheme promotes institutional childbirth to reduce maternal and infant mortality, especially among below-poverty-line (BPL) families. It offers cash assistance of ₹500 for home births and up to ₹1,500 for institutional deliveries. Eligible women must be over 19 years, from BPL households, and undergoing their first or second delivery with at least three antenatal check-ups.

### j. Yashaswini Health Insurance Scheme of Karnataka

Initiated in 2002-03, this scheme benefits members of agricultural credit societies and self-help groups. It covers over 1,600 surgeries across 150 private hospitals. Members pay an annual premium of ₹120, with coverage up to ₹2 lakh per person per year. The scheme excludes non-surgical inpatient care but includes free outpatient services.

### k. Prasoothi Araika

This scheme supports pregnant women from BPL families. Beneficiaries receive ₹1,000 during the second trimester and another ₹1,000 during the third trimester for a maximum of two deliveries. Registration with the local health assistant is required, and payments are issued through bearer cheques.

### l. Madilu Scheme

Launched on September 15, 2007, by the Karnataka Government, the Madilu Scheme aims to reduce maternal and newborn mortality by promoting institutional deliveries among below-poverty-line (BPL) women. The scheme benefits women during their first two live births by providing a postnatal kit containing essentials for both mother and baby, including bedding, hygiene items, clothing, and baby care products.

### m. Thayi Bhagya Scheme

This public-private partnership ensures free delivery services for BPL women in accredited private hospitals. It covers normal and complicated deliveries, limited to the first two live births. Registered hospitals receive ₹3 lakh for every 100 deliveries conducted under the scheme.

### n. Other Schemes

Under the *Sandhya Suraksha* scheme, senior citizens aged 60 and above receive a monthly pension of ₹400. Beneficiaries include small and marginal farmers, unorganized sector workers, and laborers.

### o. Bagyalakshami Scheme

This scheme supports the girl child in BPL families by depositing ₹10,000 in her name at birth. The amount, along with accrued interest, can be withdrawn when she turns 18. Limited to two girls per family, the benefit requires parents to adopt family planning methods with no more than three children.

### p. Arogya Kavacha

Introduced on November 2, 2008, this emergency medical service provides free ambulance assistance by dialling *108*. Equipped ambulances reach within 20 minutes, offering pre-hospital care. Operated in partnership with EMRI (an NGO), the service covers 29 districts with 500 ambulances and a network of 610 private hospitals.

**Self-Check Exercise-4**

Q1. What are the benefits provided to employees under the Employees State Insurance (ESI) scheme?

Q2. What is the main objective of the Central Government Health Scheme (CGHS)?

## 16.7 Problems in Implementing Social Security Schemes

1. The scope of the scheme - Whom to and What to cover?

- Priority with respect to risk to be covered.
- Employment injury and invalidity.
- Sickness and death
- Maternity
- Old age and survivorship
- Unemployment

2. Financing of social security scheme.
3. Administration of social security scheme.
4. Social Security of the Unorganized Sector Workers

Approximately 85% of India's 460 million workforce is employed in the unorganized sector. According to the National Commission for Enterprises in the Unorganized Sector (NCEUS), these workers lack three essential forms of social protection: employment security (protection against unfair dismissal), income security, and work security (including benefits like health coverage, pensions, and maternity leave). To address these gaps and considering the growing elderly population and the persistent size of the unorganized workforce, the Government of India enacted the Unorganized Workers' Social Security Act (UWSSA) in 2008. While these initiatives mark progress toward providing reliable and affordable social protection for vulnerable groups, significant challenges remain:

1. Fragmented Ownership Structure and Lack of Coordination

One of the major hurdles in implementing social security schemes is the fragmented ownership and lack of coordination between managing agencies. Different schemes are overseen by various authorities:

- NPS-Lite: Regulated by the Pension Fund Regulatory and Development Authority (PFRDA)
- AABY: Managed by the Ministry of Finance

- RSBY: Overseen by the Ministry of Labour and Employment

Taking the AABY scheme as an example:

- At the national level, it is administered by the Life Insurance Corporation of India (LIC).
- At the state level, nodal agencies like the Society for Elimination of Rural Poverty (SERP) handle facilitation, monitoring, and evaluation.
- At the district level, Zilla Samakhyas are responsible for on-ground implementation.

Despite the multi-tiered structure, no entity is specifically tasked with marketing, customer awareness, or service delivery, leading to confusion regarding customer ownership, particularly under the AABY and RSBY schemes. While government contributions and premium subsidies encourage enrolment, the distribution channels and implementation processes are equally critical to the schemes' success.

2. Wide disparities in the coverage of social security schemes

Because social security falls under the Concurrent List, both central and state governments implement their own schemes, often leading to overlaps and disparities. For example, some states offer a minimum pension that conflicts with central schemes like the National Old Age Pension Scheme (NOAPS) and NPS. Although states providing higher benefits is commendable, poor coordination results in inequitable access to social protection.

- Wealthier states often offer better benefits compared to poorer ones.
- Coverage under the AABY scheme is notably skewed, with Andhra Pradesh and Maharashtra accounting for 52% of beneficiaries.
- Furthermore, 80% of all AABY claims are processed from Andhra Pradesh alone, highlighting significant regional imbalances.

3. Low level of product innovation, development and learning

The **fragmented management of social security data** hampers innovation and policy improvement:

- *RSBY* data analysis is outsourced to *GIZ*
- *LIC* holds life insurance data
- *PFRDA* maintains pension data through the *Central Record-Keeping Agency*

Since these datasets operate in isolation, there is no consolidated view of a beneficiary’s participation across schemes. This disjointed data collection, combined with inadequate human resources for analysis, stifles product development and prevents informed decision-making. Access to integrated, high-quality data is essential to identifying shortcomings and refining scheme design and execution.

**Self-Check Exercise-5**

Q1. What are some of the key risks that social security schemes aim to cover?

Q2. What is one of the main challenges in the implementation of social security schemes in India?

## 16.8 Problem with identification of beneficiaries

Schemes like AABY and RSBY identify beneficiaries using lists such as the Below Poverty Line (BPL) register, often merged with other employment databases like those of MGNREGA workers or railway porters. However, relying on these lists presents several challenges:

1. Dynamic Nature of Poverty:

Economic conditions are highly volatile, with individuals frequently slipping in and out of poverty due to sudden income losses or health emergencies. Since the BPL survey is conducted only once every decade, it fails to accurately reflect these rapid changes in household well-being.

2. Inaccuracy and Misrepresentation:

The BPL list's accuracy is often questionable. Two main issues arise:

- Inclusion errors: Individuals not genuinely below the poverty line gain access to benefits.
- Exclusion errors: Many eligible and deserving households are left out.

These discrepancies worsen the unequal distribution of social security benefits, with some needy households missing out on support while others unjustly receive assistance.

### I. Multiple Window Architecture

The fragmented ownership structure and the lack of coordination among the different Ministries running the scheme have led to an equally fragmented delivery of schemes. Currently, an unorganized sector worker who is eligible under all three schemes has to enrol at three separate windows in order to be completely covered under the scheme – she has to enrol for health insurance at an RSBY enrolment station, buy a pension through an aggregator such as a bank MFI, and enrol for life insurance through one of LIC's nodal agencies. Further, the nodal agency-led delivery model does not provide ease of access to the beneficiary on a continuous basis. Currently, most enrolments are done through enrolment camps that are run periodically – once a year. If a beneficiary were to miss this camp, it becomes very difficult to get access to the product.

**Self-Check Exercise-6**

Q1. What challenges does the "Multiple Window Architecture" present for unorganized sector workers enrolling in social security schemes?

## 16.9 Government Schemes for the Unorganized Sector

Both the central and state governments have launched various social security programs aimed at supporting workers in the unorganized sector. Most of these initiatives are structured around welfare funds, with a few directly implemented by the central government to extend social protection to unorganized workers.

Legally mandated benefits for the unorganized sector are limited to select occupations, covering approximately 15 million workers—with around 5 million under central schemes and the rest under state initiatives. When the National Old Age Pension Scheme (NOAPS) is included, covering about 6 million people, the total coverage reaches 21 million, representing a mere 6% of the unorganized workforce.

**Key Social Security Programs**

**a) National Old Age Pension Scheme (NOLPS)**

- Eligibility: Individuals aged 65 years or above with no regular means of subsistence.
- Assistance: Initially, ₹175 per month, later raised to ₹200.
- Coverage: Benefitted 72.8 lakh people in 2005–06, with states reporting an expenditure of approximately ₹195.66 crores by February 2006.

**b) National Family Benefit Scheme (NFBS)**

- Eligibility: BPL households experiencing the death of their primary breadwinner aged 18 to 65 years.
- Benefit: A lump-sum grant of ₹10,000.
- Coverage: Assisted 2.11 lakh families in 2005–06, with a cumulative expenditure of ₹80.62 crores.

**c) National Maternity Benefit Scheme (NMBS)**

- Eligibility: Pregnant women in BPL households aged 19 years or above, covering their first two live births.
- Benefit: A one-time assistance of ₹500 per beneficiary.
- Coverage: Reached 11.52 lakh women between 2000–01.
- Implementation: Local bodies like gram panchayats and municipalities are responsible for identifying beneficiaries, monitoring, and fund distribution. The financial contribution from state and central governments is based on state population size and the percentage of people living below the poverty line.

**I. Central Welfare Funds**

To ensure the welfare of workers in certain industries, Parliament has enacted legislation to establish five welfare funds administered by the Ministry of Labour. These funds provide housing, medical care, social security, education, and recreational facilities for workers in mining, beedi production, and the film industry. The funds are financed through cesses imposed on specific industries, including beedi manufacturing, feature film production, mica exports and consumption of limestone, dolomite, and iron ores.

**Relevant Legislations:**

- The Mica Mines Labour Welfare Fund Act, 1946.
- The Limestone and Dolomite Mines Labour Welfare Fund Act, 1972.
- The Iron Ore, Manganese Ore and Chrome Ore Mines Labour Welfare Act, 1976.
- The Beedi Workers Welfare Fund Act, 1976.
- The Cine Workers Welfare Fund Act, 1981.

**Other Major Central Government Schemes**

**II. Janshree BimaYojna (2000)**

This insurance scheme targets the urban and rural poor living at or below the poverty line.

