

IMPACT OF INDIA'S LABOUR CODES ON THE ORGANIZED AND UNORGANIZED SECTORS: AN ANALYSIS

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ABSTRACT

This article examines the effects of the new labour laws on the organized and unorganized sectors of India's economy, highlighting the transition from a disjointed to a more cohesive system of labour laws. The new rules consolidate 29 separate labour regulations into four broad categories: salaries, workplace safety, social security, and industrial relations. The unorganised sector, which accounts for approximately 80% of India's workers, will find it challenging, while the organized sector would benefit from simplified compliance and improved worker care. Problems with enforcement, knowledge, and eligibility for social security benefits exist in this area. It is crucial that these reforms are put into action in order for them to establish bridges, even though plans have been made to provide social safety to informal workers. The paper has a strong insistence on effective enforcement, sector-specific policies, and balance between the flexibility of informal work and proper protection to effectively realize the purposes of the codes of modernizing the labor landscape and promoting social justice.

Keywords: *India's New Labour Codes, Organized Sectors, Unorganized Sectors, Labour Law System, Social Protection, Informal Workers, Enforcement, Sector-Specific Policies, Social Justice.*

1. INTRODUCTION

The vast and heterogeneous workforce of India has long been at the centre of economic and social policymaking in the country. A very critical shift that Indian government brought is the

introduction of new labor codes, bringing into one piece the 29 labor laws to consolidate them into four comprehensive codes-the Code on Wages, the Industrial Relations Code, the Social Security Code, and the Occupational Safety, Health, and Working Conditions Code. This change aims to streamline compliance, improve transparency, and ensure consistency in labor laws to help spur economic growth and create jobs. Yet the impact is very different on the organized sector and the unorganized sector that are both essential to India's economy.

The organized sector, representing formal employment in industries and enterprises, is going to see easier compliance with labor laws under the new codes. With the help of reduction of redundancies and ease of doing business, this reform is meant to attract investments and encourage employment formalization. Social security for workers is supposed to be upgraded and thresholds on gratuity-type benefits are modified to improve workers' welfare. However, critics argue that provisions related to industrial relations, such as increased thresholds for seeking government permission for layoffs, may undermine worker rights. At the same time, the unorganized sector, which accounts for nearly 80% of India's workforce, faces unique challenges under the new codes. Despite the promise of expanded social security coverage, the enforcement mechanisms and awareness levels in this sector remain limited, raising concerns about actual implementation and accessibility.

Perhaps the broader implications lie in bridging organized and unorganized sectors or fostering inclusive growth at large. The codes reflect an effort to reckon with the changing nature of employment by encouraging formalization through simplified compliance and offering a framework for gig and platform workers. Nonetheless, reaching the ends cannot but take a delicate approach. This cannot be but by adjusting the interplay between the employer and employee, redressing sectoral imbalances, and, in turn, fortifying effective enforcement. This research critically examines the implications of India's labor codes on the organized and unorganized sectors in an attempt to shed light on the opportunities and challenges they present in reshaping the country's labor landscape.

2. LITERATURE REVIEW

Ramaswamy and Binnuri (2023) conducted a deep analysis on the impact of India's Labour Codes, especially as it relates to how these reforms affected both the organized and unorganized sectors. Their research shows that the new Labour Codes intended to streamline labor regulations, enhance compliance, and improve workers' rights. The authors, however, pointed out that the new codes have resulted in significant challenges, especially in the unorganized sector. This sector, involving a significant share of India's workforce, does not find the new legal structure easy to accept because of less awareness, deficient resources, and infrastructure for implementation. The paper concluded that whereas the codes may enhance the working condition and simplify procedures in the case of the organized sector, some support may be required for implementing the same on the unorganized sector.

Sharma and Ragaur (2021) provided an in-depth analysis of the Social Security Code of 2020, which is part of the larger framework of labor reforms in India. The authors focused on the importance of organizing the unorganized workforce, which is a significant portion of India's labor market. The authors pointed out that the Social Security Code attempted to bring social security coverage to this vulnerable section of the population, thereby filling the long-standing gaps in coverage. They, however, pointed out the obstacles in the successful attainment of the code scheme mainly in the areas of incomplete registration processes, lack of knowledge and absence of proper infrastructure to operate the scheme. Sharma and Ragaur added that a more robust and inclusive approach was required to achieve greater priority and inclusion of all the intended beneficiaries of the code, especially workers in informal and vulnerable employment.

Lamba and Kumar (2023) analyzed the new Labour Code in India, focusing on its structural reforms and the impact on workers and employers. Their research indicated that the new code harmonized various labor laws, aiming to create a more flexible and efficient labor market. The authors explored the benefits of this reform for businesses, particularly in terms of reduced regulatory burden and greater ease in labor management. They also discussed the risks that might face the workers, especially those related to job security and social protection. They found that the new code, set forth to promote labor market flexibility and attract investment, may result in the dilution of labor protections if not suitably implemented with safeguards for workers' rights.

