

SEMESTER 3 – LABOUR ECONOMICS

MODULE-1

Nature and characteristics of Labour Markets in developing countries like India

- The Indian labour market is characterized by unrecognised or unorganised nature of employment including agricultural labourer, migrant workers, bonded labourers. Thus the unorganised sector is one of the biggest in the Indian economy.
- As there is lack of skilled and semi-skilled labourers like the commodity market that divers the diversity of wages most of the workers being children, women and absence of such labour unions creates an uneven distribution of labour availability in the country.
- Age is also an important factor in the mobility of labour as young tend to be more productive than older ones. The labour market is also impacted by demand during certain seasons and periods.
 - Labour includes both physical and mental work undertaken for some monetary reward. In this way, workers working in factories, services of doctors, advocates, ministers, officers and teachers are all included in labour.
 - Any physical or mental work which is not undertaken for getting income, but simply to attain pleasure or happiness, is not labour.
 - Characteristics of Labour:
 - Labour has the following peculiarities which are explained as under:
 - 1. Labour is Perishable:
 - Labour is more perishable than other factors of production. It means labour cannot be stored. The labour of an unemployed worker is lost forever for that day when he does not work. Labour can neither be postponed nor accumulated for the next day. It will perish. Once time is lost, it is lost forever.
 - 2. Labour cannot be separated from the Labourer:
 - Land and capital can be separated from their owner, but labour cannot be separated from a labourer. Labour and labourer are indispensable for each other. For example, it

is not possible to bring the ability of a teacher to teach in the school, leaving the teacher

• **Demand for labour in relations to size and pattern of investment**

- The Indian economy had been '[going downhill](#)' even prior to the pandemic. In its recent projections, the IMF has further stated that the Indian economy is expected to [contract by 4.5 percent in 2020](#) due to the disruptions from the cascading lockdowns and bottlenecks in the supply chain.
- The primary concern for the economy, however, is deeper rooted than the virus. It is the general lack of effective demand across the country. Due to widespread income inequality, which is further aggravated by a majority of the Indian workforce being employed in the informal sector, the section of the population who have a higher willingness to spend have been left with lesser disposable income in their pockets.
- Some estimates peg the share of informal sector employment in the country at [81 percent](#). According to the [World Inequality Database](#), between 1988 and 2013 the share of the top 1 percent in India's pre-tax national income increased from around 10 percent to more than 21 percent, while the share of the bottom 50 percent declined drastically from around 22 percent to 15 percent.
- Not only has this led to a skewed distribution of income, but also created fractures in the socio-economic and political structure of the country which the pandemic has visibly exposed. Therefore, reviving the economy will require addressing the two major challenges of a rising informal labour force and slackening demand.
- Due to widespread income inequality, which is further aggravated by a majority of the Indian workforce being employed in the informal sector, the section of the population who have a higher willingness to spend have been left with lesser disposable income in their pockets.
- The two are in fact interlinked with one another. We will explain in due course of the article how improving the wages of workers and providing them with better social security is in the interest of the economy as a whole.
- During the pandemic, several state governments have suggested suspending several labour laws to boost economic activity. It is based on the notion that current labour

regulations are stifling entrepreneurship and impeding economic growth. While it is true that certain regulatory compliances have propagated corruption and added.

Employment and development relationship

According to the National Policy for Skill Development and Entrepreneurship, more than 54 per cent of India's population is below 25 years of age and 62 per cent of India's population is aged between 15 and 59 years. But the demographic advantage might turn into a demographic disaster if the skill sets of both new entrants and the existing workforce do not match industry requirements

Just before the Covid crisis at the end of 2019-20 financial year, India had (according to the data provided by the Centre for Monitoring Indian Economy) around 403.5 million employed people and around 35 million openly unemployed people in the country. To this existing pool, each year India adds roughly 10 million (or 1 crore) new job seekers.

However, over the past year, several millions have lost their jobs. As a result, as of January 2021, India had only about 400 million employed. It underscores the stagnancy in India's employment levels.

If we look at the Centre for Monitoring Indian Economy (CMIE) data, which is being compiled since 2016, the total number of employed people in India has been steadily coming down. It was 407.3 million in 2016-17 and then fell to 405.9 million in 2017-18, and to 400.9 million at the end of 2018-19.

In other words, even with India's economy growing, albeit at a decelerating pace, before the Covid crisis, the employment situation was getting worse. That is why the total number of openly unemployed people became 35 million.

The Indian youth has become the first casualty, with the unemployment rate reaching 34 per cent among the 20-24-year-olds in the first quarter of 2019, it was 37.9 per cent among the urban lot, according to the CMIE.