- Premium: ₹200 annually per individual.
- Subsidy: 50% of the premium is covered by the central government through the Social Security Fund, while the remainder is paid by the individual, state government, or a nodal agency.

**III. Varishta Pension Bima (2003)**

Designed for workers aged 55 and above in the unorganized sector:

- Funding: Fully financed through the beneficiary’s investment.
- Returns: Offers a 9%+ annual return as a monthly pension.
- Investment Range: ₹33,335 to ₹2,66,665, yielding a monthly pension between ₹2,000 and ₹15,000.
- Implementation: Managed by LIC, with the government subsidizing the difference between the promised return and the actual LIC earnings.

**IV. Unorganized Sector Workers Social Security Scheme (2004)**

Launched on a pilot basis in 2002 and fully rolled out in 2004, this scheme aims to secure unorganized and self-employed workers earning up to ₹6,500 per month.

Contribution Structure:

- Workers aged 18–35: ₹50/month
- Workers aged 36–50: ₹100/month
- Employers: ₹100/month
- Government: 1.16% of the worker’s monthly wages

Key Benefits:

- Old Age Pension: Minimum of ₹500/month from age 60 or in cases of permanent disability.
- Accidental Insurance: Coverage of ₹1 lakh.
- Medical Reimbursement: Up to ₹30,000 annually for hospitalization and ₹25,000 for accidental death

**V. Universal Health Insurance Scheme (UHIS), 2004**

The Universal Health Insurance Scheme was initially launched in July 2003 by four public sector general insurance companies as a community-based initiative. In the fiscal year 2004–05, the scheme was revamped to exclusively cater to individuals and families living below the poverty line (BPL). The premium rates were set at ₹165 for individuals, ₹248 for families of five, and ₹330 for families of seven. The scheme offers benefits such as reimbursement of hospitalization expenses up to ₹30,000 and an accident death insurance cover of ₹25,000. However, maternity benefits are not included under this scheme.

### VI. Schemes for Handloom Weavers and Artisans

- Thrift Fund Scheme:

This scheme encourages savings among weavers, where members contribute 8 paise per rupee of their earnings. Both the central and state governments add 4 paise each to the fund. It is administered through Weavers' Cooperative Societies or Corporations.

- New Insurance Scheme:

Managed by the United India Insurance Company and co-financed by the central government (60%), state government (40%), and handloom weavers (20%), this scheme has an annual premium of ₹120. It offers compensation of ₹1,000 for loss of dwelling due to natural disasters or fire, ₹1 lakh in case of accidental death, up to ₹2,000 for hospitalization expenses, and includes maternity benefits.

- Group Insurance Scheme:

Provides a guaranteed sum of ₹10,000 to enrolled members.

- Pension Plan Scheme:

Offers a monthly pension of ₹1,000 to master craftspeople who are unable to work due to old age.

- Insurance for Power Loom Weavers:

Aimed at workers aged 18–60 earning up to ₹700 per month, this scheme equally shares the ₹120 annual premium between the central and state governments.

### VII. The Unorganized Sector Workers' Social Security Act, 2008

To address the needs of workers in the unorganized sector, the Ministry of Labour & Employment drafted the Unorganized Sector Workers Bill in 2004. Following extensive consultations, the National Advisory Council (NAC) and the National Commission for Enterprises in the Unorganized Sector (NCEUS) submitted various draft bills in 2005. These drafts were consolidated into a single legislation by July 2007. After receiving the President's assent on 23rd December 2008, the law came into effect on 16th May 2009, under the title The Unorganized Workers' Social Security Act, 2008.

**Key Features of the Act:**

- The Act empowers the central government to implement welfare schemes that include:
- Life and disability insurance
- Health and maternity benefits
- Old-age protection
- Other welfare measures as deemed necessary

**Existing Schemes Covered:**

- National Old Pension Scheme
- National Family Benefit Scheme
- National Maternity Benefit Scheme
- Mahatma Gandhi Bunkar Bima Yojana
- Health Insurance Scheme for Handloom Weavers
- Pension Scheme for Master Crafts Persons
- Group Accident Insurance Scheme for Active Fishermen
- Savings-cum-Relief Scheme for Fishermen
- Janashree Bima Yojana
- Aam Aadmi Bima Yojana
- Swasthya Bima Yojana

Additionally, state governments are authorized to develop schemes related to provident funds, housing, education for workers' children, employment injury benefits, skill enhancement, funeral assistance, and the establishment of old-age homes.

### VIII. Swavalamban Scheme

Launched on 9th August 2010, the Swavalamban Scheme was designed to promote saving habits among India's 300 million unorganized sector workers. Under this initiative, the central government contributes ₹1,000 annually to each eligible worker’s New Pension System (NPS) account, provided the worker contributes between ₹1,000 and ₹12,000 per year. The scheme initially aimed to cover 10 lakh workers annually for four years, ending in 2014–15. The government allocated ₹1,000 crore for contributions during this period and ₹100 crore to the Pension Fund Regulatory and Development Authority (PFRDA) for promotional efforts to boost enrolment. The primary objective is to ensure financial security during old age for workers in the informal sector, thereby reducing the government’s future social security burden.

While these schemes mark significant progress in extending social protection to vulnerable populations in India, challenges remain regarding coverage, accessibility, and effective implementation. Continuous improvements are essential to ensure these initiatives reach those in need.

**Self-Check Exercise-7**

Q1. Write short notes on

1) National Old Age Pension Scheme (NOLPS)
2) National Family Benefit Scheme (NFBS)
3) Janshree BimaYojna (2000)

Q2. Discuss two government schemes for the welfare of unorganised sector workers.

**16.10 Weaknesses of Social Security Schemes for Unorganized Sector**

**I. Multiple Access Points for Enrollment**

The delivery of social security schemes is fragmented due to the involvement of multiple ministries operating independently. This structure forces workers in the unorganized sector to register separately for different benefits. For instance, to gain full coverage, a worker must visit separate enrollment points: one for health insurance under RSBY, another for pension through a bank or microfinance institution, and a third for life insurance through LIC's nodal agencies.

**II. Disjointed Administrative Framework and Poor Coordination**

A significant drawback of the current system is the unclear division of responsibilities among agencies. For example, the Aam Aadmi Bima Yojana (AABY) is managed nationally by the Life Insurance Corporation (LIC) but implemented at the state level through different agencies. Similar patterns of ambiguity exist in other schemes like RSBY, where the ownership of the beneficiary relationship remains unclear.

**III. Challenges in Identifying Beneficiaries**

Programs such as AABY and RSBY depend on lists like the Below Poverty Line (BPL) register, often merged with other records like those of NREGA workers or railway porters. However, these lists present several issues:

- Income and health shocks can cause frequent shifts in poverty status, which are not accurately captured.
- Different committees use varying criteria to define poverty, leading to inconsistencies.
- Inaccuracies in beneficiary identification contribute to unequal access to social security benefits.

**IV. Inadequate Data Management and Human Resources**

The scattered approach to data collection and the shortage of personnel dedicated to data analysis hinder the development and improvement of social security products. Comprehensive, high-quality data on beneficiary usage is essential for effective implementation. Currently, there is no integrated system to track an individual's participation across multiple schemes.

**V. Uneven Coverage Across Regions**

There is a significant disparity in the distribution of social security benefits due to poor coordination between central and state governments. Coverage varies widely across states; for example, Andhra Pradesh and Maharashtra alone account for 52% of AABY beneficiaries. Since social security is under the Concurrent List of the Constitution, overlaps between central and state initiatives often occur, further complicating uniform access.

**Self-Check Exercise-8**

Q1. What problem does the multiple window architecture create for unorganised sector workers?

Q2. Explain the weaknesses of social security schemes for the unorganised sector.

## 16. 11 Summary

In this chapter, We examined the concept and importance of social security measures, the different methods for their implementation, and the various social security schemes introduced by the government. We also covered social security for unorganised sector workers. According to the International Labour Organization (ILO), social security is defined as "the protection provided by society through public measures against economic and social distress caused by a significant reduction or cessation of earnings due to sickness, maternity, employment injury, invalidity, and death; the provision of medical care; and subsidies for families with children."

## 16.12 Glossary

- Social Assistance: A system of providing financial support to individuals with limited means, ensuring they meet a basic standard of living through funds sourced from the government's general revenue.

- Social Insurance: A scheme that offers benefits as a right to low-income individuals, funded through a combination of contributions from beneficiaries, employers, and government subsidies.

- Social Security Measures: Protective initiatives implemented by society to safeguard its members from economic and social hardships caused by significant income loss due to illness, maternity, work-related injuries, disability, or death. These measures also include medical care and financial support for families with children.

## 16.13 Answers to Self–Assessment Question

**Self-Check Exercise-1**

Ans.1. Refer to Section 16.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 16.4.

Ans.2. Refer to Section 16.4.

**Self-Check Exercise-3**

Ans.1. Refer to Section 16.5.
Ans.2. Refer to Section 16.5.

**Self-Check Exercise-4**

Ans.1. Refer to Section 16.6.
Ans.2. Refer to Section 16.6.

**Self-Check Exercise-5**

Ans.1. Refer to Section 16.7.
Ans.2. Refer to Section 16.7.

**Self-Check Exercise-6**

Ans.1. Refer to Section 16.8.

**Self-Check Exercise-7**

Ans.1. Refer to Section 16.9.
Ans.2. Refer to Section 16.9.

**Self-Check Exercise-8**

Ans.1. Refer to Section 16.10.
Ans.2. Refer to Section 16.10.

## 16.14 References/Suggested Readings


1) Bahgoliwal, T. N. (1983). *Economics of labour and industrial relations*. Sahitya Bhawa, Publications.
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## 16.15 Terminal Questions

**Q1:** What is the definition of social security, and what social security schemes are implemented in India for the socio-economic upliftment of laborers?

**Q2:** What government schemes are available for workers in the unorganized sector?

## UNIT - 17

# The Trade Unions Act, 1926

**STRUCTURE**



## 17.1 Introduction

The Trade Union Act of 1926 in India defines a trade union as any group, whether established temporarily or permanently, formed mainly to manage the relationships between workers and employers, among workers themselves, or among employers. It also covers efforts to impose certain restrictions on the operations of any trade or business and includes federations comprising two or more trade unions. However, the veteran Indian Labour Leader Mr N. M. Joshi has rightly observed in this connection that a trade union is essentially an organisation of employees, not of employers and nor of co-partners or independent workers. Even those organisations which are for workers bit not of workers, have no right to be called trade unions.

