



Trends of Contract Labour System in India : Continuity and Change

Saurabh Kumar

Research Scholar, Department of Sociology, Babasaheb Bhimrao Ambedkar University, Lucknow,
Uttar Pradesh, India

Article Info

Volume 4, Issue 2

Page Number : 189-195

Publication Issue :

March-April-2021

Article History

Accepted : 01 April 2021

Published : 10 April 2021

Abstract - Labour plays an essential role in the sphere of employment. In the present Scenario, a nonstandard form of employment, contract labour, is overgrowing in the field of public and private sectors. Liberalization, privatization, and globalization (LPG) of the Indian economy have expanded the contract labour system. However, contract workers are in a marginal position to negotiate terms and conditions with employers. Labour regulations in India apply differently for both regular and contract workers. This paper aims to understand the growth of contract workers and the regulations related to the contract labour system. The paper is based on secondary data resources. It is observed from secondary data analysis that the growth of contract labour is in every employment category in India. However, there is find lacuna in implementing the Contract Labour Act.

Keywords - Contract labour, LPG, Labour regulations, India.

Introduction - The growth in the size of contract workers in developing countries has been widely debated in recent years. Contract workers come under the nonstandard work contract between individual workers and organizations. According to the ILO report 2012, the share of temporary contract workers compared to regular workers has increased rapidly. Contract labour in India can be separate from direct labour in terms of the employment relationship and the method of wage payment (1st National Commission of Labour report, 1969). Annual Survey of Industry (ASI) defines contract workers are all persons who were not employed directly by an employer but through a contractor with and without the knowledge of the principal employer (GoI 2009, a). Contract workers are those that are employed by a contractor or through a contractor in an establishment. Contractor includes those who have undertaken to supply workers for work in an establishment and undertake any work in an establishment to produce a given result with the help of contract labour (Contract Labour Act). In other words, contract workers are indirect employees who are hired, supervised, and remunerated by a contractor who is compensated by the establishment. Contracts in this context may be divided broadly into two categories: Job contracts or outsourcing and labour contracts (Ramanujam, 2004).

In a Job contract, a person undertakes to produce a commodity or service for an establishment through labourers hired by him. On the other hand, a Labour contract is in which a person supplies labourers for any work of the establishment on payment or remuneration or commission. They are hired temporarily, depending on the availability of work. Organizations in developing countries tend to rely mainly on temporary contract workers. The growth of contractual labour share in the labour market leads to poor working conditions, low productivity, and a lack of social cohesion with regular workers (World Bank, 2012). Contract workers are also

termed agency workers, indirect workers, outsourced workers, precarious workers, external workers, or contingent workers. In other countries, contract workers are referred to as dispatch workers or labour dispatch, labour brokerage, or temporary agency workers (ILO, 2015).

Pfeffer and Baron (1988) categorized nonstandard workers into three broad groups:

- a) Those that have a limited temporal attachment to the organization temporary and part-time works;
- b) Those with a limited physical attachment to the organization like teleworkers or at-home workers;
- c) Those with limited administration to the organisation, like those hired through labour intermediaries (agencies) or independent contractors.

Contract workers (George and Chattopadhyay, 2005) and agency temporary workers (Chambel and Castanheira, 2012) exemplify the above third category of workers. These workers are under the managerial control of one organization while working for another. In addition, some independent contractors or individuals who work for themselves and contract their services to organizations also fall within this category. Thus, temporary contract work is a distinct form of work arrangement because the worker is involved in a triangular employment relationship that involves two organizations (Coyle- Shapiro et al., 2006). This relationship includes Contract workers a temporary agency through which they are employed and an establishment or company where they perform daily their work (George and Chattopadhyay, 2005).

Trends of Contract labour employment in India- India is fast shifting from a rural agrarian to an urban-industrial mode of life and work. The results have to be seen in changing economic and occupational structures. The contract form of employment is not new to India. It has been prevalent since the pre-colonial period. Employers always found an easy way to hire middlemen who helped them recruit labourers. Contractors were mainly village, caste, and community leaders. In various areas in India, the contract system is termed badli, theka, tundu, etc. Contractors or intermediaries, called Sirdars, Mistris, thekedar, kankanis, etc., recruit labourers through their rural networks.

These contractors were receiving a commission from the employers for recruitment. This commission is a significant cut from the salaries of workers. Employers use these contractors more for recruitment and less for control of labour.