Official sources from the Government of India do not give very different data: According to the last 2018 Periodic Labour Force Survey, the unemployment rate among the urban 15-29-year-olds (a very large bracket) was 23.7 per cent.

MODULE-2

Concept of Minimum Wage

Minimum wages have been defined as “the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract”.

This definition refers to the binding nature of minimum wages, regardless of the method of fixing them. Minimum wages can be set by statute, decision of a competent authority, a wage board, a wage council, or by industrial or labour courts or tribunals. Minimum wages can also be set by giving the force of law to provisions of collective agreements.

The purpose of minimum wages is to protect workers against unduly low pay. They help ensure a just and equitable share of the fruits of progress to all, and a minimum living wage to all who are employed and in need of such protection. Minimum wages can also be one element of a policy to overcome poverty and reduce inequality, including those between men and women, by promoting the right to equal remuneration for work of equal value.

Minimum wage systems should not be seen or used in isolation, but should be designed in a way to supplement and reinforce other social and employment policies. Several types of measures can be used to tackle income and labour market inequality, including pro-employment policies, social transfers, and creating an enabling environment for sustainable enterprises.

Productivity and wage relationship

A frontier-general equilibrium analysis with skill transformation evaluates the productivities of skilled and unskilled labour and potential of the Indian economy. We compare the wages of skilled and unskilled labour between 1994 and 2002 with their respective productivities over this period. Education is considered to be responsible for the skill formation over this period: the change in skilled labour supply is endogenous in the model. Compared to its productivity, skilled labour is underpaid in the initial period and overpaid in the second period. Unskilled labour is underpaid in both periods. A decomposition exercise shows that skilled labour gains from free trade, and stands to lose due to education and domestic competition in the second period. The annualized rate of return to education is between 7 and 10%. The economy operates below its potential in both periods, particularly in the second — due to trade limitations and the failure to capture the return to education. Service sectors are found to have potential to grow significantly.

Wage Determination in Rural – Urban

The inequality between rural and urban locations is one of the largest contributing factors to the overall economic inequality in a country. Yet there are a lot of unanswered questions about the sources of this inequality, such as how structural transformation – namely the movement of labor from low productivity sectors like agriculture to higher productivity sectors like industry – affects the rural-urban divide. To shed light on this question, Amartya Lahiri (University of British Columbia) and I recently wrote a [paper](#) on what occurred in India between 1983 and 2010. This period is particularly interesting as it is the time when India had a well-publicized take-off in growth, accompanied by a shrinking agricultural sector (both in terms of output and employment) and an expanding non-agricultural (industry and service) one. In addition, with over 800 million people still residing in rural areas in India in 2011 the scale of the potential disruption introduced by this process is massive. Our findings highlight that over the past three decades, there has been a rapid wage convergence between urban and rural areas – with the fast growth of the urban labor force playing a major role.

A Sign of Lower Inequality

We start by looking at what has happened to the wage gap between the urban and rural sectors between 1983 and 2009-2010, as illustrated in the figure below. The horizontal axis shows the percentile of the wage distribution (from poorest to richest, with the median at 50), while the vertical axis gives the percentage urban-rural wage gap (from lowest (-0.30 or 30%) to highest). We see that back in 1983, the urban-rural wage gap heavily favored urban workers, but by 2010, it had declined precipitously, except for those between the 75th to 90th percentiles. Overall, the unconditional median wage premium of urban workers declined from 70% to 11%, while the mean wage gap fell from 51% to 27% – a rate of wage convergence that is very large and somewhat unexpected.

Rural and urban wages are converging:

What is behind these developments? One possibility is that individual characteristics – such

as demographics (age, gender composition, family size, caste composition, etc.) and education – of urban and rural workers have become more similar in India during the past 30 years. Indeed, our analysis shows that these characteristics have been converging.

MODULE-3

Achievement of Labour Unions

The fact that trade unions play a very important role in the process of economic development deserves no special emphasis but only desire of playing that role is not sufficient. It is pertinent to mention that they must fulfil certain other conditions which may be laid down as under:

The first essential of a trade union is the existence of a progressive labor force in order to man the movement. An educated and capable labor force keeps the leaders devoted and makes their will strong for leading their fellow workers. Lack of proper and adequate level of education general as well as technical or vocational, proper commitment to the job, diverse composition of the labor force divided by difference of language, custom, caste and creed and widespread poverty owing to low level of wages render the working class incapable of manning the trade union movement effectively and purposefully.

Another essential factor of a successful and sound trade union is a sound leadership and methodological organization. In order to gain success in its objects, a trade union should have its foundation laid on solid grounds.

A clear enunciation of the objectives is a third fundamental feature for survival and sound functioning of trade union. Trade unions with complexity in objects are looked down upon with suspicion.