Hence, Prof. G. D. H. Cole defined a trade union as “an association of workers in one or more occupations: an association carried out mainly for the purpose of protecting and advancing the member's economic interest in connection with daily work.”

According to Shri. V. V. Giri “A trade union is a voluntary organization of workers formed to promote and protect their interests by collective actions.”

The Act's primary aim is to facilitate trade union registration, granting them legal and corporate recognition. It also provides protection to union officials and members from civil and criminal liability for engaging in lawful trade union activities.

## 17.2 Learning Objectives

After studying this unit, you should be able to understand

- The meaning of Trade Union.
- The process of registration of Trade Union.
- The rights and liabilities of registered Trade Unions.
-

## 17.3 Definitions

**I.** Appropriate Government: Refers to the Central Government for trade unions operating across multiple states, and the State Government for trade unions confined to a single state.

**II.** Executive: Denotes the managing body of a trade union, regardless of the name by which it is known, responsible for handling its operations.

**III.** Office Bearer: In the context of a trade union, an office bearer is any member of its executive body, excluding auditors.

**IV.** Registrar: Refers to the official appointed under Section 3 by the appropriate government to oversee trade union matters. This includes the Registrar of Trade Unions, as well as any Additional or Deputy Registrars. The Registrar’s jurisdiction corresponds to the state where the union’s head or registered office is located.

**V.** Trade Dispute: Encompasses conflicts between employers and workers, among workers themselves, or among employers, related to employment, non-employment, working terms, or labour conditions. The term "workmen" covers all individuals employed in any trade or industry, irrespective of their direct employment with the involved employer.

**VI.** Trade Union: Refers to any group, whether temporary or permanent, formed to manage relations between workers and employers, among workers, or among employers. It also includes federations comprising two or more trade unions.

**Exceptions:** This Act does not apply to:

- Agreements between business partners concerning their partnership.
- Agreements between an employer and employees regarding employment terms.
- Agreements related to the sale of business goodwill or professional training.

A trade union is an organized group of workers within a particular industry or craft. It also includes associations of employers to ensure both parties share equal rights and responsibilities. Whether an organization qualifies as a trade union depends mainly on its purpose and objectives.

**Self-Check Exercise-1**

Q1. Define

1) Trade Union
2) Trade Dispute
3) Appropriate Government

### 17.4 Registration of Trade Unions

**Appointment of Registrar**

According to the Act, the appropriate government must designate an individual as the Registrar of Trade Unions for each state. Additionally, it may appoint as many Additional and Deputy Registrars as deemed necessary. These officials will operate under the guidance and supervision of the Registrar, performing the duties specified through an official order. The government can also establish the jurisdiction within which these officers will exercise their powers.

**Mode of Registration (Section 4)**

To register a trade union, at least 10% of the total workforce or 100 workers (whichever is lower), with a minimum of seven members employed in the concerned establishment or industry, must be part of the union on the application date.

**Application for Registration (Section5)**

An application for registration must include the trade union’s rules and a statement containing:

1. Names, occupations, and addresses of the members.
2. The trade union's name and its head office address.
3. Details of the office bearers, including their names, ages, addresses, and occupations.

**Rules of the trade union (Section 6)**

For a trade union to be registered, its executive body should comply with the Act’s provisions. The union’s rules must cover the following aspects:

1. **Union Name:** The official name of the trade union.

2. **Objectives:** Complete details of the purposes for which the union is established.
3. **Use of General Funds:** Specification of how the union's funds will be utilized.
4. **Membership Records:** Maintenance of a members' list with provisions for inspection by office bearers and members.
5. **Membership Admission:** Criteria for admitting ordinary members employed in the relevant industry and the number of honorary or temporary office bearers forming the executive body.
6. **Membership Subscription:** Minimum subscription fees as follows:
   - ₹1 per annum for rural workers
   - ₹3 per annum for workers in other unorganized sectors
   - ₹12 per annum for workers in other sectors
7. **Member Benefits and Penalties:** Conditions for availing benefits and rules regarding fines or forfeitures.
8. **Amendments:** Procedures for modifying, varying, or repealing the rules.
9. **Office Bearers:** Process for appointing and removing executive members and office bearers.
10. **Financial Management:** Secure management of union funds, annual account audits, and inspection facilities for members.
11. **Dissolution:** Procedure for dissolving the trade union.

**Entry of Registration (Section 8)**

Once the Registrar is satisfied that the trade union has met all the legal requirements under the Act, the union is officially registered under the Trade Unions Act.

**Certificate of Registration (Section 9)**

After registration, the Registrar issues a certificate in the prescribed format, which serves as definitive proof that the trade union is officially registered.

**Cancellation of Registration (Section 10)**

The Registrar may cancel the registration of a trade union under the following circumstances:

1. **Voluntary Application:** Upon receiving a verified application from the trade union itself.
2. **Fraud or Non-Existence:** If the registration was obtained through fraud or error, or if the trade union has ceased to exist.

3. **Violation of Provisions:** If the union deliberately violates any provision of the Act despite receiving prior notice.
4. **Inconsistent Rules:** If the union maintains rules that conflict with the Act's provisions.
5. **Rescinding Essential Rules:** If it cancels any rule that is required under the Act.

For cancellations under the second condition (fraud or non-existence), the Registrar must provide the union with at least two months' written notice, outlining the reasons for the proposed cancellation.

**Self-Check Exercise-2**

Q1. What conditions must be met for a trade union to be registered according to the Act?

Q2. Under what circumstances can the registration of a trade union be cancelled by the registrar?

### 17.5 Appeal

If a trade union's registration is denied or cancelled, it has the right to appeal:

- If the head office is in a Presidency-town: Appeal to the High Court.
- If the head office is elsewhere: Appeal to a designated court, not below the rank of an Additional or Assistant Judge, as appointed by the appropriate government.

**Appellate Court Powers and Procedures:**

- The appellate court may either dismiss the appeal or direct the Registrar to register the union and issue a certificate.
- The appellate court follows the same procedures and holds similar powers as stated in the Code of Civil Procedure, 1908.
- If the appellate court rejects the appeal, the petitioner retains the right to further appeal to the High Court.

**Additional Provisions**

- All official communications to the trade union should be sent to its registered head office.
- Any changes in the head office location must be reported to the Registrar within 14 days.
- Every registered trade union is recognized as a legal entity with perpetual succession and a common seal. It has the right to acquire and manage property, enter contracts, and initiate or face legal proceedings under its registered name.

**Self-Check Exercise-3**

Q1. What do you mean by Appeal?

Q2. What is the procedure for appealing a registrar's decision to refuse or cancel the registration of a trade union, and what options are available if the appeal is dismissed?

## 17.6 Rights and Liabilities of Registered Trade Unions

The Trade Unions Act, 1926 outlines specific responsibilities, rights, and obligations for registered trade unions. According to Section 15 of the Act, the general funds of a registered trade union must be utilized strictly for the purposes listed below:

1. Office-Bearers' Expenses: Salaries, allowances, and other expenses incurred by the union’s office-bearers.
2. Administrative Costs: Costs associated with the management of the union, including the auditing of general fund accounts.
3. Legal Proceedings: Expenses for prosecuting or defending legal cases involving the trade union or its members, aimed at safeguarding the rights of the union or its members in employer-employee relationships.
4. Trade Disputes: Costs related to representing members or the union during trade disputes.
5. Member Compensation: Financial assistance to members for losses resulting from trade disputes.
6. Member Welfare: Allowances to members or their dependents in cases of death, old age, illness, accidents, or unemployment.
7. Insurance Policies: Premiums for life assurance policies for members or insurance covering illness, accidents, or unemployment.
8. Educational, Social, and Religious Support: Expenditures on educational, social, or religious benefits for members or their dependents, including funeral or ceremonial expenses for deceased members.
9. Publication Maintenance: Costs for publishing a periodical focused on issues affecting employers and workers.
10. Contributions for Workers' Welfare: Donations to causes benefiting workers generally, provided that such expenses do not exceed one-fourth of the total combined income and opening balance of the union’s general funds in any financial year.

11. Other Notified Purposes: Any additional objectives notified by the appropriate government through the official gazette, subject to specific conditions.

The general funds cannot be used for political activities. Even the interest earned from investments made through political funds must be credited back to the political fund and not merged with the general funds.

**Conditions for the creation of political fund**

- **I.** A political fund can only be formed through separate contributions specifically collected for that purpose.
- **II.** No member can be forced to contribute to this fund.
- **III.** Members who choose not to contribute cannot be denied any benefits provided by the trade union.
- **IV.** Contribution to the political fund must not be a requirement for union membership.

**Immunity from Criminal Conspiracy Trade Disputes**

Office-bearers or members of a registered trade union cannot be prosecuted under Section 120B(2) of the Indian Penal Code, 1860 for agreements made to promote the objectives of the union as specified under Section 15 of the Act, unless the agreement involves committing an offence.

**Immunity from Civil Suit in Certain Cases**

A registered trade union is not liable for civil lawsuits regarding wrongful acts committed in connection with a trade dispute by its representatives, provided that these actions were done without the knowledge or against the directions of the union's executive body.

**Enforceability of Agreements**

Agreements made among members of a registered trade union are not considered void simply because they restrain trade. However, civil courts cannot entertain cases seeking to enforce or claim damages for breaches of agreements related to members' trade activities, such as buying, selling, or employment decisions.

**Right to Inspect Books of Trade Union**

Office-bearers and members have the right to inspect the union's financial records and membership lists at times specified by the union's rules.

**Right of Miners to Membership of Trade Unions**

Individuals aged 15 years and above are eligible to join a trade union and are entitled to all membership rights.

**Disqualifications of Office–Bearers**

An individual may be disqualified from holding a position in a registered trade union if:

- They are under 18 years of age.

- They have been convicted of an offence involving moral turpitude and sentenced to imprisonment unless five years have passed since their release.

Furthermore, at least half of the office-bearers in a registered trade union must be directly connected with the industry it represents. Any change in the union's name requires the approval of at least two-thirds of the total membership.

### Amalgamation of Trade Unions

Two or more registered trade unions can merge with or without consolidating their funds if:

- At least 50% of the members of each union vote on the proposal, or
- 60% of the votes cast are in favour of the merger.

