



DAILY EDITORIAL ANALYSIS

TOPIC

**THE LABOUR CODES REDEFINE
WAGES, EMPOWER THE WORKER**

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Context

- The implementation of **India's labour codes** marks a decisive shift towards **greater financial inclusion** of the workforce by embedding **social security, income protection, and long-term financial safeguards** into the employment relationship.

Key Features of India's New Labour Codes

- Uniform Definition of Wages:** A standardised definition of 'wage' ensures that basic pay constitutes at least 50% of total remuneration.
 - It impacts higher contributions to Provident Fund (PF), pension, and gratuity, leading to stronger long-term financial security.
- Universal Minimum Wage:** Introduction of a **national floor wage**, below which no state can fix minimum wages.
 - It aims to reduce wage disparities and protect low-income workers.
- Timely Payment & Limited Deductions:** Mandates timely payment of wages and restricts arbitrary deductions, and enhances income stability and prevents exploitation.
- Simplified Dispute Resolution:** Creates faster mechanisms for resolving industrial disputes through tribunals and conciliation.
- Recognition of Trade Unions:** Provides criteria for recognition of negotiating unions in establishments.
- Fixed-Term Employment Formalisation:** Legally recognises fixed-term employment, ensuring equal benefits (including gratuity after one year) at par with permanent workers.
- Layoff & Retrenchment Threshold Changes:** Increases the employee threshold for prior government approval for layoffs and retrenchments (from 100 to 300 workers).
- Expanded Social Security Coverage:** For the first time, gig workers, platform workers, and unorganised workers are formally recognised.
- Provident Fund & Pension Expansion:** Extends coverage to more establishments and worker categories.
- Gratuity for Fixed-Term Workers:** Eligibility after one year of service, strengthening income protection.
- Benefit Portability:** Enables portability of benefits across states and employment, crucial for migrant labour.
- Improved Workplace Safety Standards:** Consolidates multiple safety laws into one framework applicable across sectors.
- Working Hours & Leave Provisions:** Standardises working conditions and leave entitlements.
- Protection for Migrant Workers:** Mandates better registration systems and access to welfare schemes.

Structural Features & Macroeconomic Implications

- Consolidation of 29 Laws into 4 Codes:** Reduces fragmentation and simplifies compliance for employers while improving clarity for workers.
- Digital Compliance & Transparency:** Encourages online registration, electronic record-keeping, and unified licensing.
- Financial Inclusion Focus:** By strengthening wage definitions and expanding social security, the codes enhance long-term savings, retirement security, insurance access, and income stability.
- Higher Consumption:** Workers' income typically circulates within the domestic economy.
- Improved Savings Behaviour:** Stronger PF and gratuity accumulation builds long-term financial assets.
- Greater Financial System Participation:** Formal wage structures encourage banking and institutional engagement.

Key Challenges in Implementing India's New Labour Codes

- **Delayed Implementation & State-Level Readiness:** Although Parliament passed the **four codes in 2019–2020**, they require states to frame rules before full enforcement.
 - ◆ Labour is a **concurrent subject under India's Constitution**, meaning both the Centre and states legislate on it.
- **Implementation Capacity & Enforcement Gaps:** The shift from inspector-based regimes to an '**Inspector-cum-Facilitator' model aims** to reduce harassment and promote compliance.
 - ◆ Other concerns include limited staffing in labour departments, digital infrastructure gaps, and weak monitoring mechanisms.
- **Social Security Financing for Gig & Informal Workers:** Under the Code on Social Security, 2020, gig and platform workers are formally recognised.
- **Industry Concerns Over Cost Implications:** The revised wage definition under the Code on Wages, 2019 requires basic wages to constitute at least 50% of total remuneration.
- **Trade Union Opposition & Political Resistance:** Under the Industrial Relations Code, 2020:
 - ◆ The threshold for prior government approval for layoffs increased.
 - ◆ Stricter conditions for strikes introduced.
 - ◆ Trade unions argue these provisions dilute collective bargaining power.
- **Informal Sector Integration Complexity:** India's workforce is predominantly informal.
 - ◆ Formalising such a vast and diverse labour force poses structural challenges like lack of documentation, migrant mobility, limited financial literacy, and employer resistance in small enterprises.
- **Awareness & Financial Literacy Gaps:** Many workers are unaware of their rights regarding provident Fund (retirement savings scheme), gratuity (exit benefit after service), insurance and welfare schemes.
 - ◆ Without targeted awareness campaigns, benefits may remain underutilised.
- **Risk of Compliance Burden on MSMEs:** Micro, Small and Medium Enterprises (MSMEs) may struggle with digital compliance requirements, record-keeping obligations, and cost of higher social security contributions.

