Evolution of Labour Laws in India

Mains Syllabus: GS II - Government policies and interventions for development in various sectors and issues arising out of their design and implementation; GS III - Effects of liberalization on the economy, changes in industrial policy and their effects on industrial growth.

Why in the News?

On May Day this year, Karnataka has regularised services of more than 12,000 pourakarmikas and the Platform-based Gig Workers (Social Security and Welfare) Bill, 2024, was cleared by the state cabinet.

What are the pre-economic reform labour laws in India?

- **Factories Act in 1883** – It is the act by the British Parliament aimed to regulate the working conditions of labourers.
- This Act introduced regulations such as an 8-hour workday, overtime wages, the abolition of child labour and restrictions on women working at night.

Following World War I and the international discussions on labour reforms, India witnessed the introduction of the Trade Union Act of 1923 and the Industrial Disputes Act of 1929.

- **The Trade Unions Act, 1926** – Provided legal recognition to trade unions and collective bargaining rights.
- **The Workmen's Compensation Act, 1923** – Ensured compensation for workplace injuries.
- **The Industrial Disputes Act, 1947** – Regulated industrial disputes, strikes, and layoffs.
- **The Minimum Wages Act, 1948** – Established minimum wage standards.
- **The Factories Act, 1948** – Set workplace safety and working hour regulations
- **Shops and Establishments Acts (various state laws)** - Regulated working hours, holidays, and conditions of employment in non-factory sectors like retail and services.

First National Commission on Labour (1969) and the Second National Commission on Labour (2002), along with judicial pronouncements on matters concerning minimum wages, bonded labour, child labour and contract labour, have further influenced labour legislation.

What are the impacts of 1991 economic reforms on labour market?

- In 1990 with the adoption of the new economic policy which embraced liberalisation, globalisation and privatisation, simultaneously rose a demand for changes in the labour laws.
- The reforms marked a significant shift in labour laws, moving from rigid regulations to a more flexible framework.
- **Shift from Protectionism to Flexibility** – Labour laws were gradually relaxed to encourage private investment and ease hiring and firing processes
- **Rise of informal workforce** - While no reforms were introduced immediately through legislative acts, the pattern of employment in establishments drastically changed, giving rise to a large informal workforce.
- Workers in informal work arrangements are employed in big industries such as automobiles, manufacturing and so on, in the organised sector.
- In public sector also, since the 1990s, there is significant drop in the number of permanent workers, while there is a drastic increase in the number of workers in informal work arrangements.
- **Rise of Contractual Employment** – Companies increasingly relied on contract workers instead of permanent employees, reducing job security.
- **Dilution of Social Security Measures** – Some provisions of laws like the Factories Act and Industrial Disputes Act were modified to favor businesses.
- **Rise of State-Level Reforms** - States like Rajasthan, Gujarat, and Madhya Pradesh began to amend central labor laws (permitted under the Constitution).
- For example, Rajasthan in 2014 raised thresholds for layoffs without government permission under the Industrial Disputes Act.

What is role of judiciary in labour regulations?

- **Right to Livelihood** – In Olga Tellis v. Bombay Municipal Corporation (1985) case , the Supreme Court expanded the Article 21 (Right to Life) to include the right to livelihood.
- **Curbing Arbitrary Dismissals** – In D.K. Yadav v. J.M.A. Industries Ltd. (1993) case, the court held that termination without due process violated Article 21—making procedural fairness mandatory in employment termination.
- **Equal pay** – In Randhir Singh v. Union of India (1982) , it was held that Equal pay for equal work is a constitutional guarantee under Articles 14, 16, and 39(d).
- **Protection of Women Workers** – In Vishaka v. State of Rajasthan (1997) case , the court created binding guidelines to prevent sexual harassment at the workplace, later codified in law in 2013.

Judicial Protection of Labour Rights

Principle Protected	Key Case(s)	Judicial Outcome
Right to Livelihood	Olga Tellis (1985)	Livelihood is part of Right to Life

Principle Protected	Key Case(s)	Judicial Outcome
Procedural Fairness	D.K. Yadav (1993)	Termination must follow due process
Equal Pay	Randhir Singh (1982)	Equal pay is constitutional
Natural Justice	DTC v. Mazdoor Congress (1991)	Arbitrary dismissals invalid
Sexual Harassment	Vishaka (1997)	Workplace safety for women
Contract Labour Protection	SAIL v. NUWW (2001)	Contracts must be genuine
Labour Welfare	Bhopal Gas Case (1989)	Industries accountable for safety

What is the change in judicial position affecting labour rights?