### Notice of Change of Name and/or Amalgamation

To change the union's name, the secretary and **seven members** must submit a notice to the registrar. For an amalgamation, a similar notice from the secretary and seven members of each involved union is required. The registrar will approve the change if it complies with the Act's provisions, and the new name or amalgamation takes effect from the registration date.

### Self-Check Exercise-4

Q1. Explain the rights and liabilities of registered trade unions.

Q2. What are the permissible uses of the general funds of a registered trade union as outlined in Section 15 of the Trade Union Act, 1926?

Q3. What conditions must be met for the creation of a political fund within a trade union, and what are the rules regarding contributions to this fund?

## 17.7 Dissolution

To dissolve a registered trade union, a notice signed by the secretary and seven members must be sent to the registrar. The dissolution becomes effective upon the registrar's satisfaction and registration of the notice.

### Returns

- **General Statement:** A yearly audited statement of receipts, expenditures, assets, and liabilities (up to 31st December) must be submitted to the registrar.
- **Statement of Changes:** Along with the general statement, details of changes in office-bearers and updated union rules should be provided.
- **Notification of Rule Amendments:** Any amendments to the union's rules must be reported to the registrar within 15 days of the change.

### Regulations

Under Section 29 of the Act, the appropriate government has the authority to frame regulations to implement the Act's provisions. These regulations are published in the Official Gazette and carry the same weight as the Act itself.

**Self-Check Exercise-5**

Q1. What is the process for dissolving a registered trade union, and how does the dissolution become effective?

Q2. What types of returns must a registered trade union submit to the registrar, and what must be included in each return?

### 17.8 Penalties and Procedure

**I. Penalties for Default:**

Under Section 31 of the Act, if a registered trade union commits a default, its office bearers—or in their absence, all members—may be fined up to ₹5. In the event of an ongoing default, an additional penalty of ₹5 per week may be imposed after the first week. However, the total fine shall not exceed ₹50.

**II. Penalty for Wilful Default:**

Any individual who deliberately defaults is subject to a fine of up to ₹500.

**Supplying False Information Regarding Trade Unions**

Any person found intentionally providing false information or attempting to mislead regarding trade union matters is liable for a fine of up to ₹200.

**Cognizance of Offences**

- Offences under this Act can only be tried by a Metropolitan Magistrate or a Magistrate of the First Class.
- Courts may take cognizance of offences only when a complaint is filed with prior approval from the registrar.
- For offences under Section 32 (regarding false information), the complaint must be filed within six months from the date of the alleged offence.

**Self-Check Exercise-5**

Q.1. What are the penalties for a registered trade union and its members in case of default, and what is the maximum aggregate fine for continuous default?

Q2. What are the conditions for trying an offence under the Trade Union Act, and what is the penalty for providing false information regarding trade unions?

## 17.9 Summary

This unit explores the Trade Unions Act of 1926, outlining key aspects such as definitions, registration procedures, and the rights and liabilities of trade unions. It details the process for appealing registration decisions, the conditions for dissolution, and penalties for non-compliance. The Act aims to regulate trade union operations by establishing procedures for their registration and cancellation, appointing state registrars, and providing legal immunity for trade union executives and members engaged in legitimate activities. This unit highlights the legal framework that governs the establishment, functioning, and regulation of trade unions.

## 17.10 Glossary

- **Trade Union:** According to the Indian Trade Unions Act, 1926, a trade union refers to any group or association, whether temporary or permanent, established mainly to manage the relationship between workers and employers, among workers themselves, or among employers. It may also include efforts to impose certain restrictions on the operation of a trade or business and encompasses any federation consisting of two or more trade unions.
- **Appropriate Government:** The term "Appropriate Government" refers to the Central Government for trade unions operating across multiple states. For trade unions whose activities are limited to a single state, the concerned State Government is considered the appropriate authority.
- **Amalgamation:** The action, process, or result of combining or uniting.

## 17.11 Answers to Self-Check Exercise

### Self-Check Exercise-1

Ans.1. Refer to Section 17.3.

### Self-Check Exercise-2

Ans.1. Refer to Section 17.4.

Ans.2. Refer to Section 17.4.

### Self-Check Exercise-3

Ans.1. Refer to Section 17.5.

Ans.2. Refer to Section 17.5.

### Self-Check Exercise-4

Ans.1. Refer to Section 17.6.

Ans.2. Refer to Section 17.6.

### Self-Check Exercise-5

Ans.1. Refer to Section 17.7.

Ans.2. Refer to Section 17.7.

### 17.12 References/Suggested Readings


1) International Labour Organization. (n.d.). *The Trade Unions Act, 1926*. https://www.ilo.org/dyn/natlex/docs/WEBTEXT/32075/64876/E26IND01.htm
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### 17.13 Terminal Questions

Q1. Define the Trade Unions Act, 1926. What rights and liabilities are associated with registered trade unions under this Act?
Q2. Discuss the key requirements and procedures for the registration of a trade union according to the Trade Unions Act, 1926.

# UNIT - 18

# The Industrial Disputes Act, 1947

**STRUCTURE**



## 18.1 Introduction

The Industrial Disputes Act, 1947 applies throughout India and governs labour regulations for workers across the Indian mainland. It came into effect on April 1, 1947, replacing the earlier Trade Disputes Act of 1929. The need for such legislation arose after the First World War, which saw a surge in industrial unrest. To address these issues, the Government of India enacted the Trade Disputes Act, 1929, empowering authorities to intervene in industrial conflicts when necessary. The Industrial Disputes Act, 1947 introduced specific provisions for strikes in essential public services and widespread strikes impacting society. Rule 81-A granted the appropriate government the authority to mediate in industrial disputes, set up industrial tribunals, and enforce tribunal awards on both parties involved. The Industrial Disputes Bill was first presented to the Central Legislative Assembly on October 8, 1946, and subsequently passed in March 1947. Since its enactment, the Act has undergone several amendments, notably in 1982 and 1984. Presently, it comprises 40 sections organized into nine chapters.

### 18.2 Learning Objectives

By the end of this unit, you will be able to understand

- The meaning of Industrial disputes.
- The Objectives of the Industrial Disputes Act.
- The Authorities Under the Act.
- The Power, Procedure and Duties of Authorities.

### 18.3 Definitions

a) **Appropriate Government:** Section 2 (a) defines appropriate government

   **I.** Applicable in cases involving industries operated by or under the authority of the central government, including railway services, specified controlled industries, banking and insurance companies, mines, oil fields, and major ports.

   **II.** Both the central and state governments have distinct roles and responsibilities under the Act. Depending on the nature of the dispute, either government may act as the appropriate authority.

   **III.** In all other industrial disputes not covered under the central government's purview, the state government serves as the appropriate authority.

b) **Board (Section C):** Refers to the Board of Conciliation established under the Act to facilitate dispute resolution between employers and workers.

c) **Conciliation Officer (Section D):** Refers to a Court of Inquiry constituted under the Act to investigate industrial disputes and related matters.

d) **Court (Section 2 (f)):** Implies a court of inquiry constituted under this act.

**e) Employer (Section g)**

   **I.** In industries operated by or under the authority of the central or state government departments, the designated authority is considered the employer. If no specific authority is appointed, the head of the respective department assumes this role.

   **II.** The chief executive officer of the local authority concerned is deemed the employer.

**f) Public Utility Service**

Industries or services classified as essential for public welfare include:

I. **Railway and Air Transport Services:** Services responsible for transporting passengers or goods.
II. **Industries Ensuring Workplace Safety:** Any industrial operation crucial to the safety of its establishment or its workers.
III. **Communication Services:** Postal, telegraph, and telephone services.
IV. **Essential Utilities:** Industries supplying power, lighting, and water to the public.
V. **Public Health and Sanitation:** Systems ensuring public conservancy and sanitation.
VI. **Other Notified Services:** Any industry listed in the First Schedule that the appropriate government may declare as a public utility service during emergencies or in the public interest. Such a declaration is initially valid for up to six months but can be extended as deemed necessary through official notifications.

### 18.3.1 Industry

According to Section 2(j), an *industry* refers to any business, trade, undertaking, manufacturing activity, or profession carried out by employers. It also encompasses services, employment, handicrafts, and various industrial occupations or vocations performed by workers. From the employee's perspective, the employer represents the other party in the industrial relationship. Institutions such as hospitals, schools, colleges, and universities are also included within the scope of this definition.

### 18.3.2 Industrial Dispute

According to Section 2(k), an industrial dispute refers to any disagreement or conflict between employers and employers, employers and workers, or among workers themselves. Such disputes must pertain to matters related to employment, unemployment, terms of employment, or working conditions of any individual.

For a conflict to qualify as an industrial dispute, the following conditions must be met:

I. There must be the existence of an industry.
II. A workman-employer relationship must be present between the involved parties.
III. The dispute should be related to employment, non-employment, terms of employment, or labour conditions.
IV. The dispute must be related to a workman or any other person in whom, the group has a direct and substantial interest.
V. The dispute should not be merely an individual dispute; it should in some sense be a collective dispute. However, in disputes related to termination of service (dismissal, discharge or retrenchment), an individual can raise an industrial dispute.

### 18.3.3 Workmen (Section 2(5))

A workman refers to any individual, including apprentices, employed in an industry to perform skilled or unskilled manual, supervisory, operational, technical, or clerical tasks for wages or any form of compensation. This applies regardless of whether the employment terms are explicitly stated or implied. The definition also covers individuals involved in proceedings related to industrial disputes, retrenchment, dismissal, or discharge arising from or resulting in such disputes.

The definition of workman encompasses four categories of employees performing:

- **I.** Skilled or unskilled manual work
- **II.** Supervisory work
- **III.** Technical work
- **IV.** Clerical work

However, the following individuals are excluded from this definition:

1. Persons governed by the Army Act, 1950, Air Force Act, 1950, or Navy Act (Discipline), 1934.
2. Individuals employed in police services or working as officers or employees in prisons.
3. Employees primarily engaged in a managerial or administrative role.
4. Supervisory employees earning more than ₹10,000 per month or those whose duties mainly involve managerial functions, either due to the nature of their responsibilities or the authority vested in them.

