Understanding Contractualisation of Workforce

What is the issue?

- There is an increased contractualisation of the workforce in India.
- It is essential to understand the reasons behind and take the necessary measures to make it fair and favourable.

What is the contract workforce share?

- Contract workers are those who are not employed directly by the employer, but by an intermediary/contractor on short-term contracts.
- Annual Survey of Industries (ASI) shows a surge in contract worker usage in the organised manufacturing sector.
- There was an increase in total employment from 7.7 million to 13.7 million between 2000-01 and 2015-16.
- Of this, over half of the increase was accounted for by contract workers.
- The share of contract workers in total employment increased sharply from 15.5% in 2000-01 to around 28% in 2015-16.
- On the other hand, the share of directly hired workers fell from around 61% to 50% over the same period.

What does it imply?

- The rise in the use of contract workers indicates significant informalisation of the organised workforce.
- Data from the Labour Bureau's Employment-Unemployment Survey (2015-16) brings out a social aspect to it.
- As per this, contract and casual workers have higher shares of society's vulnerable caste groups as compared to regular workers.
- The proliferation of such informal alternative work arrangements deepens the labour market segmentation.
- It also has widespread ramifications for economic stability and social cohesion.

Is rigid labour law the reason?

- It is largely argued that the widespread use of contract labour is because of India's rigid employment protection legislations.
- E.g. Chapter V-B of the Industrial Disputes Act (IDA,1947)

- This makes it necessary for firms employing more than 100 workers to obtain the permission of State governments to lay off workers.
- If labour regulations were the only factor driving contractualisation, contract worker intensity should have increased largely in labour intensive industries.
- This should have particularly been the case in States which have a relatively rigid labour regulatory environment.
- But, over the last 15 years, contract worker usage has sharply increased in capital-intensive and not in labour-intensive industries.
- Also, labour regulations in India have, in fact, become more employer-friendly over the last 15 years and not more rigid as is proposed.
- E.g. amendments made by several State governments since 2015 to raise the threshold to which IDA applies to 300 workers

What then are the reasons for contract worker intensity?

- Contract workers receive roughly half the wages of those workers employed directly by firms.
- Also, firms make significant savings by hiring contract workers as they receive fewer employee benefits compared to regular workers.
- This enables firms to reduce costs and improve competitiveness.
- Also, the presence of contract workers acts as an alternative workforce to the firms.
- This helps firms suppress the bargaining power of their regular unionised workers and keep the wage demand of regular workers in check.
- Consequently, the real wages of the directly-employed regular workers have remained almost stagnant over the last 15 years.
- So it is largely the profit motive that is driving firms' decisions to hire contract workers.

What should be done?

- The Contract Labour Act prescribes that contract workers are entitled to "same wages" for the same kind of work as regular workmen.
- It is thus important to ensure that wages of contract workers are at par with directly hired workers.
- This is necessary not just for the benefit of contract workers, but also for directly employed workers who have had meagre growth in their real wages.
- Further, now, contract workers should not be engaged in "core" and "perennial" activities as per the law.
- However, with increasing substitution of regular workers with contract workers and the changing nature of core and perennial activities, there is an urgent need to review the Contract Labour Act.
- The provision of decent conditions of work and social security for contract

workers must be strictly adhered to.

Source: Business Line

