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Do Flexible Labour Regimes Enhance Workers Well-being? An Experimental Evidence from India

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The trade and industrial policy reforms in the early 1990s were expected to turn the manufacturing sector globally competitive and thereby fuel economic growth. There was an acceleration in sectoral growth from 5.95% in the 1980s to 7.03% in 1990s and subsequently to 8.58% in 2000s (Das 2016), however it widely felt that the organised manufacturing sector couldn't realise its true potential due to several reasons of which the lack of flexibility in hiring and firing is one of them. The labour market rigidity in terms of Employment Protection Legislation (EPL) apart from being an obstacle to employment generation in organised manufacturing, it is also seen as a cause for the growth of the informal sector. In case of registered manufacturing, Besley and Burgess (2004) modelled the industrial relations climate in 16 states of India and found that states with pro-worker policy environments were associated with lower investment, employment, productivity and output. But on the other hand, there exists a substantial literature (Nagaraj 2002, Dutta 2003, Ramaswamy 2003) which argues that while de-jure there was rigidity but de-facto there wasn't due to factors such as the poor regulatory compliance and engagement of workers on contractual basis (Singh et al. 2019, Kapoor and Krishnapriya 2019).

The rising share of contract workers in total workers is another form of informalization which is taking place in the registered sector and has negatively impacted workers well-being, for the period 2000-01 to 2015-16 the real wages of permanent workers has registered zero growth (Kapoor and Krishnapriya,2019). The new set of reforms undertaken along with policy endeavours such as Make in India, National Manufacturing Policy etc. includes Labour Law reforms as well. It is proposed to merge existing 44 central labour legislation into four codes on wages, industrial relations, wages and industrial safety & welfare. Because the legislative power rests with both Union and State governments reforms are being undertaken at the state level as well. The Government of Rajasthan in 2014-15 initiated labour reforms which were primarily meant to provide greater flexibility to the Employers in terms of hiring and firing. The threshold limit requiring the government nod for retrenching, laying off or shutting down units laid down in Industrial Disputes Act,1947 was increased from 100 to 300. Similarly, the threshold for applicability of The Contract Labour (Regulation and Abolition) Act, 1970 was increased from 20 or more to 50 or more. With greater flexibility, the expectation is that there would be a rise in Industrial investment, setting up of new enterprises and in turn better job prospects for the local population.

This paper seeks to contribute to the current on-going debate on the direction of labour law reforms by critically evaluating the impact of such changes on worker well-being using Rajasthan as a case study. A qualitative and quantitative analysis would be done using the officially available plant-level data from Annual Survey of Industries (ASI), Ministry of Statistics and Programme Implementation (MoSPI), Government of India. The qualitative analysis shall focus upon documenting similar labour reform initiatives undertaken in other states and examine its impact on indicators of worker well-being such as Labour Productivity, Wages per worker, Wages per man-day etc. In addition to it, a rigorous econometric analysis of the change in policy stance by modelling the move as an external shock under a Quasi-experiment framework. Using the Propensity Score Matching (PSM) the state of Rajasthan would be matched with its closest comparable state having similar industrial attributes. The treatment group shall comprise of enterprises in Rajasthan, and the control group would include enterprises from the state identified through PSM as described above. The estimates of Average Treatment Effect (ATE) and Average Treatment Effect on the Treated (ATET) would be used to draw conclusive arguments on the impact of such flexible labour regimes on workers well-being.

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