**Self-Check Exercise-1**

Q1. Define

1) Appropriate Government
2) Public Utility Service
3) Industry
4) Industrial Disputes
5) Workman

## 18.4 Objectives of The Industrial Disputes Act, 1947

The primary aims of the Industrial Disputes Act, 1947 are as follows:

1. Maintain Industrial Peace: Establish mechanisms and procedures for investigating and peacefully resolving industrial disputes through negotiations.
2. Promote Social Justice: Ensure fair treatment for employers and employees while fostering industrial growth through harmonious relations.
3. Resolve Capital-Labour Conflicts: The Act provides for addressing disputes between employers and workers through conciliation, arbitration, and, when necessary, tribunal intervention.

4. Encourage Amicable Relations: Implement measures that promote goodwill and cooperative relationships between employers and employees.
5. Prevent Unlawful Actions: Deter illegal strikes and lockouts to ensure continuous industrial operations.
6. Provide Worker Compensation: Offer financial relief to workers during layoffs, retrenchments, or company closures.
7. Protect Against Victimization: Protect workers from unfair employer treatment and resolve disputes peacefully.
8. Foster Collective Bargaining: Encourage negotiations between employers and employees to reach mutually agreeable solutions.

**Self-Check Exercise-2**

Q1. What are the objectives of The Industrial Disputes Act, 1947?

## 18.5 Authorities Under the Act

### 18.5.1 Works Committee (Section 3)

Section 3 of the Industrial Disputes Act of 1947 authorizes the appropriate government to direct the employer of an industrial establishment employing 100 or more workers (currently or at any time during the previous 12 months) to form a works committee. This committee should include representatives from both the employer and the employees, ensuring that the number of worker representatives is at least equal to that of the employer. The employee representatives must be selected from among the workers in consultation with their registered trade union (as per the Trade Union Act, 1926). The primary responsibility of the works committee is to foster and maintain harmonious relations between the employer and employees. It should discuss matters of mutual interest and work towards resolving any significant disagreements.

### 18.5.2 Conciliation Officer (Section 4)

The appropriate government has the authority to appoint conciliation officers to encourage the peaceful settlement of industrial disputes. These officers can be designated for specific regions, industries, or establishments. Depending on the need, the appointments may be permanent or for a specified duration. The main role of the conciliation officer is to mediate between disputing parties and help reach an amicable solution.

### 18.5.3 Board of Conciliation

When necessary, the appropriate government may establish a Board of Conciliation through a notification in the official gazette to address industrial disputes. The board comprises a chairman and two or four other members as deemed appropriate. While the conciliation process is similar to that conducted by conciliation officers, the board holds greater authority. Its primary function is to mediate disputes and facilitate settlements between conflicting parties.

### 18.5.4 Court of Enquiry (Section 6)

The appropriate government has the authority to establish a Court of Enquiry to investigate matters related to industrial disputes. This court may consist of one or more impartial individuals, and if it has multiple members, one must be appointed as the chairperson.

### 18.5.5 Labour Court (Section 7)

The appropriate government may set up one or more Labour Courts to resolve industrial disputes concerning issues listed in the Second Schedule of the Act. These matters include:

1. Legitimacy or fairness of orders issued under standing orders.
2. Interpretation and application of standing orders.
3. Discharge, dismissal, or retrenchment of workers and associated relief measures.
4. Revocation of customary concessions or privileges.
5. Legality of strikes or lockouts.
6. Other matters not covered in the Third Schedule.

A Labour Court consists of a single qualified individual appointed by the government, possessing the necessary judicial experience.

### 18.5.6 Industrial Tribunals (Section 7A)

The appropriate government may, through an official notification, form one or more *Industrial Tribunals* to adjudicate disputes outlined in both the Second and Third Schedules. These tribunals handle complex industrial issues requiring formal adjudication.

### 18.5.7 National Tribunal (Section 7B)

The Central Government may constitute one or more National Tribunals to address industrial disputes of national significance or those involving establishments across multiple states. Such tribunals are chaired by a single individual appointed by the central government.

### 18.5.8 Notice of Change (Section 9-A)

Before implementing any modifications to service conditions—such as wages, working hours, provident fund contributions, allowances, or leave policies—employers must provide a 21-day prior notice to the affected workers. These changes are detailed in the Fourth Schedule of the Act.

### 18.5.9 Grievance Redressal Machinery

Industrial establishments employing 20 or more workers must establish one or more Grievance Redressal Committees to address workplace grievances. Key features include:

- Equal representation of employers and employees.
- A rotating chairperson selected alternately from employer and employee representatives each year.
- A maximum of six members, with at least one female member if the committee has two or more members.

### 18.5.10 Reference of Industrial Dispute

When an industrial dispute arises or is anticipated, the government may refer the matter to:

- A Board of Conciliation to facilitate a settlement.
- A Court of Enquiry for investigation.
- A Labour Court for adjudication.
- A National Tribunal for matters of national importance.

Additionally, the Act provides for voluntary arbitration to enable amicable dispute resolution outside formal adjudicatory processes.

**Self-Check Exercise-3**

Q1. What is the primary responsibility of a Works Committee as defined under Section 3 of the Industrial Disputes Act, 1947?

Q2. Explain the role of a Labour Court under Section 7 of the Industrial Disputes Act, 1947, and list at least three types of disputes it adjudicates.

### 18.6 Procedure, Powers and Duties of Authorities

**a) Duties of Conciliation Officers**

I. A Conciliation Officer may initiate conciliation proceedings when an industrial dispute exists or is anticipated. However, it is mandatory for the officer to conduct such proceedings if the dispute pertains to a public utility service with a strike notice issued.

II. The officer is responsible for investigating the dispute, examining all relevant factors, and encouraging both parties to reach a fair and amicable resolution.

III. If a settlement is achieved, the officer must submit a report to the government along with a memorandum of settlement signed by both parties.

IV. In the event of no settlement, the officer must provide the government with a comprehensive report detailing the efforts made, the facts and circumstances of the dispute, and the reasons why an agreement could not be reached.

V. The settlement or non-settlement report must be submitted within 14 days from the start of the conciliation proceedings or within a shorter period as specified by the government.

Upon reviewing the report, if the government deems it appropriate, the case may be referred to a Board of Conciliation or Tribunal. If no referral is made, the government must document and communicate the reasons to the concerned parties.

**b) Duties of Board**

The Board of Conciliation performs duties similar to those of the conciliation officer. It is required to submit its report within two months from the commencement of its proceedings.

**c) Duties of Court**

The Court of Enquiry is tasked with investigating the referred matters and must present its findings to the appropriate government within six months from the start of the enquiry.

**d) Duties of Tribunals**

When an individual dispute is referred to a Labour Court, Industrial Tribunal, or National Tribunal for adjudication, it must conduct proceedings promptly and submit its decision to the appropriate government as soon as possible after concluding the adjudication.

**Self-Check Exercise-4**

Q1. What are the key duties of a Conciliation Officer under the Industrial Disputes Act?

Q2. Compare the duties of a Board and a Court under the Industrial Disputes Act.

### 18.7 Reports and Awards, Strikes and Lockouts

**Reports and Awards**

All reports prepared by the Board of Conciliation, Labour Court, Industrial Tribunal, or National Tribunal must be in writing and signed by the respective members and presiding officers. The appropriate government is required to publish these reports within one month of receiving them.

**Strikes and Lockouts**

**Strike**

A strike refers to the collective stoppage of work by employees in an industry, either through a coordinated refusal to work or an agreement among workers to halt their employment.

Key elements of a strike include:

I. Involvement of multiple workers.
II. Cessation or refusal to continue working.
III. Joint action taken under mutual agreement or understanding.

**Lockout**

A lockout occurs when an employer shuts down a workplace, suspends operations, or refuses to continue employing a group of workers.

**General prohibition of strikes:**

Workers are prohibited from striking under the following circumstances:

I. During conciliation proceedings before the Board of Conciliation and for seven days after their conclusion.
II. While adjudication is underway before a Labour Court or Tribunal and for two months afterward.
III. If the appropriate government explicitly forbids the continuation of a strike through a reference.
IV. During arbitration proceedings and for two months following their conclusion.
V. When a settlement or award is in force.

Additional restrictions on strikes in public utility services:

I. For industries classified as public utilities, further regulations apply:
II. A strike notice must be provided to both the employer and the conciliation officer.
III. The strike cannot occur within 14 days of giving the notice.
IV. The strike must be initiated within six weeks of issuing the notice.
V. If the notice specifies a date, the strike cannot commence before that day.
VI. Strikes are prohibited during conciliation proceedings and for seven days after their completion.

Employers' rights to enforce a lockout are subject to the same conditions as those regulating workers' right to strike. These restrictions also extend to public utility services. Importantly, a strike is not considered illegal if it arises as a response to an unlawful lockout by the employer.

**Self-Check Exercise-5**

Q1. What is the definition of a "strike" according to the Industrial Disputes Act?

Q2. Name two situations when strikes are prohibited under the general restrictions of the Industrial Disputes Act.

## 18.8 Layoff, Retrenchment, Closure and Penalties

### a) Layoff

A layoff occurs when an employer is unable, refuses, or fails to provide employment to workers listed on the company's roll due to circumstances beyond their control. These situations may include shortages of essential materials like coal, power, or raw materials, excess stock accumulation, machinery breakdown, or other unforeseen reasons.

**b) Retrenchment**

Retrenchment refers to the termination of a worker's services by the employer for reasons other than disciplinary action. It does not include voluntary resignation, retirement upon reaching the age of superannuation, or termination due to the employee's ill health.

**c) Closure**

Closure signifies the permanent shutdown of an entire workplace or a portion of it, resulting in the cessation of employment at that location.

### 18.8.1 Penalties

| Section | Particular | Penalties | |
|---|---|---|---|
| | | Employee | Employer |
| Section 26 | Illegal strike and lockout | Imprisonment of up to one month or a fine of Rs. 50 or with both. | Imprisonment up to one month or a fine of Rs. 1000 or both. |
| Section 27 | Instigation | Imprisonment up to six months or a fine of Rs. 1000 or both. | Imprisonment up to six months or a fine of Rs. 1000 or both. |
| Section 28 | Financial aid to illegal strikes and lockout | Imprisonment up to six months or a fine of Rs. 1000 or both. | Imprisonment up to six months or a fine of Rs. 1000 or both. |
| Section 29 | Breach of settlement or award | Imprisonment up to six months or a fine or both. | Imprisonment up to six months or a fine or both. |
| Section 30 | Disclosing confidential information | Imprisonment up to six months or a fine of Rs. 1000 or both. | Imprisonment up to six months or a fine of Rs. 1000 or both. |
| Section 30 A | Closure without notice | Imprisonment up to six months or a fine of Rs. 1000 or both. | Imprisonment up to six months or a fine of Rs. 1000 or both. |
| Section 31 | Other | Imprisonment up to | Imprisonment up to |

| | | | |
|---|---|---|---|
| | | six months or a fine of Rs. 1000 or both. | six months or a fine of Rs. 1000 or both. |

**Self-Check Exercise-6**

Q1. Define "layoff" according to Section 2(kk) of the Industrial Disputes Act.