Garg (2022) examined the amended Labour Codes, with special attention to their provisions and possible implications for the labor market. Garg argued that though the amendments were aimed at simplifying and modernizing the existing legal framework, they have given rise to debates about their overall effectiveness. The analysis highlighted the greater flexibility in labor management, and while that benefits employer, it places workers at a disadvantage by reducing protections. One of the main issues raised against the regulation is that it undermines the security of the workers in both the organized and the unorganized sectors regarding job stability and social benefits. Garg's study concluded that there should be a balance between flexibility and protection of workers' rights so that reforms do not become detrimental to the vulnerable.

Patro and Sahu (2024) focused particularly on the occupational safety, health, and working conditions of unorganized workers in the state of Odisha, where a significant proportion of informal labor is prevalent. Their study delved into how labor reforms were affecting this group of vulnerable people who, time and again, are exposed to unsafe working conditions, poor health conditions, and limited access to social security. The authors found that the Labor Codes, which were intended to extend protections to unorganized workers, had a significant gap in their implementation at the grassroots level. They noted that the lack of awareness and inadequate enforcement mechanisms contributed to the continued vulnerability of workers in this sector. The study, while highlighting the critical importance of tackling local conditions and enforcing labor laws, suggested a strengthening of law enforcement in addressing the unorganized sector workers and particularly those working in states such as Odisha.

Satpathy et al. (2018) examined the dynamics of workers in the organized and unorganized sectors of the automobile industry, contrasting their working conditions and challenges. A review of the existing literature reveals that significant disparities exist between the two sectors: organized workers have better wages, job security, and social security benefits compared to unorganized workers, who experience poor working conditions, low wages, and little legal protection. The study underlined the need to improve the conditions of workers in the unorganized sector, especially in industries like automobile manufacturing, where informal labor is predominant. The authors suggested that labor reforms should focus on bridging the gap between organized and unorganized workers by extending similar protections and improving enforcement mechanisms.

3. LABOUR LAW IN INDIA—DIFFERENTIATING EMPLOYEES AND WORKERS

The terms "employee," "workman," and "worker" are used interchangeably in the Indian labour law framework and play a very important role in determining the applicability of various laws. Therefore, to gain a deeper understanding of India's labour law system, it is important to understand the difference between the terms "workman" and "employee," especially as they are defined under the Industrial Disputes Act, 1947.

3.1. Pre-Labour Codes

Since Congress did not specifically differentiate between "workman" and "employee" under the Industrial Disputes Act, the distinction between the two has been mostly decided by the courts. Although the term "employee" was defined in the Employees' State Insurance Act, 1948, it was only applicable to that particular law and could not be used in any other work laws.

The ID Act's definition of "workman" does not include supervisors or managers, as well as certain individuals whose annual salary is 10,000 Indian rupees or less. Over time, the Indian courts' rulings have illuminated several crucial facts and criteria that determine whether an employee is regarded a worker under the ID Act or not. In a seminal case on the subject, the Supreme Court ruled in *Arkal Govind Raj Rao v. Ciba Geigy of India Pvt. Ltd.* that only an employee's principal obligations, not their ancillary ones, should be taken into account. The exclusion of administrative personnel from the definition of "workman" in Section 1(s)(iii) is in line with this.

What constitutes "workmen" and whether it should be extended to supervisory, part-time, or technical staff is another matter that the courts have deliberated. Therefore, the Courts were crucial under the previous regime in deciding which types of employees were considered "workmen," which had a direct impact on the employee's capacity to exercise their legal rights.

In an effort to clarify the law, however, lawmakers sought to further distinguish between "workmen" and "employees." The fact that the Workmen's Compensation Act of 1923 was renamed the Employees' Compensation Act in 2009 is evidence of this. The Second National Commission on Labour had proposed changing the word "workmen" to "employee" in order to provide legal rights to people who did not fit the "workman" definition. This suggestion formed the basis of the modification. There was an attempt to clarify the difference between workers and workmen in this amendment, but no other legislation was revised to address similar confusion.

3.2. Post-Labour Codes

At present, the focus of the Labour Codes is on the clarity of legislation rather than on judicial interpretation. Aside from the Social Security Code, which lacks a definition of "worker," the Codes offer consistent meanings of "employee" and "worker." A person is considered a "employee" for the purposes of the Codes if they are paid to work in a business, regardless of whether the terms of employment are explicit or implicit. This definition does not apply to apprentices. In contrast, the Social Security Code does not use a universally accepted definition of "worker" in this context. The Code instead distinguishes between gig workers and unorganized labour. It seems that the manner of remuneration an employee receives is still the most important factor, even though the Labour Codes maintain the distinctions between "employee" and "workman."