This contract labour system continued in the post-colonial period. The demand for temporary workers increased rapidly. Temporary workers constituted the pool of labour ready to enter the factory gate, in-between the permanent workers inside the factory and the enlarged unemployed populace outside (Breman, 1998). Breman discovered in his study of labour in post-colonial India that temporary workers are bottom of the work hierarchy. However, their condition is better than nomad labour waiting outside the factory gates. That is why they cannot claim to secure conditions of employment enjoyed by the permanent workers. During this period, contractors made their position strong enough. Contractors who were earlier engaged in the recruitment of contract workers gradually involved in the supervision and control of the workers. Also, the dues of workers were paid mainly through the contractor. The contractor slowly became the employer for contract workers and, without any legislation worked as a shield for the principal employer from endangerment of employment. Contract workers have been found working in industries like textile, engineering, distillery and brewery, heavy chemicals and fertilizers, cement, beedi industry and bricks- kilns, etc. Still, the incidence of their employment is more visible in the construction of power projects, irrigation

project, bridges, canals, constructions of road, electricity generation, its distribution and maintenance of power station (Pandey, 1985).

The Indian government adopted the process of globalization, economic liberalization, and structural adjustment in 1991. Afterwards, contract labour is becoming one of the main forms of employment. The post-1991 informal sector grew tremendously and started the downfall of the formal sector. The process of privatization leads to the closure of public sector enterprises. One of the most important reasons for the decline of the formal sector is the closure of public sector enterprises. This informalisation process led to informal employment creation within the organized sector. The share of informal workers in the organized sector increased from 37.9 per cent in 1999-2000 to 48 per cent in 2004-05 and 54.6 per cent in 2011-12 (GoI, NSSO Survey, various years). Meenakshi Rajeev (2009) described in her study outsourcing of labour is common in Indian industry. Small-time registered and unregistered firms are gradually evolving into suppliers of labour, both skilled and unskilled.

Ravi Srivastava (2016) discussed trends in hiring contract workers in organized manufacturing. ASI data analysis shows that contract labour incidence was negligible until the early 1970s. In the mid-1980s, about 12.1 per cent of manufacturing workers were employed through contractors. It increased by 3.5 per cent from 1900-2000. There has been a drastic increase in contract workers in manufacturing factories, and now more than one-third of workers are employed through contractors. 34.7 per cent of workers in 2011-12 engaged through contractors in Indian manufacturing. Along with rising contract intensity, the number of contract workers increased from about 900000 to 3.6 million between 1995-96 to 2011-12. There is also variation in the engagement of contract labour at the state level. Most states experienced a very increase in contract intensity between 1900-2000 and 2010-11.

At the state level, there is wide inter-state variation in the incidence of contract labour. K.R. Shyam Sundar (2011), in his working paper analysis of ASI and CSO (various year) data, notes that contract labour employment has increased in all states from 1993-94 to 2006-07. Contract workers account for a significant proportion of the total workers like state Andhra Pradesh at the top with 52.35 per cent, followed by Haryana (44.12 per cent), Gujarat (34.28 per cent), Rajasthan (33.51 per cent), Uttar Pradesh (31.48 per cent), Maharashtra (31.27 per cent), Punjab (28.93 per cent), Madhya Pradesh (26.81 per cent), Himachal Pradesh (21.51per cent), Karnataka (14.28per cent), Tamil Nadu (14.07) and Kerala on the bottom with 10.per cent.

There is a limited data statistical database concerning contract labour in India. However, most studies indicate that contract labour or indirect work relations have emerged as India's primary form of employment since economic liberalisation.

Adoption of Contract labour system - Doeringer and Piore (1970) proposed labour market segmentation that the labour market is divided into primary markets consisting of jobs that are well paid, high skilled, secure, good quality, and stable. On the other hand, secondary market jobs are typically low wages, low-skilled, displaceable, and have no career progression.

Temporary jobs include contract labour to match the secondary segmentation. Analysis of heterogeneity of temporary employment there is another theoretical argument for the analysis of temporary employment: the core-periphery model of the labour market (Aronsson et al. 2002). Nonstandard work arrangements suggest that these arrangements make strategic sense for peripheral tasks where the knowledge and skills for the job

are not rare and unique. This type of job task can be easily performed and controlled. It seems that seasonal casual, on-call, and temporary agency workers lie on the periphery.

George and Chattopadhyay (2015) analyse the pieces of literature and describe that there is primary three reasons why organizations use temporary workers. These are (i) the cost advantages, (ii) the flexibility advantages, and (iii) the technological changes. Some other labour economists argue that organized labour rigidities are responsible for the growth of contract labour employment (Kannan, 1999). Some researchers say that the use of temporary and contract workers is associated with the deskilling of jobs and reduction of employee involvement and empowerment in the workplace (Smith, 1997).