Q2. What are the penalties for an employer under Section 26 of the Industrial Disputes Act for illegal strike and lockout?

### 18.9 Summary

The Industrial Disputes Act is a central legislation aimed at promoting industrial peace and fostering harmonious relations between employers and employees. It seeks to ensure social justice for both parties, thereby maintaining stability in industrial environments. This Act applies to all industrial establishments engaged in business, trade, undertakings, manufacturing, distribution of goods, services, or any other calling, regardless of the number of workers employed. It outlines mechanisms for resolving industrial disputes through conciliation, voluntary arbitration, and adjudication. Additionally, the Act establishes legal prerequisites for strikes and lockouts, ensuring they occur under regulated conditions. It also mandates the payment of compensation to workers in cases of layoffs, retrenchments, and closures, thereby safeguarding employee rights during employment disruptions.

### 18.10 Glossary

- **Industrial Dispute:** A conflict between employers, employees, or both regarding employment, non-employment, or working conditions.
- **Strike:** A collective stoppage of work by employees to express grievances or demands.
- **Lockout:** An employer’s act of closing the workplace or suspending work to enforce terms on workers.
- **Layoff:** Temporary inability of an employer to provide work due to factors like material shortages or machinery breakdown.
- **Retrenchment:** Termination of a worker’s service for reasons other than disciplinary action, excluding retirement, superannuation, or health-related dismissal.
- **Closure:** Permanent shutdown of a workplace or a section of it.

### 18.11 Answers to Self-Check Exercise

**Self-Chek Exercise-1**

Ans.1. Refer to Section 18.3.

**Self-Chek Exercise-2**

Ans.1. Refer to Section 18.4.

**Self-Chek Exercise-3**

Ans.1. Refer to Section 18.5.1.

Ans.2. Refer to Section 18.5.5.

**Self-Chek Exercise-4**

Ans.1. Refer to Section 18.6.

Ans.2. Refer to Section 18.6.

**Self-Chek Exercise- 5**

Ans.1. Refer to Section 18.7.

Ans.2. Refer to Section 18.7.

**Self-Chek Exercise-6**

Ans.1. Refer to Section 18.8.

Ans.2. Refer to Section 18.8.1.

## 18.12 References/Suggested Readings


1) Ministry of Labour and Employment, Government of India. (n.d.). *The Industrial Disputes Act, 1947*. https://labour.gov.in/sites/default/files/THEINDUSTRIALDISPUTES_ACT1947_0.pdf
2) Sarma, A. M. (2017). *Industrial relations and labour laws*. Himalayan Publishing House.


## 18.13 Terminal Questions

Q1. Describe the key authorities established by the Industrial Disputes Act, 1947, and their functions in resolving industrial disputes.

Q2. Provide definitions of "strike" and "lockout" as per the Industrial Disputes Act, 1947, and explain their main characteristics.

## UNIT - 19

# The Factories Act, 1948

**STRUCTURE**

## 19.1 Introduction

The Factories Act is a central legislation which came into existence in 1881. It regulates the working conditions of the workers and lays down various provisions which are related to health, safety, working conditions, and hazardous processes of the workers. The Act has been revised periodically over the years. The Factories Act, 1948 is more comprehensive than the previous acts and focuses mainly on health, safety, welfare of workers inside the factory, working hours, minimum age to work, leave with pay, etc. The entire day to day activity taking place in the factory is governed by the Factories Act, 1948. Following the recommendations of the Rage Committee, the Govt. of India enacted the Factories Act, 1948, a comprehensive piece of legislation, which came into effect from 1$^{st}$ April 1949.

## 19.2 Learning Objectives

After studying this unit, you should be able to understand

- Meaning and definitions of factory and manufacturing process.
- Provisions of the Act regarding health, safety, welfare, and hours of work.
- Provision of an Act regarding annual leaves and wages.
- Provisions of the Act regarding offenses and penalties.

## 19.3 Definitions

### I. Factory:

A factory refers to any premises where:

a) Ten or more workers are employed with the use of power for manufacturing.

b) Twenty or more workers are employed without using power for manufacturing.

II. Manufacturing Process:

This includes activities such as:

a) Making, altering, repairing, finishing, packing, cleaning, or treating any article or substance for its use, sale, transport, or disposal.

b) Pumping oil, water, sewage, or other substances.

c) Generating, transforming, or transmitting power.

III. Worker:

A worker is anyone employed (with or without the employer's direct knowledge) in a manufacturing process, cleaning machinery or premises, or performing tasks related to the manufacturing process. Members of the Union's armed forces are not included.

IV. Occupier:

An occupier is the person with ultimate control over the factory.

a) In a partnership or association, any partner or member can be the occupier.

b) In a company, any director may be the occupier.

c) For factories managed by the central, state, or local governments, the appointed manager is considered the occupier.

**Self-Check Exercise-1**

Q1. Define

1) Factory
2) Worker
3) Occupier

### 19.4 Objectives of the Factories Act, 1948

The main objectives of the Factories Act are

**I.** The primary aim of the Factories Act is to safeguard the health, safety, welfare, working hours, leave, and other benefits of factory workers.
**II.** It seeks to regulate the working conditions within factories.
**III.** The Act ensures that essential provisions for workers' safety, health, and welfare are in place.

**Self-Check Exercise-2**

Q1. What are the main objectives of the Factories Act, 1948?

### 19.5 Health, Safety and Welfare

### 19.5.1 Health

Chapter III (Sections 11 to 20) of the Factories Act, 1948, outlines measures to safeguard workers' health:

1. Cleanliness (Section 11): Regular cleaning of floors, walls, doors, and windows to prevent dirt accumulation.
2. Waste Disposal (Section 12): Effective arrangements for disposing of waste and effluents.
3. Ventilation and Temperature (Section 13): Maintaining proper ventilation and temperature.
4. Dust and Fumes (Section 14): Measures to prevent dust and fume inhalation in work areas.

5. Artificial Humidification (Section 15): Regulating humidity levels where artificially increased.
6. Overcrowding (Section 16): Preventing overcrowding to protect workers' health and productivity.
7. Lighting (Section 17): Providing adequate natural or artificial lighting.
8. Drinking Water (Section 18): Supplying safe drinking water away from unsanitary areas.
9. Latrines and Urinals (Section 19): Separate, sufficient sanitary facilities for male and female workers.
10. Spittoons (Section 20): Providing clean spittoons to maintain hygiene.

### 19.5.2 Safety

Chapter IV (Sections 21 to 41) focuses on workers' safety in factories:

1. Fencing dangerous machinery parts to prevent accidents.
2. Restricting women and young workers from operating hazardous machinery.
3. Ensuring safe maintenance of machinery in motion.
4. Maintaining hoists and lifts with strong, sound materials.
5. Keeping floors, stairs, and passages in good condition.
6. Prohibiting lifting loads that may cause injury.
7. Protecting workers' eyes from flying particles during manufacturing.
8. Safeguarding against harmful fumes, inflammable dust, and gases.
9. Implementing fire safety measures to prevent workplace fires.

### 19.5.3 Welfare

Sections 42 to 50 of Chapter IV of the Factories Act, 1948, outline the welfare measures for factory workers:

1. Washing Facilities: Separate, adequate washing facilities for male and female workers must be provided and maintained.
2. Clothing Facilities: Arrangements for storing and drying workers' clothes.
3. Seating Arrangements: Suitable seating should be available for workers who stand while working or whose work can be done sitting.
4. First Aid: At least one first aid box per 150 workers, and an ambulance room in factories with over 500 employees.
5. Canteen: A canteen is required in factories employing more than 150 workers.
6. Shelter and Rest Areas: Factories with over 150 workers must provide shelters, restrooms, and lunchrooms with proper lighting, ventilation, and cooling.
7. Creches: Factories with over 30 female workers must provide a creche for children under six years of age.
8. Welfare Officer: Factories employing 500 or more workers must appoint a welfare officer as per regulations.

**Self-Check Exercise-3**

Q1. What are the provisions for the provisions relating to the health of the workers in a factory according to the Factories Act?

Q2. What are the provisions for the provisions relating to the safety and welfare of the workers in a factory according to the Factories Act?

### 19.6 Hours of Work

The following regulations govern the working hours of adult workers under the Factories Act:

1. Weekly Hours: Workers cannot be required to work more than 48 hours per week.
2. Weekly Holiday: Each worker must be granted a full day off every week.
3. Compensatory Holidays: If a worker misses a weekly holiday, they must be provided with compensatory leave.
4. Daily Hours: Workers cannot be employed for more than nine hours in a single day.
5. Rest Intervals: After working for five hours, workers must be given at least a 30-minute break.
6. Work Spread: The total working period, including rest breaks, should not exceed 10.5 hours in a day.
7. Overtime Pay: Any work beyond nine hours a day or 48 hours a week is considered overtime and must be compensated at twice the regular wage rate.
8. The state government may introduce rules allowing exemptions for certain factories under specific conditions.

**Self-Check Exercise-4**

Q1. Discuss the provisions in respect to the working hours of the adults according to the Factories Act.

### 19.7 Key Restrictive Provisions Regarding Employment of Women and Children

The Factories Act includes specific restrictions to safeguard women and children in the workplace:

1. Working Hours for Women: Women workers are only permitted to work between 6:00 A.M. and 7:00 P.M.
2. Prohibition of Child Labour: Employing children under the age of 14 is strictly prohibited.
3. Employment of Children Aged 14–15: Children between 14 and 15 years may work for a maximum of 4.5 hours a day.
4. Night Work Prohibition for Children: Children cannot be employed between 10:00 P.M. and 6:00 A.M.
5. Certificate of Fitness: Children must possess a fitness certificate issued by a certifying surgeon before employment.

