Draft Labour Code

Why in news?

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Recently the draft labour code on social security was published on the Ministry of Labour & Employment website.

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What are the problems of the draft?

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- The draft is an ambitious one but incomplete document in itself.
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- It tries to consolidate existing 15 labour laws but lacks substance due to following reasons.
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- It does not recognise that social security systems for old age are structurally different from those designed for poverty.
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- It tries to combine elements of Universal Basic Income, Direct Benefits Transfer, Provident Fund, Health Insurance, Maternity Benefit, etc.
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- The above clubbing of all into one is done without thinking about financial ramifications.
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- It fails to learn lessons from the problems of rich country social security systems like fiscal sustainability, administrative costs, political design abuse, and much else.
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- The need of the hour is that the draft should revert to its original mandate of consolidating existing laws.
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- And a separate multi-ministry, multi-stakeholder commission should examine the desirability and feasibility of migrating our 50 million formal employment benefit system into a universal social security system for 1.25 billion citizens.

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- The draft says, its attempt is to simplify, rationalise and consolidate the hitherto fragmented laws to make them less complex for easier comprehension implementation and enforcement.
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- But in reality handles complicated and contradictory themes like universalisation of benefits to citizen, poor or workers.
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- Ease-of-doing business which is hardly accomplished by moving from defined contribution to defined benefit.
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- Cross-subsidisation where individual savings, payroll deductions and fiscal top-up be co-mingled into one account.
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- Added with it is mandatory rights approach where 50 per cent of labour force which is self-employed is exempted.
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- A single account for voluntary contribution, mandatory contributions, mandatory subsidised scheme, and social assistance programme for poor which is an accounting and actuarial impossibility.
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- Affordability is another key issue discussed in the draft.
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- If somebody is capable of making mandatory employer based contributions in the second employer layer why force them to join the third layer employer subsidised scheme.
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- And if the third layer requires subsidy how it is different from the fourth fully subsidised layer.
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- Along with it is registration of workers where somebody they could be introduced to Aadhaar.
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- And finally complexity of contribution due to its method based on seasonality.
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- The document’s philosophy seems overly influenced by the ILO.
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- An organisation that has seemed past its expiry date for the past decade because it is out of touch with entrepreneurship, fiscal discipline and the new world of work.
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- One estimate suggests the proposed labour code could wipe out tax

receipts.
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- If the Ministry of Labour & Employment wanted to demonstrate ambition it should have reduced mandatory payroll confiscation of 45 per cent (PF, ESI, EDLI, EPS, LWF, etc.) that currently drives an unaffordable wedge between and thereby murdering low wage formal employment.
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- Or it should have challenged uncompetitive monopolies like EPFO and ESI which are the world's most expensive government securities mutual fund and health insurance scheme.
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- The only social security India can afford is higher wages.
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- And higher wages don't come from regulatory fatwas but urbanisation, formalisation, industrialisation and human capital.
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What is the way forward?

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- Social security is probably the most complex, political and inter-disciplinary horizontal in a vertically organised government.
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- No single ministry has the knowledge to author a solution.
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- The present labour code didn't talk anything on formal job creation, and sustainability.
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- Only formal job creation with high wages can contribute to high social security system.
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- There is a huge necessity to rethink on this labour code draft because it does not balance the difficult trade-offs between rich and poor citizens.
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- Nor does it differentiates informal and formal enterprises, mandatory and voluntary participation, employer versus individual funding, and unsubsidised versus subsidised accounts.
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- No single ministry can draft a bill on social security, thus making it mandatory to have a multi ministerial model of developing a new draft with more pragmatism.

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Source: Business Standard

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