Legal Provision of Contract Labour - The several laws governing the Indian labour market can be broadly categorized under three categories: (a) laws relating to industrial relations, (b) laws relating to wages, and (c) laws relating to social security (Hazra, 2005). Legal provisions of contract labour come under employment security laws and industrial relation. Contract labour started becoming important during the 1960s, resulting from employers' attempts to reduce labour costs. They reduce costs by paying lower wages and no obligation of social security contribution. They deny workers job security and social security, which they would be entitled to if they were recruited directly by enterprises regularly. Therefore, The Contract Labour (Regulation and Abolition) Act was passed in 1970.

The act defines a contract worker, a contractor, and a principal employer. It refers to labour other than those in regular employment based on a direct, definite, and identifiable employer-employee relationship. Contract labour is defined in clauses 2(a) to 2(h) of the Contract Labour (Regulation and Abolition) Act 1970 as one who is hired in or in connection with the work of an establishment by or through a contractor, with or without the under the knowledge of the principal employer. A principal employer is a person who has authorized control over the establishment, whereas a contractor is a person who labourers for the user enterprise and includes a sub-contractor. The contract labour system covered under the Act includes both labour contracts and job contracts. The Act applies to every establishment, contractor, or agency that employed 20 or more workers on any day during the preceding 12 months. The act does not apply to establishments where work of an intermittent or seasonal nature is performed. Contract workers are prohibited from perennial core activities.

The objectives of the Contract Labour Act regulate the working conditions, payment of wages, and social security of contract labour. Every establishment to which this act applies has required registering with the Department of Labour. To protect the health and welfare of contract labourers, the Contract Labour Act has made certain provisions mandatory. Sections 16, 17, 18, and 19 of the acts impose obligations on employers to provide certain amenities like canteen, restroom, drinking water, sufficient latrines and urinals, and first-aid facilities. The contractors' primary responsibility is to provide all facilities to the workers as mandated in the act. The responsibility falls on the principal employer if a contractor fails to pay wages and other facilities. Inspection officers of the labour department are instructed to investigate violations of the provisions of the Act.

Concerning contract workers, other than the Contract Labour (Regulation and Abolition) Act, 1970, fundamental laws are the Workmen's Compassion Act, 1948, Minimum Wage Act, 1948, Industrial Disputes Act, 1947, Employees Provident Fund Act, 1952, the maternity Act, 1961, the Trade Union Act, 1926, and the Inter-State Migrant Workers (Regulation of Employment and Condition of Service) Act, 1979 (Kumar, 2012). In his study, Ravi Srivastava, 2016 found that contract labourers do not get protection under the Industrial

Dispute Act, 1951, as well as Industrial Employment Act, 1946, which applies to every industrial establishment employing more than 100 workers. Both these employments are related to employment protection and the hiring and firing of workers.

Discussion - Globalization has led to the transformation of economic and social structures. It redefines shifts in the structure of the labour market. Over 30 years, the regular workforce has been declined by half and replaced by that much cheaper contract worker. Trends in Nonstandard form of employment in India have to be seen in the context of a rapidly changing economic and occupational structure, leading to a shift away from agriculture, the growth of an organized sector like manufacturing and services, and the requirement of paid work with certain characters within it (Srivastava, 2016). The annual Survey of Industries (ASI) is the only source of contract workers' data. This limited data shows a phenomenal increase in the number of contract labourers. In such a globalising economy where work is becoming more flexible and irregular, work status is diverse.

Job security becomes crucial in this context. The general outcomes are trends toward the informalisation of employment and recruitment of workers through contracting and subcontracting chains. The share of contract workers increased substantially in the post-liberalization period, especially in the 2000s. At the same time, organized sector employment share declined (Shayam Sundar, 2011). According to data from the Annual survey of industries, new workers employed 2000-10, and about two-thirds are employed through the contractor. Several studies show that the contract labour system is increasing because it serves several objectives for organizations or employers. First, the law does not provide similar wages and working conditions to contract workers. Significant changes in the rules and regulations regarding contract labour law have been made to make using contract labour easier. In states, most of the states exempted the number of industries from the application of the prohibitive clauses of the CLA (R&A) Act. As a result, contract labour has been made permissible practically in all activities.

Conclusion - The contract labour system has become the most popular form of employment. Organisations use contract workers for cost-saving, to attain functional flexibility, and to achieve technological imperative. The studies for both the public and private sectors reveal that the enforcement of the contract labour (abolition and regulation) act is ineffective. The economic slowdown in COVID-19 crises affects the global labour market. This global financial crisis raises the problems of unemployment, partial employment, shorter working hour, and partial compensation in the labour market. Now the contractisation or contractorization process is the reality of the labour market. Contract labourers are visible in every set of work or category. We need more data to know the prevalence and nature of contract workers around India. These data are required to have a more systematic and cross-state view of the prevalence of contract labour arrangements.