6. Child Workers Register: Factory managers must maintain a proper register of employed children in the prescribed format.
7. Employment of Adolescents: Adolescents (aged 15–18) may work as adults if they hold a fitness certificate permitting full-day work.

**Self-Check Exercise-5**

Q1. Discuss the main restrictive provisions of the Factories Act about the employment of women and children.

## 19.8 Annual Leave with Wages

The Factories Act, 1948 provides the following provisions regarding annual leave with wages:

1. Adult Workers: An adult is entitled to one day of paid leave for every 20 days worked in the previous calendar year.
2. Child Workers: A child worker is entitled to one day of paid leave for every 15 days worked in the previous calendar year.
3. Leave Encashment: In case of dismissal, resignation, retirement, or death, the worker (or their nominee) must be paid for any earned leave.
4. Leave Calculation: Any leave fraction of half a day or more is rounded up to a full day; fractions less than half a day are disregarded.
5. Carry Forward of Leave: If a worker does not use their entitled leave, it can be carried forward to the next year—up to 30 days for adults and 40 days for children.
6. Exclusion of Holidays: Earned leave is granted separately from holidays, which are not counted within the leave period.
7. Payment Timing: Wages for the leave period must be paid before the worker begins their leave.

**Self-Check Exercise-6**

Q1: What are the provisions regarding the calculation and grant of annual leave with wages for adult and child workers under the Factories Act, 1948?

Q2: How is the payment of wages handled if a worker is discharged, dismissed, or leaves employment before utilizing their entitled annual leave under the Factories Act, 1948?

## 19.9 Obligations of Worker and Employer

### 19.9.1 Obligations of Worker

Workers in a factory are required to adhere to the following obligations:

1. Proper Use of Facilities: Workers must not intentionally tamper with or misuse equipment, facilities, or any provisions made to ensure their health, safety, and welfare.
2. Avoiding Risky Actions: Workers should refrain from any deliberate act or negligent behavior that may pose a danger to themselves or others.
3. Use of Safety Equipment: Workers are expected to use safety devices and facilities provided for their protection.
4. Penalty: Violation of these obligations may lead to imprisonment for up to three months, a fine of up to ₹100, or both.

### 19.9.2 Obligations of Employer

Employers have the following responsibilities to ensure the safe and lawful operation of a factory:

1. Government Approvals: The government must approve the factory’s location, layout, and construction and acquire the necessary license and registration.
2. Health, Safety, and Welfare Compliance: Implement all regulations related to workers' health, safety, and welfare.
3. Notification Before Operation: Provide written notice to the Chief Inspector at least 15 days before commencing operations. The notice should include details such as the name and address of the occupier and manager, the nature of the manufacturing process, the number of employees, and the power requirements.
4. Compliance with Labour Laws: Adhere to legal provisions regarding working hours, leave entitlements, weekly holidays, and overtime pay.
5. Maintenance of Records: Display mandatory notices, maintain required registers and records, and submit necessary returns as per the Act.
6. Accident and Disease Reporting: In the prescribed format, report any fatal accidents, other workplace incidents, or occupational diseases to the concerned government authority.

**Self-Check Exercise-7**

**Q1.** What are the key obligations of a worker in a factory under the Factories Act, 1948, and what are the consequences of not fulfilling these obligations?

**Q2.** List the primary obligations of an employer in a factory under the Factories Act, 1948, particularly in relation to health, safety, and statutory compliance.

## 19.10 Offences and Penalties

Sections 92 to 118 under Chapter X of the Factories Act, 1948 outline various offences and their corresponding penalties, along with procedural guidelines. The Amendment Act of 1987 significantly increased the severity of these penalties to deter violations of the Act’s provisions. Key penalties include:

1. General Penalty for Violations (Section 92): If any provision of the Act or related rules is violated in a factory, both the occupier and the manager are held liable. Punishment can include imprisonment for up to two years, a fine of up to ₹1,00,000, or both.
2. Increased Penalty for Repeat Offences (Section 94): If an occupier or manager, previously convicted under Section 92, commits a subsequent offence, they may face imprisonment for up to three years, a fine of up to ₹2,00,000, or both.
3. Penalty for Obstructing Inspectors (Section 95): Any individual who deliberately obstructs an Inspector in carrying out their duties or refuses to present requested documents may be penalized with imprisonment for up to six months, a fine of up to ₹10,000, or both.
4. Penalties for Workers (Section 97): A worker who violates any provision of the Act or its rules may be fined up to ₹500.

**Self-Check Exercise-8**

Q1. What are the general penalties under Section 92 of the Factories Act, 1948, for contraventions of the Act or any rules made thereunder?

Q2. What are the consequences under Section 94 of the Factories Act, 1948, if an occupier or manager, previously convicted, commits the same offence again?

## 19.11 Administration

The Factories Act, 1948 is a key piece of labour legislation in India. Although it is a central law, its administration is the responsibility of the state governments, which enforce it through their factory inspectorates.

- Appointment of Officials: State governments appoint inspectors and certifying surgeons with the required qualifications to oversee compliance within designated areas. In addition, the District Magistrate serves as the inspector for his district.
- Central Coordination: The Directorate General of Factory Advice Service and Labour Institute (DGFASLI), under the Ministry of Labour, ensures uniform implementation of the Act across states.
- State-Level Variations: While the rules formulated by various states are largely consistent, the degree of enforcement may vary depending on the number and size of factories in each state.

**Self-Check Exercise-9**

Q1. Who is responsible for the administration of the Factories Act, 1948, and how is it implemented?

Q2. What role do the Directorate General of Factory Advice Service and Labour Institute play in the administration of the Factories Act, 1948?

## 19.12 Summary

In conclusion, the Factories Act of 1948 serves as a vital piece of legislation aimed at safeguarding the health, safety, and welfare of factory workers in India. By setting clear guidelines on working hours and employment conditions and prohibiting child labour, the Act ensures a safer and fairer work environment. Its provisions for overtime pay, weekly rest days, and the protection of women and young workers reflect its commitment to improving labour standards. The state governments, through their factory inspectorates, play a crucial role in enforcing the Act, thereby promoting the overall well-being and rights of the workforce.

### 19.13 Glossary

- **Factory:** A place with at least 10 workers using power or 20 workers without power for manufacturing.
- **Occupier:** The person with ultimate control over the factory.
- **Worker:** Anyone involved in the manufacturing process or related tasks, with or without pay, excluding armed forces members.

### 19.14 Answers to Self–Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 19.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 19.4.

**Self-Check Exercise-3**

Ans.1. Refer to Section 19.5.

Ans.2. Refer to Section 19.5.

**Self-Check Exercise-4**

Ans.1. Refer to Section 19.6.

**Self-Check Exercise-5**

Ans.1. Refer to Section 19.7.

**Self-Check Exercise-6**

Ans.1. Refer to Section 19.8.

Ans.2. Refer to Section 19.8.

**Self-Check Exercise-7**

Ans.1. Refer to Section 19.9.1.

Ans.2. Refer to Section 19.9.2.

**Self-Check Exercise-8**

Ans.1. Refer to Section 19.10.

Ans.2. Refer to Section 19.10.

**Self-Check Exercise-9**

Ans.1. Refer to Section 19.11.

Ans.2. Refer to Section 19.11.

## 19.15 References/Suggested Readings

1) Sarma, A. M. (2017). *Industrial relations and labour laws*. Himalayan Publishing House.
2) The Factories Act, 1948. (n.d.). Retrieved from https://labour.gov.in/sites/default/files/Factories_Act_1948.pdf
3)

## 19.16 Terminal Questions

Q1. What is the Factories Act, 1948? Explain the provisions related to the health of workers in a factory.

Q2. What are the key obligations under the Factories Act? Discuss the offences and penalties outlined in the Act.

UNIT - 20

# The Employees' State Insurance Act, 1948

**STRUCTURE**

## 20.1 Introduction

The Employees' State Insurance Act, 1948 is a significant social security law in India. It offers employees benefits during sickness, maternity, and work-related injuries through a social insurance system. The scheme is funded by contributions from both employees and employers and applies across the country.

## 20.2 Learning Objectives

After studying this unit, you should be able to

- Employees State Insurance Act, 1948.
- Registration of Factory/Establishment with Employees State Insurance Act.
- Benefits of registration under the Employees State Insurance Act.
- Penalties and damages for various offences under the Employees State Insurance Act.

## 20.3 Applicability

According to Section 1(4) of the Act, its implementation is territorial. It covers all factories with 10 or more employees but excludes mines, railway running sheds, and certain seasonal factories. The state government, in consultation with the corporation and central government, can extend the Act’s provisions to other industrial, commercial, agricultural, or similar establishments by issuing a six-month prior notice in the official gazette.

**Self-Check Exercise-1**

Q1. Under the act, how many employees must a factory have for the act to apply?

## 20.4 Definitions

a) **Appropriate Government:** The term refers to the central government for establishments under its control, such as railway administrations, major ports, mines, or oilfields. In other cases, it refers to the state government.

b) **Contribution:** Contribution is the amount payable to the corporation by the principal employer for an employee, including any sum payable by or on behalf of the employee under the Act’s provisions.

c) **Employee:**
An employee is anyone employed for wages in connection with the work of a factory or establishment covered by the Act. This includes:

   **I.** Persons directly employed by the principal employer for work related to the establishment.

   **II.** Persons hired through an immediate employer working on the premises or under the principal employer’s supervision.

   **III.** Individuals temporarily lent or hired out to the principal employer under a service contract.

The term also covers administrative staff but excludes:

a. Members of the Indian armed forces.
b. Employees whose wages (excluding overtime) exceed the limit prescribed by the central government.

**d) Wages:**

Wages refer to all cash remuneration for services rendered, including payments during authorized leave, lockouts, or legal strikes. It excludes:

I. Contributions to provident or pension funds.
II. Travel allowances or concessions.
III. Payments for specific expenses.
IV. Gratuity upon discharge.

**Self-Check Exercise-2**

**Q1. Define**

1) Appropriate Government
2) Employee
3) Wages

### 20.5 Contribution

The primary funding for the scheme comes from employer and employee contributions, along with the state government covering part of the medical care expenses. All employees in applicable factories or establishments are insured under the provisions of this Act.

Contribution Rates:

- Employee Contribution: Calculated at 1.75% of the wages for each wage period.
- Employer Contribution: This is calculated at 4.75% of the total wages of all covered employees, rounded up to the nearest five paise.