Key Suggestions for Effective Implementation of India's Labour Codes

- **Ensure Timely and Uniform State Implementation:** Since labour is a concurrent subject, states need to frame their rules before the codes become fully operational. Key suggestions include:
 - ◆ Set clear timelines for state rule notification;
 - ◆ Encourage inter-state coordination for uniformity;
 - ◆ Develop model rules to minimise variation;
- **Strengthen Administrative and Digital Capacity:** The shift to digital compliance and the Inspector-cum-Facilitator model requires robust infrastructure. Key suggestions include:
 - ◆ Upgrade labour department staffing and training;
 - ◆ Invest in unified digital portals for registration and reporting;
 - ◆ Use data analytics for risk-based inspections;
- **Create a Sustainable Financing Framework for Gig Workers:** The inclusion of gig and platform workers is transformative, but financing mechanisms must be clear and viable. Key suggestions include:
 - ◆ Define transparent contribution formulas for aggregators;
 - ◆ Introduce co-contribution models (government, platform and worker together);
 - ◆ Establish a central social security fund for gig workers;
- **Balance Worker Welfare with Industry Competitiveness:** The revised wage definition under the Code on Wages, 2019 increases social security contributions. Key suggestions include:
 - ◆ Provide transitional compliance periods for MSMEs;
 - ◆ Offer tax incentives for higher social security compliance;
 - ◆ Encourage phased restructuring of salary components;

- **Enhance Worker Awareness and Financial Literacy:** Legal entitlement does not guarantee effective access. Key suggestions include:
 - ◆ Conduct nationwide awareness campaigns;
 - ◆ Simplify communication of PF, pension, and gratuity benefits;
 - ◆ Integrate labour rights education into skilling programs;
- **Build Trust Through Social Dialogue:** Opposition from trade unions highlights the need for participatory governance. Key suggestions include:
 - ◆ Institutionalise tripartite consultations (government, employer and worker);
 - ◆ Publish transparent implementation reports;
 - ◆ Set up grievance redressal mechanisms;
- **Focus on Informal Sector Integration:** India's workforce is predominantly informal, making formalisation a structural challenge. Key suggestions include:
 - ◆ Simplify registration procedures for small enterprises;
 - ◆ Use Aadhaar-linked digital identification systems for portability;
 - ◆ Provide onboarding incentives for informal businesses;
- **Monitor and Evaluate Impact Periodically:** Reform needs to be evidence-based and adaptive. Key suggestions include:
 - ◆ Establish periodic impact assessments;
 - ◆ Collect real-time data on wage compliance and social security coverage;
 - ◆ Allow mid-course corrections where necessary;

Conclusion

- India's labour codes should be understood not merely as regulatory reform, but as a structural intervention aimed at financial inclusion.
- The codes promote income security, financial dignity, and a more equitable distribution of economic value by reforming wage definitions, extending gratuity to fixed-term workers, expanding social security to gig and informal workers, ensuring minimum wages and timely payments.

Daily Mains Practice Question

[Q] The redefinition of wages under India's new labour codes marks a structural shift toward financial inclusion and long-term income security for workers. Discuss.

Source: TH