Another point which must be adhered to is that trade unions must make sure to have a coherent and well-conceived policy regarding their structure. Haphazard growth of trade unions may give rise to problems in jurisdiction, sphere of activity, etc. A trade union should be regarded as a business organization as it also requires careful planning.

Sound internal organization is also a matter of vital importance. This, in turn, requires that besides sound business administration, the financial resources of the union should also be adequate. Thus, the factors that make a trade union strong and healthy are unflinching

adherence to the unions constitution and rules, regular payment of dues, fully representative character and cooperation with other unions.

Current trends in collective bargaining

Collective Bargaining in India:

Collective bargaining has been defined by different experts in different ways. Nevertheless, it is treated as a method by which problem of wages and conditions of employment are resolved peacefully and voluntarily between labour and management. However, the term collective bargaining is opposed to individual bargaining.

The I.L.O. defines collective bargaining – “As negotiations about working conditions and terms of employment between an employer, or a group of employers, or one or more employers’ organisations, on the one hand, and one or more representative workers’ organisation on the other with a view to reaching agreement.”

Collective Bargaining is a bipartite democratic decision-making process and a form of industrial government and management. Though originally it emerged as a method of trade unionism in industries to determine wages and other terms and conditions of labour, today it includes within its scope the non-industrial sector, including government, and covers a wide range of subjects.

Development of Collective Bargaining in Indian industries has been quite phenomenal and is comparable with its development in other countries, but that is only from 1977 onwards. Though India became a democratic republic in 1950, the government was unwilling to allow industry and labour to adopt this democratic process to determine either their relationships or issues of common interest.

This definition confines the term collective bargaining as a means of improving conditions of employment. But in fact, collective bargaining serves something more. Perlman aptly stated, “Collective bargaining is not just a means of raising wages and improving conditions of employment. Nor is it merely democratic government in industry.

The process of collective bargaining has been applied in India for a long time in various situations. However, voluntary collective bargaining has developed in India only after Independence. Among the voluntary measures, tripartite settlements, conferences.

Growth, Pattern and Structure of Labour Unions in India

Trade union movement in our country has a century-long history. The first quarter of the present century saw the birth of the trade union movement, but the seeds of the movement were sown much earlier. The All India Trade Union Congress (AITUC) was set-up in 1920 with the objectives of representing workers' interests, to co-ordinate the activities of all labour organizations in the country, and to spread the message about the need for union movement.

Then a landmark in the history of labour movement was the enactment of the Trade Unions Act, 1926 unlike 1920s, the 1930s were not favourable to the trade union movement. By 1924, there were 167 trade unions with a quarter million members.

Then the aftermath of Independence was not good for unions. The hopes of workers to secure better facilities and wages from the national government were not realized. There was large-scale unrest and strikes and lock-outs multiplied.

The disunity in the trade union ranks was aggravated by the starting of three central labour organizations, namely, the Indian National Trade Union Congress (INTUC) in 1947, the Hind Mazdoor Sabha (HMS) in 1948, and the United Trade Union Congress (UTUC) in 1949. As years went by, more unions and central organizations came into being. The movement became deeply entrenched.

As of today, there are 50,000 registered unions and most of them are affiliated to one or the other central trade union. It may be observed that the union movement is now more widespread, has taken deep roots, and is better organized. Thus, the origin and growth of trade union movement in India is riddled with fragmented politicisation.

Trade Unions Act, 1926:

Trade Unions Act, 1926 provides for the registration of the Trade Unions with the Registrars of Trade Unions of their territory. Any seven or more members of a trade union by submitting their names to the registrar of trade unions and otherwise complying with the provisions of the Act with respect to registration may apply for the registration of the Trade.

MODULE-4

CHILD LABOUR

The International Labor Organization (ILO), a subsidiary of the United Nations, defines child labor as “*work that deprives children of their childhood, their potential, and their dignity, and that is harmful to physical and mental development.*”

Child Labour extends into many different activities such as agriculture, manufacturing, mining and domestic service (i.e. prostitution). Children are forced into child labor because of distinct factors; migration, emergencies, the lack of decent work available and poverty which is known as the most influencing factor. (UNICEF)

Main reasons for Child Labour:

EDUCATION is an important aspect during a child’s upbringing, as it allows children to develop the necessary skills they need to progress in the modern world. However, labor at an early stage prevents children from going to school and obtaining such abilities. There is a large amount of stress – in most cases – put on these children to provide for their families since there is normally no other mode of income within the household.

Additionally, **psychological effects of child labor** are often as critical as the physical effects, which can lead to long-lasting traumas. The children who have suffered horrific acts of **violence** may grow up to develop mental illnesses such as depression, guilt, anxiety, loss of confidence and hopelessness.