Combined contributions must be deposited into the State Bank of India or any authorized bank using a prescribed challan by the 21st of the following month. Failure to pay on time attracts interest and penalties under Section 85(b) of the Act. Employees earning an average daily wage below ₹15 are exempt from their share, with only the employer paying 4.75%.

Contribution and Benefit Periods:

- For contributions from April 1 to September 30, the benefit period is from January 1 to June 30 of the following year.
- For contributions from October 1 to March 31, the benefit period runs from July 1 to December 31 of the following year.

- For new employees, the first benefit period begins nine months after the employment start date.

**Audit and Usage of Funds:**

The fund is utilized according to the Act's provisions, and its accounts are audited by auditors appointed by the central government.

**Standard Benefit Rate:**

This refers to the daily rate at which sickness benefits are paid to eligible employees during periods of illness.

**Self-Check Exercise-3**

Q1. What are the provisions for contribution according to the Employees' State Insurance Act, 1948?

### 20.6 Registration

Under Section 2-A of the Act, the employer is legally obligated to register the factory or establishment with the Employees' State Insurance Corporation (ESIC). When the Act becomes applicable for the first time, the employer must submit a declaration of registration using Form 01 to the regional office within 15 days. The regional office reviews the application to confirm coverage and, upon satisfaction, assigns a unique code number to the employer. For employee registration, the principal employer must ensure that every eligible employee completes the declaration form and submits the return of the declaration form as part of the registration process.

#### 20.6.1 Maintenance of Register

The statutory register to be maintained up to date are:

I. Register of employees.
II. Accident book in which every accident to employees during the courses of employment is recorded and
III. Inspection book.

**Self-Check Exercise-4**

Q1. What are the provisions for the registration of a factory/establishment according to the Employees' State Insurance Act, 1948?

### 20.7 Benefits

The Employees' State Insurance Act, 1948 is a significant step in introducing social insurance in India. Under this Act, insured individuals are entitled to various benefits, with most provided in cash except for medical benefits, which are offered in kind. The benefits available to insured persons are as follows:

Types of Benefits

a) **Sickness Benefit:** Regular payments are provided to insured individuals during periods of certified sickness by an appointed medical practitioner.The central government determines the eligibility criteria, conditions, duration, and rates for this benefit.

b) **Maternity Benefit:** Insured women are entitled to payments during confinement, miscarriage, or health conditions related to pregnancy, provided they are certified eligible by the designated authority.Insured women can claim this benefit during pregnancy-related circumstances, subject to conditions prescribed by the Central Government.

c) **Disablement Benefit:** Periodic payments are granted to insured persons suffering from employment-related injuries, subject to certification by the designated authority.

**Temporary Disablement:** Individuals disabled for at least three days (excluding the day of the accident) are entitled to regular payments.

**Permanent Disablement:** Individuals suffering from total or partial permanent disability receive periodic payments.

d) **Dependents' Benefit:** If an insured employee passes away due to an employment injury, eligible dependents are entitled to receive periodic payments. Provides financial support to dependents of an insured person who dies from an employment injury.

e) **Medical Benefit:** Insured individuals are entitled to medical treatment and necessary attendance. The core of the scheme, it ensures free medical care for insured persons and their families. Medical benefits are categorized as:

a) Restrictive Medical Care: Includes outpatient services at designated dispensaries or clinics.

b) Expanded Medical Care: Provides access to specialist consultations and prescribed medications.

c) Full Medical Care: Covers hospitalization, specialist services, prescribed drugs, and diet for inpatients.

f) **Funeral Benefit:** A fixed sum is provided to the eldest surviving family member of the deceased insured person to cover funeral expenses. If there is no family member, the person who bore the funeral costs is eligible. The maximum amount payable is determined by the Central Government, and claims must be submitted within three months of the insured person’s death, with possible extensions approved by the Corporation. Introduced in 1968, this benefit covers funeral expenses for the insured person, payable to the eldest surviving family member or the person responsible for the funeral.

**Self-Check Exercise-5**

Q1. What are the two conditions under which an insured woman is entitled to receive Maternity Benefits under the Employees State Insurance Act, 1948?

Q2. List and briefly describe the three parts of Medical Benefits provided under the Employees State Insurance Act, 1948.

### 20.8 Penalties and Damages

The act provides penalties and damages for various offenses. These are following

1) **Punishment for False Statement**

As per Section 84 of the ESI Act, 1948, any individual who intentionally provides false information or makes misleading representations to:

- Increase the amount of benefits or payments under the Act,
- Obtain unauthorized payments or benefits,
- Avoid payments due under the Act for themselves or assist someone else in doing so,

is subject to:

- Imprisonment for up to six months, or
- A fine of up to ₹2,000, or
- Both imprisonment and fine.

2) **Punishment for Failure to Pay Contribution**

Under Section 85 of the ESI Act, 1948, any person who:

I. Fails to contribute as required under the Act,
II. Deducts the employee’s share of the contribution from wages but does not remit it,
III. Violates Section 72 by reducing wages or benefits,
IV. Contravenes Section 73 by penalizing employees unfairly (through dismissal, discharge, or reduction of benefits),

Penalties for non-payment of deducted employee contributions:

- Imprisonment ranging from a minimum of one year to a maximum of three years, and
- A fine of ₹10,000.

For other violations:

- Imprisonment for up to six months, and
- A fine of ₹5,000.

**Power to Recover Damages**

The ESI Corporation is empowered to recover damages for non-payment of contributions:

**Non-payment of dues:** If an employer defaults on payments due under the Act, the Corporation may impose a penalty up to the amount of the arrears as specified in the regulations.

**Recovery method:** Such damages can be recovered either as arrears of land revenue or under the provisions from Section 45C to Section 45I of the Act.

**Self-Check Exercise-6**

Q1. What is the punishment for making a false statement or representation under the Employees State Insurance Act, 1948?

Q2. According to the ESI Act, 1948, what are the consequences if an employer fails to contribute or deducts the employee's contribution from wages but does not remit it?

## 20.9 Miscellaneous

Cash benefits provided under the Employees' State Insurance (ESI) Act are protected from attachment or sale to satisfy any court decree or order. Additionally, the right to receive these benefits is neither transferable nor assignable. In cases of disputes arising under the Act, the matter must be resolved by the Employees' Insurance Court, as civil courts do not have jurisdiction in such matters. If the decision involves a significant legal question, an appeal can be made to the High Court. The time limit for filing an appeal is 60 days from the date of the order. However, delays may be excused if valid reasons are provided.

**Self-Check Exercise-7**

Q1. Can cash benefits under the Employees' State Insurance Act be taken away by a court order?

Q2. Which court handles disputes under the Employees' State Insurance Act?

## 20.10 Obligations of Employers and Employees

### 20.10.1 Obligations of Employers

1) The obligation of the employer is to get his factory/establishment registered within 15 days after the act becomes applicable, supplying all the information required.
2) Arrange allotment of insurance numbers to all employees covered by the act.
3) Issue identity cards and medical acceptance cards provided by the corporation to all employees.
4) Avoid dismissing, discharging, demoting, or penalizing any employee undergoing medical treatment or absent from work due to illness, provided it is properly certified under the regulations of this Act.
5) Keep and maintain all necessary registers and records related to the factory or establishment.
6) Compensate the Corporation for any additional expenses incurred due to unsanitary working or living conditions in the factory, establishment, or housing colony.

### 20.10.2 Obligations of Employees

1) Assist the employer in obtaining the registration, insurance number, and identity cards from the ESI authorities.

2) Obtain necessary sickness and medical certificates from the medical authorities.
3) Give notice of an accident causing employment injury to the employer and other authorities and submit for medical examination as and when necessary to claim disablement benefit.
4) Return to the Corporation any benefit or payment received to which he was not entitled under the Act.
5) Submit the claims for the benefits within the prescribed time and along with the prescribed documents.

**Self-Check Exercise-8**

Q1. What is one of the obligations of employers regarding employee insurance under the Employees' State Insurance Act?

Q2. What should an employee do if they receive a benefit or payment they are not entitled to under the Employees' State Insurance Act?

## 20.11 Summary

The Employees' State Insurance Act of 1948 is a significant milestone in the evolution of social security legislation in India. This Act applies to all factories employing ten or more workers. It covers individuals whose monthly remuneration, including overtime, does not exceed ₹15,000. The Act offers a range of benefits, including sickness and extended sickness benefits, maternity benefits, disablement benefits, dependents' benefits, medical benefits, and funeral benefits. The implementation and administration of the scheme are overseen by the Employees' State Insurance Corporation (ESIC), a statutory corporate body. To ensure effective execution of the scheme, the ESIC has established a widespread network of regional and local offices across the country.

## 20.12 Glossary

- **Appropriate Government:** Refers to the central government for establishments under its control, like railways and mines; otherwise, it refers to the state government.
- **Wages:** Includes all cash payments for work, paid leave, lockouts, strikes (if legal), layoffs, and other payments made at intervals of up to two months.

## 20.13 Answers to Self–Check Exercise

**Self-Check Exercise-1**

Ans.1. Refer to Section 20.3.

**Self-Check Exercise-2**

Ans.1. Refer to Section 20.4.

**Self-Check Exercise-3**

Ans.1. Refer to Section 20.5.

**Self-Check Exercise-4**

Ans.1. Refer to Section 20.6.

**Self-Check Exercise-5**

Ans.1. Refer to Section 20.7.

Ans.2. Refer to Section 20.7.

**Self-Check Exercise-6**

Ans.1. Refer to Section 20.8.

Ans.2. Refer to Section 20.8.

**Self-Check Exercise-7**

Ans.1. Refer to Section 20.9.

Ans.2. Refer to Section 20.9.

**Self-Check Exercise-8**

Ans.1. Refer to Section 20.10.

Ans.1. Refer to Section 20.10.

## 20.14 References/Suggested readings


1) Employees' State Insurance Act, 1948. (n.d.). Retrieved from https://labour.gov.in/sites/default/files/TheEmployeesAct1948_0.pdf
2) Sarma, A. M. (2017). *Industrial relations and labour laws*. Himalayan Publishing House.


## 20.15 Terminal Questions

Q1: Define Employees' State Insurance Act, 1948. What are the benefits an insured person entitled to under this Act?

Q2: What are the obligations of employers and employees under the Employees' State Insurance Act?