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INTRODUCTION OF LABOUR MARKET FLEXIBILITY IN INDIA UNDER THE ECONOMIC REFORMS AND ITS IMPACTS ON LABOUR SITUATION IN KERALA

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Abstract
As India became part of Global Village, the job security enjoyed by Indian employees and which was very widely misused became an old story. For remaining in any Industry or Institution, one has to prove his expertise and outcome for the benefit of the organization. Employers got their own choice to hire and fire as per the Institution need. Special economic zone for specialized Industries is an example of Governments assent for the above said facts. Thus we can see that labour market is now flexible just like any products both National and International.

Introduction

Economic liberalisation has had a tremendous impact on the employee –employer relationship throughout the world. The structural adjustment policies, enforced by World Bank and IMF, as a condition for loan, had a negative impact on the employment and labour relations situation in over a hundred countries. The employment and the labour situation in Third World countries have been badly affected by a wide range of structural adjustment policies that have direct impact on the productive sectors of the economy. The World Bank and IMF have been passionately promoting 'labour market flexibility' through changes in labour laws and wage policies in order to make countries more competitive and attractive to foreign investment, and to remove 'disincentives' for employers to hire more workers. Legal changes regulating labour relations have been introduced in most countries with the purpose of making it easier for employers to fire workers and undermine the ability of unions to defend them.

With the onset of the 'economic reforms' in India since 1991, there has been a call for "labour market flexibility." Major labour legislations in India are in the process of amendments. These legislations include Trade Unions Act, Industrial Disputes Act and the Contract Labour Act. The labour law enforcement machinery in the country is already providing considerable relaxations that benefit the employers. The gradual introduction of labour market flexibility in the country will have a significant impact on the working class and the poor. At the same time, employers believe that these changes will lead to growth of industries and would ultimately benefit the country.

Globalisation and Changes in Labour Policies: International Experience

The term 'Labour market flexibility' emerged in the 1980s, during a period marked by increasing global competition and industrial restructuring in many countries. The concept of flexibility that is inherent in the term presupposes a capacity to reorganise the labour process in response to changes in the economic environment. Proponents of globalisation argue that flexible work organisation provides employers with a means of extending operating hours; applying high-wage labour more effectively in the face of competition from low-wage countries and thus raising its productivity, improving the quality of products and increasing the rate of innovation; but also of removing disincentives to hire staff and adjusting employment levels to variations in demand.

The World Bank and IMF have supported regulatory changes throughout the developing world to remove restrictions on government and private employers firing or laying off workers. They have actively promoted government downsizing, even though in many countries the government is the major employer and there are few prospects for alternative employment. These institutions view many employee benefits in the government sectors as too costly and have urged major scaling back of government pension programmes throughout the world. They have even called for the reduction in minimum wages in developing countries. Structural adjustment policies do not recognise the workers' right to organise. Activists[i] often cite former World Bank chief economist Joseph Stiglitz who has observed that the IMF views labour as just another commodity.

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Labour market 'flexibilization' and temporary labour contracts that reduce the rights, benefits, security and bargaining power of workers, have depressed wages, expanded workloads and working hours, and increased poverty. Employers have been given the legal rights and protection to hire and fire workers, at the least possible cost, and with minimal social responsibility. Workers in general, and low-skilled workers in labour-intensive sectors in particular, who are in oversupply face depressed wages, and are in a weak position in salary and contract negotiations. Improving working conditions, involving workers in decision-making processes and linking purchasing power of wages to increase in productivity are things of the past. Scared of job losses, workers are today reluctant to join unions and are in a mood to renounce their labour rights. In developing countries, labour market flexibility has bestowed employers with the rights to use increasingly hourly labour and temporary and part-time workers. At the same time, workers' rights have been weakened, as there are fewer protections of their right to organise and bargain collectively. Share of labour costs in total cost of production has declined through reduction in wages and benefits.

The employers are using extra 'flexibility' in labour laws to shed jobs and downsize rather than add to productive capacity and create work. Privatisation of public sector companies and services has also resulted in large scale downsizing and unemployment. Reorienting the economy towards production and export of primary commodities has also led to massive unemployment. Similarly, the IMF policy of devaluing national currencies in less developed countries makes imports, which usually include energy resources and machinery, more expensive, squeezing import-reliant domestic industries which are forced to lay off more workers. Likewise, raising interest rates prevents small businesses from getting the capital needed to expand or stay afloat, often leading them to shut down, leaving yet more workers unemployed.

Labour market flexibility is achieved through different measures. In the Philippines for example the measures include: substitution of temporary and casual labour for permanent workers; greater use of women, apprentices and migrant workers; resorting to the use of overtime or increasing the number of shifts in a day; use of pay systems based on piece rates and bonuses in place of those based on working time or length of service; subcontracting services performed within the factory such as packaging, maintenance, internal transport, and security; and subcontracting components of production previously manufactured within the firm's plant.[ii] The measures also include dismantling labour legislations that protect the rights of employees to organise and engage in collective bargaining. SAPs view the workers' rights as curtailing the employers' abilities to compete.