Despite an economic boom in India, the country faces a significant poverty issue with more than a third of India’s population living under **the poverty line**. Due to poor living conditions, low levels of income and a lack of job diversity, impoverished families have no alternative but to put their children to work instead of teaching them. Often, these children

are sold by their parents to child traffickers to lessen their economic burden and to gain extra money.

ERADICATION OF CHILD LABOUR:

The Indian government has adopted several laws in the past few decades to combat child labor. These laws include the Bonded Labor (Abolishment) System Act of 1976 and the Child Labor (Prohibition and Regulation) Amendment Bill of 2016.

FEMALE LABOUR

India continues to struggle to provide its women with equal opportunity. In 2019, before the Covid-19 pandemic, female labor force participation in India was 23.5%, according to ILO estimates.

The pandemic has made this situation worse. It has hit women disproportionately — because they work in sectors that have been the hardest hit; works more than men do in the informal economy; or because they are the primary caregivers at home.

As the recovery of the Indian economy requires a concerted effort of both government and citizenry, women can become a critical part of the economic recovery. Thus, there is a need to ameliorate long-standing issues that hamper female labor force participation in India.

Constraints In Female Labor Force Participation:

- **Stereotyping In Society:** India's societal norms are such that women are expected to take the responsibility of family care and childcare. This stereotype is a critical barrier to women's labor force participation.
 - Due to this, women are in constant conflict over-allotment of time for work and life is a war of attrition for them.
- **Digital Divide:** In India in 2019, internet users were 67% male and 33% female, and this gap is even bigger in rural areas.
 - This divide can become a barrier for women to access critical education, health, and financial services or to achieve success in activities or sectors that are becoming more digitized.

- **Technological Disruption:** Women hold most of the administrative and data-processing roles that artificial intelligence and other technologies threaten to usurp.
 - As routine jobs become automated, the pressure on women will intensify and they will experience higher unemployment rates.

INTERNATIONAL LABOUR ORGANIZATION (ILO)

The International Labour Organization (ILO) is a United Nations agency dealing with labour issues, particularly international labour standards, social protection, and work opportunities for all.

The ILO was established as an agency for the League of Nations following World War I

- It was established by the **Treaty of Versailles** in 1919.
- Its founders had made great strides in social thought and action before the establishment of the organization itself.
- It became the first specialised agency of the **United Nations** (UN) in the year 1946.
- The ILO has played a significant role in promoting labour and human rights. It had held a significant position during the Great Depression (1930s) for ensuring labour rights.
- It played a key role in the decolonization process and in the victory over apartheid in South Africa.
- The organization got the Nobel Peace Prize in 1969, for its efforts to improve peace amongst the classes, and for promoting justice and fair work for the workers.

International Labour Organization (ILO) Objective:

The ILO is the only tripartite U.N. agency. The ILO is a meeting point for governments, workers and employers of ILO's member States to set labour standards improve upon policies and create programs that promote decent work for people. The four strategic objectives at the heart of the Decent Work agenda are:

- To develop and effectuate standards, fundamental principles, and fundamental rights at work.
- To ensure that men and women have equal access to decent work while enhancing opportunities for the same.
- To magnify the coverage and effectiveness of social protection for everyone.
- To strengthen Tripartism and social dialogue.

Social Assistance and Social Insurance

Social security is a very comprehensive term. The two important means of providing social security are social insurance and social assistance. Thus, it may be called to be the two faces of the same coin. Both of these are part of a social security system.

Social insurance:

Social Insurance is one of the devices to prevent individual from falling to the death of poverty, misery and to help him in times of emergencies. Insurance involves the setting aside of some money in order to provide compensation against loss resulting from a particular emergency. Thus, social insurance is a co-operative device which aims at granting adequate benefits to the insured on the compulsory basis in time of unemployment, sickness and other emergencies. Sir William Beveridge has defined social insurance as giving in returns for contribution benefits upto substance level as of right and without means test so that individual may build freely upon it. Thus social insurance implies both that it is compulsory and that men stand together with their fellows.

This is based on the principles of compulsory mutual aid. The principal elements of social insurance are:

- i) Social insurance is financed by contributions which are normally shared between employers and workers; with perhaps, state participation in the form of a supplementary contribution or other subsidy from the general revenue.
- ii) Participation is compulsory with few exceptions.
- iii) Contributions are accumulated in special funds out of which benefits are paid.

iv) Surplus funds not needed to pay; current benefits are invested to earn further income.

v) A person's right to benefit is secured by his contribution record without any test of need or means.

vi) The contribution and benefit rates are often related to what the person is or has been earning.