This sheds insight on the significance of the Codes' "wages" definition. Anything paid out in exchange for an employee's services, whether in the form of a wage or an allowance, is considered remuneration, whether stated explicitly or impliedly. Wages, in this context, will include things like base salary, dearness allowance, and retention allowance, but not things like bonus and conveyance bonus. The meaning of "wages" in the context of the Labour Codes is not flawed per se, but the conditions attached to it cause uncertainty as to their applicability. Wages paid by employers to their employees are the subject of the provisions addressing wage accruals and other matters of equal pay by gender. Thus, it raises two potential issues: first, that the difference between "employee" and "worker" becomes unnecessary; second, that "wages" are irrelevant to workers. Laws enacted to address gender pay disparities have been largely ineffective, and the ambiguity around equal pay in particular may be to blame.

The vagueness can be addressed in two ways: first, define the term "wages" in both employees and workers, or, second, use the word "worker" instead of "employee" in the provisos so that it would not confuse people. It is further suggested that the "employee"-"workman" distinction be transferred to a sectoral basis whereby persons are categorized as either employees of the organized or unorganized sectors. Further reasons for the recommendation are given in the next sections, more particularly when relating to provisions of the Social Security Code dealing with the unorganized sector.

For a clearer framework, one would look at the Indian labour laws (Mumbai) as a point of reference. India defines four distinct categories: worker, employee, jobholder, and apprentice. It also defines what it terms "employment relation," which extends specific rights to each category. The Indian system (Mumbai) is very clear on the demarcation between all forms of workers and employees to ensure the rights of each are well

protected. This is a differentiation in line with themes recognized by the International Labour Organization for comparing labour law regimes across countries.

4. INTERPLAY BETWEEN LABOUR LAW, SOCIAL SECURITY AND THE UNORGANIZED SECTOR

The interplay of labor law and social security for the unorganized sector is thus crucial for providing protection and social security to informal employment workers. The unorganized sector consists of employees who are outside the formal ambit of employment relations, such as domestic workers, street vendors, casual laborers, and agricultural workers. Vulnerability is massive among these sections of workers, mainly because there is no legal protection and also no social security benefits.

Labor laws usually extend to formal workers, with protections that include minimum wages, hours of work, and health and safety in the workplace. Labor laws are inadequate in areas like informal workers, who happen to be the most vulnerable to exploitation. Even when the law extends coverage to the unorganized sector, the key problem is enforcement, especially among informal workers, who may not be aware of their rights or who lack access to legal services. Informal sector workers lack the capability to bargain collectively, which also diminishes their capacity to claim higher wages and improved working conditions. Social security is another significant area where informal workers face problems. Without pensions, unemployment insurance, and health care, among other social security benefits, informal workers are more susceptible to the effects of economic instability, illness, or accidents. Some governments have implemented targeted social security schemes to include informal workers, but participation rates are often low due to barriers such as lack of awareness, financial literacy, and difficulties in accessing programs. In many cases, informal workers are also excluded from health insurance schemes and other essential benefits, making them highly vulnerable in times of illness or injury.

To address such issues, many interventions have been introduced to include informal workers into social security systems. These are the introduction of social protection programs, such as micro-insurance, direct cash transfers, and expanded access to health services. Legal reforms are also being implemented in some countries to extend labor law protections to informal workers, such as India's Code on Social Security 2020. In addition, skill development programs and digital solutions are being explored to increase informal workers' access to social security benefits, making it easier for them to register and contribute.

However, there are still many challenges. Informal employment, although flexible, leaves workers vulnerable to exploitation and insecurity. The key challenge is finding a balance between providing workers

with a safety net and preserving the benefits of flexibility in informal work. Furthermore, the lack of awareness about labor rights and social security benefits among informal workers remains a major barrier to effective implementation. Political will and administrative capacity are also critical to overcoming the challenges in extending labor laws and social security benefits to informal workers.

5. CONCLUSION

The introduction of India's new labor codes is a giant leap in modernizing the labor landscape: simplicity in regulations, better protection for workers, and stricter formalization both in the organized and the unorganized sector. Improved social security, simplified compliance, and a more uniform protection promised by the code pose several challenges, especially in the case of the unorganized sector, where enforcement, awareness, and access to benefits are still wide-open issues. Flexibility in informal employment has to be balanced with adequate protection. For labor codes to realize their goals, the implementation must be effective, policies sector-specific, and focused on bridging gaps in legal coverage and social security for informal workers for inclusive growth and social justice.

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