The SAPRIN study[iii] has reported a dangerously deteriorating employment and labour market situation in the Third World countries. Many local manufacturing firms that generate a great deal of employment, particularly small and medium firms oriented towards the domestic market, have been forced out of business. In general, real wage rates have tended to decline, income inequality has increased, and job insecurity has become more pervasive. Productivity and competitiveness, sought through labour-market flexibility and related adjustment policies, have not been achieved in the Third World counties even after decades of structural adjustment. At the same time, employment levels have worsened in most countries. New jobs are not being generated to keep pace with new job seekers, and there has been a significant loss of employment in economic sectors on which low and middle income groups depend. More workers have been employed without job security or benefits, and underemployment has increased. The lowest-income groups have tended to experience the largest increase in unemployment and the greatest deterioration in their wages. Real wages have declined and income distribution is less equitable today than before adjustment policies were implemented. The share of wages in gross domestic income has declined, while the share of profits has increased significantly during the reform period. A reduction in purchasing power and the further concentration of income is evident in most developing countries.

The IMF's purely market-based approach has contributed to the fact that at least one billion adults are unemployed or seriously underemployed today - more than 30 per cent of the global work force. In Senegal, a country proclaimed by IMF as a success story because of increased growth rates, unemployment increased from 25 per cent in 1991 to 44 per cent in 1996. In South Korea, a US $58 billion structural adjustment loan during the

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financial crisis in 1998 contributed to an average of 8,000 people a day losing their jobs.[iv] Aggravating this harsh reality is the lack of existing social safety nets that can support people out of work. Even the people employed suffer, as the IMF frequently encourages countries to keep wages low in order to attract foreign investment. This often translates into the lowering of minimum wages and the weakening of collective bargaining legislations. Further, the IMF prohibits salaries linked to the cost of living index. Costa Rica, the first Central American country to implement SAPs, saw real wages decline by 16.9 per cent between 1980 and 1991, while during the first four years of Hungary's SAPs, the value of wages fell by 24 per cent. In Haiti the government has been pressured to freeze wages and rewrite the labour law to eliminate a clause mandating increases in the minimum wage when annual inflation exceeds ten per cent. By the end of 1997, Haiti's minimum wage was only $2.40 a day, worth just 19.5 per cent of the minimum wage in 1971.[v]

The worst sufferers of the labour-market reforms are women. They form the majority of those employed in low-skilled jobs and have been seriously affected by job insecurity. Measures of special protections for women, such as protection against layoffs due to pregnancy and maternity benefits, are everywhere under threat. With the general decline in household income by primary wage earners, there is an increasing trend of job seeking and employment of children and senior citizens. Wage repressing reforms have not generated the increase in jobs projected, and in most countries unemployment has increased. Sectoral reforms in such areas as agriculture and mining have depressed working conditions and caused other social dislocations that have led to extensive migration. Poverty has been intensified and expanded by privatisation as well. Many workers have been laid off as a result of the wave of privatisation.

Review of Literature

As observed by J. W. Smith,[vi] since wages are too low to provide buying power, the products and services needed for the local population's daily consumption are not produced within that society, and thus there is no balance of industry, social capital, local purchasing power, commerce, and markets for a prosperous market economy. Such dependent countries end up producing too much of what they do not consume, and consume too much of what they do not produce.

Michel Chossudovsky, in his book 'The Globalization of Poverty'[vii] explores the deleterious effects of structural adjustment programmes on the working class through the mechanism of labour market flexibility and low wages, rising prices, falling exchange rates, higher taxes and reduced welfare programmes. The Bank and Fund reform programmes promote anti-labour policies by 'freeing up' wages, as they argue for reduction or abolition of the minimum wage in the guise of enhanced competition, and for 'freeing up' labour markets through anti-union provisions in local laws. Rather than the more 'efficient' use of labour, these institutions are promoting greater exploitation of children, women, migrants, and the poor.

Objectives of the Study

The broad objective of the study was to analyse the process of introduction of 'labour market flexibility' in India under economic reforms and its impacts on labour situation – a case study of Kerala

1. Study of the current status of implementation in "labour market flexibility' in India
2. Evaluate the socio-economic impact of the emerging labour policies with special reference to Kerala
3. Analyse the impact of the new labour policies on the organized sector, unorganized sector, small-scale industries and exclusive industrial zones.
4. Study the problems faced by labour force in selected organisations in Kerala
5. Assess the attitude and approach of labour law enforcement machinery in introducing labour market flexibility.

Materials & Methods

Area of Study: The proposed study was conducted in Kerala.

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Methodology for Data Collection: secondary data was collected for the study. The sources of secondary data included

1. Reports published by the Government
2. Policy statement of the Government
3. Journal articles published relating to labour laws, industrial relations and social sciences.
4. Study reports pertaining to labour market flexibility – studies conducted in India and abroad.