- Since 2000s, a discernible shift in judicial approach towards the issue also started becoming palpable.
- **Contract labour** - In the SAIL judgement 2001, the constitution bench of Supreme Court ruled that The Contract Labour (Regulation and Abolition) Act, 1970 did not mandate the automatic absorption of contract labour into the regular establishment when contract labour is prohibited.
- **Temporary labours** - The Secretary, State of Karnataka v. Umadevi (2006) judgement said that the employees appointed on a temporary basis do not have a fundamental right to claim permanent employment or equal pay with regular employees.
- While the judgment was aimed at preventing backdoor entries, the ruling has since then been misused widely
- **No right to strike for government employees** - In the T.K. Rangarajan vs. Government of Tamil Nadu case, it was ruled that government employees do not have the legal, fundamental, moral or equitable right to strike.

Comparison of Indian Labour Laws: Pre-1991 vs. Post-1991 Impact

Aspect	Pre-1991 (Before Economic Reforms)	Post-1991 (After Economic Reforms)
Legal Framework	Fragmented – 40+ central laws, numerous state laws	Consolidation into 4 labor codes (2020)
Hiring & Firing	Rigid – Government approval required for layoffs (ID Act Sec. 25K for 100+ workers)	Push for flexibility – States like Rajasthan raised threshold to 300; IR Code 2020 follows
Contract Labour	Heavily restricted by Contract Labour (Regulation and Abolition) Act, 1970	Widespread use of contract workers to bypass rigidities
Union Power	Strong – Recognized under Trade Unions Act, frequent strikes	Decline in union influence, move to decentralized negotiations
Wage Regulation	Sector-specific minimum wages, complex compliance	Code on Wages (2020) unifies minimum wage provisions and simplifies structure

Aspect	Pre-1991 (Before Economic Reforms)	Post-1991 (After Economic Reforms)
Social Security	EPF and ESI Acts with multiple compliance hurdles	Social Security Code (2020) aims for universal coverage and ease of compliance
Workplace Safety	Multiple overlapping laws like Factories Act, Mines Act	Occupational Safety, Health & Working Conditions Code (2020) consolidates 13 laws
Labour Market Flexibility	Minimal – Focus on job security	Emphasis on balancing flexibility with protection
State Role	Centralized lawmaking	States granted more reform power (esp. post-2014)
Informal Sector	Less emphasized	Major employment generator; increased policy attention

What are changes brought by the new labour codes?

- **Four labour codes** - The code of wages 2019, the code on occupational safety and health and working conditions of 2020, the code on social security and the industrial regulations code were introduced in 2020.
- All the 29 existing labour laws were consolidated under the four new codes.
- While they have been passed by both houses of the parliament and notified by the president, they have not yet come into force.
- **Deciding minimum wages** – The code empowers the central and state governments to set minimum wages for all employees covered by the Code.
- This is different from the Minimum Wages Act of 1948, which listed minimum wages in the schedule of the Act.
- **Setting floor wages** – The Code mandates that the central government determines floor wages, considering working conditions.
- State governments cannot set minimum wages below the floor rates established by the central government.
- **Changes in industrial dispute matters** - The definition of industrial dispute was expanded under the industrial relations code to encompasses workers' discharge, dismissal, reduction or termination.
- **Social security to Gig workers** - Code expands its coverage to include gig, platform, and unorganised workers.
- It aims to protect gig workers who work in non-traditional employment arrangements, such as food and e-commerce delivery services.

What are the criticism on the new labour codes?

- **Increase in applicability threshold** - The industrial relations code, for example, imposes the requirement of framing standing orders only in industrial establishments with 300 or more workers employees (100 earlier).
- **Weakened Trade Union** - The codes make strikes harder to organize by mandating a 60-day notice for strikes in all sectors, not just public utilities.

- Only one trade union is recognized in an establishment, which could sideline minority or smaller unions.
- **Increased Informalization** - The greater ease of hiring fixed-term and contract workers could lead to a shift away from permanent employment.
- **Over delegation** - Much of the detail is left to executive rule-making rather than being spelled out in the law itself.

What lies ahead?

- Improving India's labour regulation requires balancing flexibility for employers with protection for workers, especially in a country where over 90% of the workforce is informal.
- Basic protections (minimum wage, working hours, safety) can be applied universally, regardless of enterprise size.
- Plain language can be used in legal drafting to increase accessibility for workers and small employers.
- Sectoral-level bargaining can be encouraged especially in fragmented industries like construction, retail, and gig work.

Reference

[The Hindu | Tracing the evolution of India's labour laws]

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