References

1. Aronsson G., K. Gustafsson & M. Dallner (2002). "Work environment and health in different types of temporary jobs". *European Journal of Work and Organisational Psychology*. Vol. 11(2). Pp. 151-175.
2. Breman, J. (1998). *A study of industrial labour in post-colonial India*. Amsterdam: CLARA.
3. Chambel, M. & F. Castanheira (2012). "Training of temporary workers and the social exchange process". *Journal of Managerial Psychology*. Vol.27. pp. 191-209.

4. Central Statistical Organisation. Various years. Annual Survey of Industries. New Delhi: CSO.
5. George, E. & P.Chattopadhyay (2005). "One foot in each camp: The dual identification of contract workers". *Administrative Science Quarterly*. Vol.50. pp. 68-99.
6. George, E. & P.Chattopadhyay. (2015). Nonstandard Work and Workers: Organizational Implications. Condition of Work and Employment Series No. 61. Geneva: International Labour Organisation.
7. GoI (2009, a), Annual survey of industries 2005-06, Vol. I. Statistics on Employment & Labour Cost. Government of India, Ministry of Labour & Employment. Shimla: Labour Bureau.
8. Hazara, Arnab K. (2005). "Labour Laws and Industrial Relations". Bibek Debroy and P.D. Kausik (eds.). Reforming the Labour Market. New Delhi: Academic Foundation.
9. International Labour Organisation. (2012). World of work report: Better jobs for a better economy. Geneva: ILO.
10. International Labour Organisation (2015). Non Standard form of employment, Reprt for discussion at the Tripartite Meeting of Experts on "Non- standar form of employment", Geneva, Feb. 16-19
11. Kanan, K.P. (1999). "Changing Economy Structure and Labour Institution in India: Some Reflections on Emerging Perspectives on Organized and Unorganized". *The Indian Journal of Labour Economics*. Vol.42, No.4. p.754.
12. Kumar, P. & J. Singh. (2018). Issues in Law and Public Policy on Contract Labour in India: Comparative Insight from China. Singapore: Springer.
13. Pandey, J.SP. (1985). "Employment of Contract Labour in Factories". *Labour Bulletin*. Vol. XIV, No. 11-12. p.2.
14. Papola, T.S. (2013). Role of labour regulation and reform in India: Country case study on labour market segmentation. Employment Sector. Employment WPN. 147. Geneva: International Labour Office.
15. Pfeffer J. & J.N. Baron. (1998). "Taking the workers back out: Recent trends in the Structuring of employment. Research in organizational behavior. Vol. 10 ed., pp. 257-303, Greenwich, CT: JAI Press.
16. Piore, M.J & P. Doeringer. (1971). Internal labour markets and manpower adjustment. New York: D. C. Heath and Company.
17. Rajeev, Meenakshi (2009). Globalization and labour market flexibility: a study of contractual employment in India. *International Journal of Development*. Vol.8. No. 2. Pp.168-183.
18. Ramanujam, M.S. (2004). "Contract Labour in India: An Overview". M.S. Ramanujam & J.S. Sodhi (eds.). Management of Contract Labour in India. Pp.13-33. New Delhi: Shri Ram Center for Industrial Relations and Human Resources.
19. Report of the 1st labour commission on Labour (1969). Ministry of Labour employment. Government of India.
20. Sapkal, R. S. (2016). Labour law, enforcement and the rise of temporary contract workers: empirical evidence from India's India's organized manufacturing sector. *European Journal of Law and Economics*. Vol. 42. pp. 157-182.
21. Shyam Sundar, K.R. (2011). Non- regular workers in India: Social dialogue and organizational and bargaining strategies and practices. Industrial and Employment Relationship Department (DIALOGUE). WPN. 30. Geneva: International Labour Office

22. Smith, V. (1997). "New form of work Organization," *Annual Review of Sociology*. Vol. 23(1). Pp.411-430.
23. Srivastava R. (2016). Structural Change and Nonstandard forms of Employment in India. Condition of Work and Employment Series No. 61. Geneva: International Labour Organisation.
24. The Contract Labour (Regulation & Abolition) Act. (1970). Available at URL <https://clc.gov.in/clc/acts-rules/contract-labour-regulation-abolition-act-1970.pdf>.
25. World Bank. (2012). World development report 2013: Jobs. Washington DC: World Bank.