NEXT IAS

DAILY EDITORIAL ANALYSIS

TOPIC

CHANGING DEFINITION OF 'INDUSTRY': IMPLICATIONS FOR LABOUR AND INDUSTRIALISATION

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Context

- The Supreme Court's recent approach to the **meaning of 'industry'** has narrowed the scope of institutional activities covered by industrial relations law, **raising concerns** over worker protection, wage growth and India's manufacturing ambitions.

About the Definition of 'Industry' in India

- The definition of 'industry' determines which establishments and workers fall within the framework of **collective bargaining, dispute resolution, protection against dismissal and other labour rights**.
- It has therefore been central to the evolution of India's labour jurisprudence.

Past to Present

- **Industrial Disputes Act, 1947:** The earlier statutory framework contained a **broad definition of 'industry'.**
    - Its interpretation was substantially expanded by the Supreme Court in the landmark **Bangalore Water Supply and Sewerage Board v. A. Rajappa (1978)** judgment.
    - The Court adopted the **'triple test'**, broadly bringing activities involving **systematic employer-employee cooperation** for production or distribution of goods and services within the concept of industry, subject to specified exclusions.
- **Recent Judicial Approach:** The Supreme Court's subsequent consideration of the issue, including the **UP State Warehousing Corporation/Jai Bir Singh-related litigation**, has revisited the breadth of the earlier interpretation.
    - The significance of the present approach is that **sovereign, charitable, social and philanthropic activities are not brought within the official conception of industry** in the same expansive manner.
    - It potentially **reduces the institutional spaces** in which workers can collectively negotiate wages and employment conditions.
- **Industrial Relations Code, 2020:** It consolidates **three major labour laws** i.e. the Industrial Disputes Act, 1947, the Trade Unions Act, 1926 and the Industrial Employment (Standing Orders) Act, 1946.
    - Its definition of 'industry' seeks to provide a common statutory framework for industrial relations.

What are the Issues and Concerns?

- **Risk of greater labour informality:** Only about **23.6% of workers are regular salaried employees**, while merely **11% have salaried status along with a written contract and social security**.
    - A narrower industrial classification could encourage employers to reorganise activities through legal forms falling outside industrial regulation.
    - It may widen the divide between **formal and informal employment**, weakening collective bargaining and employment security.
- **Falling wages and labour share:** Average monthly earnings in rural areas declined from around **₹9,107 in 2017-18 to ₹8,842 in 2023-24**.
    - Real wages for both rural men and women were also lower in 2023-24 than six years earlier.
    - A declining labour share can transfer income from labour to capital.
    - Since workers generally have a higher propensity to consume, weaker wages can reduce **aggregate demand** that can further lead to **low capacity utilisation** and **investment**, creating a negative economic cycle.

- **'Labour Arbitrage' Myth:** Relaxing labour protection is often justified on the grounds that cheaper labour will attract global production networks.
  - However, manufacturing competitiveness depends on more than wages.
  - **India's manufacturing-to-GDP ratio** has remained around **16–17%**, compared with about **25% in Vietnam and 28% in China**.
  - **East and South-East Asian production** hubs benefit from **economies of scale and scope**, including established supplier networks, testing, logistics, engineering, packaging and trade-finance capabilities.
- **Infrastructure & Productivity Constraints:** India faces relatively high logistics costs ranging from **7.8–8.9% of GDP** to **7.97%**, while some industry assessments place them at **13–14%**, compared with an international average near 8%.
  - India's logistics costs are estimated to be **4–5 percentage points higher than Vietnam's**. It can outweigh apparent wage-cost advantages.
- **Weak Incentives Mechanism & Low Wages:** Weak incentives for long-term employment may discourage firms from investing in **on-the-job training, task-specific knowledge and organisational capabilities**.
  - Low wages without higher productivity can be counterproductive.
  - India's share of global exports of apparel, leather, textiles and footwear rose from **0.9% in 2002 to 4.5% in 2013**, but **subsequently declined**, while Vietnam and Bangladesh crossed 5%.
  - It indicates that **wage suppression alone cannot substitute for productivity growth and industrial ecosystems**.

Way Forward: Combining Worker Protection with Productivity & Formalisation

- India needs a **balanced labour policy** rather than a race to the bottom on wages.
- Strengthen **collective bargaining and social security** while simplifying compliance.
- Incentivise firms to provide **on-the-job training and skill development**.
- Promote formalisation through written contracts, portable social security and transparent employment records.
- Reduce logistics costs through better **ports, roads, railways, electricity and digital customs**.
- Build domestic supplier ecosystems and encourage economies of **scale and scope**.
- Ensure labour reforms support **productivity-linked wage growth**, rather than wage suppression.

Conclusion

- India's manufacturing challenge is fundamentally one of **productivity, infrastructure, skills, industrial ecosystems and aggregate demand**, not merely labour costs.
- Labour-law reform must therefore reconcile **worker dignity with enterprise competitiveness**.
- A sustainable industrialisation strategy should expand formal employment and productivity together, ensuring that the gains from growth translate into stronger wages, consumption and investment.

Daily Mains Practice Question

[Q] The changing judicial interpretation of the definition of 'industry' has significant implications for labour protection, formalisation and India's industrialisation strategy. Critically examine.

Source: BL

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