

Overemphasis on Informal labour: a challenge for 'Atmanirbhar Bharat'

Ravindra Ojha, Professor, Operations, Great Lakes Institute of Management, Gurgaon shares insights on the challenges the manufacturing industry might be facing in coming months.



The 'Make in India' drive in 2013 and 'Atmanirbhar Bharat' of 2020 initiated by the government are critical steps forward in improving the manufacturing growth of India. Success in both would hugely depend on the real leap in 'ease-of-doing-business' in India. One of the biggest challenges to the enhancement of 'ease-of-doing-business' in India today is the increasing growing emphasis on informal labour hiring.

Trade unions do not represent the informal labour force, which has neither the employment security nor the social security. They are neither covered under the national labour legislation and social protection nor entitled for employment benefits such as paid annual or sick leave, health insurance,

contribution to the provident fund, bonus and other benefits. It was witnessed in the recent migration labour movement to their hometowns. In other words, the quality of employment of the informal labour is relatively poor. In a developing economy, like India, the labour-mix (formal: informal) employed in the manufacturing plays a significant role.

As per the current estimates, 92% of approximately 500 million workers in India are informal. Proportion of informal employment in the organized sector has increased from 41% in 1999-2000 to 58% in 2011-2012, thereby indicating deterioration in the quality of employment created. This means India has too many working poor people who make enough money to live but not enough money to pull out of poverty. Additionally, as per the National Sample Survey Office (NSSO), only 18% of the youths passing out of the vocational schools have regular jobs and 60% of these are employed as informal workers. The archaic labour laws in India regulate the industrial labour environment. As per it, informal worker employed for more than 240 days can claim a regular or permanent (formal) employment in the industry.

The seven primary reasons, which have encouraged the engagement of higher proportions of informal labour in Indian industries, are:

- Their lower wages making it favourable to manage the intense global competitiveness,
- Flexibility obtained to play with labour numbers to manage the rigidities of the labour Laws.
- Flexibility to manage demand-market volatility,
- Increased flexibility in retrenchment, irrespective of the performance of the employee,
- Reduced bargaining power of formal worker unions during negotiations,
- To handle possible future downturn in terms of bankruptcy, restructuring and labour unrest,
- Low investment in vocational education and manufacturing technology upgradation

However, an unusually high proportion of informal labour force in a manufacturing set-up, in the long-term, is likely to lead to:

- Low productivity and product quality due to time-bound exit of the informal labour,
- Inconsistent quality and high 'Cost of quality' due to low labour skill levels,
- Lack of employer's ownership on upskilling, given their temporary nature, thereby preventing skill growth,
- Unhealthy Industrial relationship climate between the 'top-floor' and the 'shop-floor' due to the high wage and other benefit disparities between the informal and the formal labour categories,
- Deterring the 'economy of scales' due to the complexity in labour laws, leading to functionally inefficient plants.

The country has witnessed industrial relations related unrest in the initial years of this decade both in the southern and northern industries of India.

Therefore, it is recommended that every manufacturing plant should operate with the right (optimal) balance of formal and informal labour. This is ratified by simulation runs to study the long-term implications of informal labour hiring on manufacturing growth in India using System Dynamics modelling. Summary of the useful inferences from the analysis are:

- Beyond a critical limit of informal labour-mix, the manufacturing output, in the long run, is likely to decrease which is even intuitively appealing.
- A small periodic conversion from informal labour to formal based on high performance significantly improves the performance trajectory of the manufacturing output.
- All options with conversions from informal to formal labour have shown a speedy and a significant increase in the manufacturing output.
- Options with no conversion from informal to formal labour have shown low plant capacity utilization.
- The recommended healthy labour flexibility range of formal: informal labour ratio may vary from 60:40 to 80:20 with a conversion rate of 5-7% per year from the informal to formal labour based on the performance of the informal labour.

The policy of periodically moving a small fraction of high performing informal workers into the formal category would improve the competitiveness amongst the workers and facilitate in maintaining a long-term healthy industrial relations environment in the production shop.

Gradually minimizing and eventually leading to equal work equal pay, except that the tenure of employment will depend on the labour's performance, is recommended. Labour reforms are needed to this effect by providing the employers the flexibility in labour recruitment and lay-off. However, this ought to be transparent, performance driven and with a financial safety net in the form of insurance for upskilling or retraining. This would facilitate employers in no longer seeing major advantage in keeping their units small and inefficient and thereby work for exploiting the economies of scale in manufacturing, expand formal sector and facilitate urbanization. It would facilitate the drive to scalability. Further, the categorization of firms based on the number of workers should be revisited. Support from the labour tribunal on dispute settlement should come within a fixed period is another need to be addressed.

In summary, to support the 'Make in India' drive and 'Atmanirbhar Bharat', the long overdue labour reforms to provide brakes to overemphasis on informal labour hiring in Indian industries has become a necessity.

The article can be read online [here](#).