Consequences of Liberal Economic Policies and Structural Readjustments

The new liberal economic policies, multilateral Institutions such as IMF, World Bank and WTO are trying to force countries to introduce flexibility in their Labour Law regime, including laws and enforcement of laws. A part of the structural adjustment programmes, India has committed to introduce dilution in its labour laws. Since such changes in labour legislations have been vehemently opposed by trade unions, workers and anti-globalization protestors, the Government has not been in a position to amend existing laws although proposals are underway for changing several laws. However, the Government has apparently directed the labour law implementation machinery to provide flexibility in the implementation of the laws. The proposed study would carry out a conceptual and empirical analysis of the labour law amendment proposals and the changing perspectives on the enforcement of existing laws.

There has not been any serious research study on the subject, although the impacts of the changes are highly significant for a large section of the Indian society. The study attempts to fill the gap.

Introduction of Labour Reforms in India

With the onset of the 'economic reforms' in India since 1991, there has been a call for "labour market flexibility." There was an orchestrated demand for introduction of the 'exit policy' measures. As the 'reforms' agenda met with serious opposition from the workers and trade unions, the chorus for 'exit policy' was consigned backstage. But now, as the government of India has embarked on the 'second generation reforms,' the demand for an 'exit policy' has surfaced again; the only change is in its nomenclature into 'labour law reforms.'[viii]

There is no denying the fact that this drive towards deregulation of the labour market is an offshoot of the 'economic reforms' process. As a consequence of the 'reforms' implemented in the last decade, there have been massive job losses, resulting from ever increasing lay-offs, retrenchments and closure of industries. Employment in the central public sector undertakings alone reduced by two lakhs: from 21.79 lakhs in 1991 to 19.78 lakhs in 1996. This was further reduced to 18.54 lakhs in 1999-2000.

The present thrust for 'labour law reforms' is only to facilitate the adoption of new strategies such as: re-engineering (measures aimed at cost cutting through labour shedding); downsizing workforce; early retirement; substitution of skilled, often hi-tech, workforce, replacing unskilled workers; and search for flexible labour utilisation arrangements through casualisation, etc. This is, however, presented, attached with some sort of social and economic 'justification.'[ix]

The justificatory arguments run as follows: the labour laws are rigid and therefore, they impede growth: flexibility in labour laws will lead to generation of more employment and that such reforms are needed for attracting more Foreign Direct Investments; the current labour laws are too harassing and cumbersome for the employers. The fact is that none of these arguments have, as yet, been substantiated.

In the context of the onslaught of Globalisation on employees' rights, Juan Somavia, director general of the ILO, noted in his report at the International Labour Conference held in Geneva in June 2001, the shortcomings in the current labour scenario: 1) Employment Gap, 2) Rights Gap, 3) Social Protection Gap and 4) Social Dialogue Gap. The trade unions in India believe that the current 'labour law reforms' will only lead to widening these gaps. The last government had appointed the Second National Commission on Labour. But, the government in their

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budgets announced far reaching amendments to the labour laws, reducing the Second National Commission on Labour to a mockery.

The amendments to the Trade Unions Act are already past the Rajya Sabha. It is claimed that these amendments will reduce the fragmentation of trade unions. In reality they will only make the formation and registration of trade unions difficult, if not almost impossible. This exercise is attempted without any safeguards like: (1) ratification of the ILO convention on 'right to association,' (2) legal obligation on employers to grant recognition to the representative union, (3) collective bargaining right, (4) making 'union busting' activities by employers a punishable offence, and (5) grant of 'protected workmen" status to the worker-applicants for registration of a union.

The Industrial Disputes Act does not give any legal protection to workers against lay-off, retrenchment or closure. It only prescribes a procedure for securing the permission of the appropriate government. The employers have been demanding that these provisions, which are applicable to establishments with 100 or more workers now, be made applicable to those with 300 or more workers, as was the position in 1976, when these provisions were inserted in the Act. Former Finance Minister Mr.Yeshwant Sinha, in his budget speech in 2001, proposed certain investor-friendly labour law reforms. He promised to waive prior approvals for layoff, closure and retrenchment in companies employing less than 1000 (as against 100 at present) and amend the Contract Labour Act to permit the engagement of contract labour.[x] Moreover, the finance minister announced to enhance the compensation for the workers from 15 days wages per year of service to 45 days wages per year of service. The Task Force 'generously' reduces this to 30 days wages per year of service.

Another area of 'labour law reforms' relates to the legislation on contract labour. The employers have been demanding a core and periphery arrangement by which the permanent employment may be limited to core jobs and outsourcing be freely permitted in peripheral jobs. The last government permitted contract labour in both the core and peripheral jobs. Furthermore 'labour' is a subject in the concurrent list of the constitution of India. However, the state governments are not involved in the decision making process in respect of introducing the 'labour law reforms.'

Conclusion

From our Industrial Experience, it was noted that the law enforcing agencies like officers of the Labour department are not as specific as previous days for inspection and penalisation of employers, may be as per State direction for removing the notorious name for Kerala for its labour unrest and employer's nightmare to start and run Industries in Kerala. By giving due weight to Industrial scenario in States like Gujarat, Kerala State is also trying to become more employer friendly by these labour reforms.

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