

STEP

**Dr. Shivin's Targeted Exam Plan
For Prelims 2025**

LABOUR LAWS

ECONOMY

Labour Laws

Labour laws govern the employer-employee relationship, covering various aspects like workers' rights regarding wages, safety, and social security.

Problems with Labour Laws in India

- **Concurrent List Complexity:** Labour laws fall under the concurrent list, resulting in 44 central and over 100 state-level labour laws, creating complexity.
- **Low Employment Elasticity:** Despite economic growth, job creation has been insufficient, leading to low employment elasticity.
- **Outdated Labour Laws:** Current labour laws are not well-suited to the needs of the modern service sector and technology-driven manufacturing.
- **Multiplicity of Laws:** The numerous labour laws increase compliance costs for businesses and open up opportunities for corruption and harassment.
- **Poor Worker Coverage:** Only about 10% of the workforce is covered by formal employment laws, leaving 90% of informal workers without adequate protections.
- **"Missing Middle" Problem:** Labour laws impose burdens on mid-sized and large firms, discouraging growth and contributing to a lack of medium-sized firms.
- **Lack of Flexibility:** Labour laws restrict firms' ability to manage their workforce, such as requiring state permission to lay off workers in firms with over 100 employees.
- **Hindrance to Skill Development:** Companies are less likely to invest in training for casual or contract workers due to labour laws, hindering human capital formation.
- **Reduced Global Competitiveness:** Labour-intensive industries like textiles and leather remain largely informal due to restrictive labour policies.

In 2019 and 2020, **29 Central Labour Laws** were consolidated into four simplified Labour Codes:

1. **Code on Wages, 2019**
2. **Industrial Relations Code, 2020**
3. **Code on Social Security, 2020**
4. **Occupational Safety, Health & Working Conditions Code, 2020**

These reforms aim to align labour laws with changing labour market trends, technological advancements, and the current economic scenario. The new framework addresses the following key objectives:

- **Simplification and Rationalization:** Reduces the multiplicity of definitions and authorities to streamline compliance.
- **Worker Welfare:** Covers unorganised workers, self-employed individuals, and migrant workers, ensuring minimum wages, social security, and safety.
- **Ease of Doing Business:** Simplifies compliance to encourage enterprise creation and job opportunities.
- **Technological Integration:** Introduces web-based inspections to ensure transparency and accountability in enforcement.
- **Decriminalisation:** Provides for decriminalisation of minor offences for smoother implementation.

Overview of the Labour Codes
Industrial Relations (IR) Code

Objective	<ul style="list-style-type: none"> Covers trade unions, strikes, lockouts, standing orders, and industrial dispute resolution, replacing three previous laws.
Fixed-Term Employment	<ul style="list-style-type: none"> Allows employers to hire workers for fixed durations under written contracts. Fixed-term employees are entitled to the same benefits as permanent employees. Concerns include unequal bargaining power, potential job insecurity, and the possibility of replacing permanent jobs with fixed-term contracts.
Challenges with Contract Workers	<ul style="list-style-type: none"> The continued use of contract workers is encouraged by lower costs and reduced compliance burdens. Fixed-term employees are more expensive to hire due to mandatory benefits like insurance and pensions.
Improvements Suggested	<ul style="list-style-type: none"> Adopt recommendations from the Second National Commission on Labour and the International Labour Organisation (ILO) to limit contract renewals, duration, and proportion of fixed-term workers
Standing Orders	<ul style="list-style-type: none"> Required for industrial establishments with 300 or more workers, which may lead to exploitation in smaller industries.
Closure and Lay-Off Rules	<ul style="list-style-type: none"> The threshold for requiring government permission for closure or layoffs has been increased from 100 to 300 workers, making it easier for small industries to lay off workers.
Strikes and Lockouts	<ul style="list-style-type: none"> Requires a 14-day notice, which could weaken workers' bargaining power.
Power to Exempt Industries	<ul style="list-style-type: none"> The government can exempt industries from provisions of the IR Code in the "public interest," a term that could be broadly interpreted.
Code on Social Security, 2020	
Objective	<ul style="list-style-type: none"> To consolidate and simplify social security laws, extend coverage to unorganised, gig, and platform workers, and empower the central government to frame social security schemes for all sectors.
Coverage	<ul style="list-style-type: none"> Expands the definition of employees to include inter-state migrant workers, construction workers, film industry workers, and platform/gig workers. EPFO coverage extended to all establishments with 20 or more workers. ESIC coverage extended to all 740 districts.
Benefits	<ul style="list-style-type: none"> Expanded Coverage: Includes more workers such as inter-state migrants, construction, film industry, and gig/platform workers. Simplification: Subsumes nine laws, streamlining social security schemes like EPF, EPS, and ESI. Extended ESIC Facility: Expands ESIC coverage to all 740 districts. New Schemes for Unorganised Workers: Empowers the Centre to create schemes for self-employed, unorganised, gig, and platform workers. Broader EPFO Coverage: Extends EPFO benefits to all establishments with 20+ workers. Mandatory Vacancy Reporting: Requires firms with 20+ workers to report vacancies online.

	<ul style="list-style-type: none"> ● Social Security Fund: Establishes a fund for unorganised sector workers. ● National Social Security Board: Creates a board to develop schemes for unorganised, gig, and platform workers. ● Enhanced Gratuity: Provides gratuity for fixed-term employees without a minimum service period; reduces the gratuity period for journalists. ● National Database: Sets up an online portal for easy registration of unorganised workers.
Concerns	<ul style="list-style-type: none"> ● Potential challenges in the effective implementation of expanded coverage. ● Risk of inadequate funding for the social security fund. ● Complexity in integrating various social security schemes under one code. ● Ensuring compliance by smaller firms and those in the unorganised sector.
Code on Occupational Safety 2020	
Objective	<ul style="list-style-type: none"> ● To consolidate and simplify the laws related to occupational safety, health, and working conditions, ensuring safer and healthier working environments for employees across various sectors.
Coverage	<ul style="list-style-type: none"> ● Amalgamates 13 existing labour laws and applies to factories with at least 20 workers (with power) or 40 workers (without power). ● Expands coverage to include inter-state migrant workers, cine workers (now called Audio Visual workers), and contractors recruiting 50 or more workers.
Benefits	<ul style="list-style-type: none"> ● Ensures workplaces are free from hazards and mandates free annual health examinations for certain classes of employees. ● Defines inter-state migrant workers and provides portability of benefits, such as ration and construction worker cess, across states. ● Introduces a Journey Allowance for inter-state migrant workers. ● Grants a legal right to workers for receiving an Appointment Letter. ● Expands coverage to more workers in the entertainment industry by including Audio Visual workers. ● Removes manpower limits for hazardous working conditions. ● Limits daily work hours to a maximum of eight hours. ● Allows women to work in all establishments and at night, with their consent and safety provisions.
Concerns	<ul style="list-style-type: none"> ● Implementation and enforcement of safety and health standards may be challenging. ● Ensuring adequate protection and safety measures for women working at night. ● Compliance costs for employers, especially for small and medium-sized enterprises, might increase due to expanded coverage and new requirements.

The Indian Minimum Wage System under Minimum Wages Act, 1948

The minimum wage system in India has been a subject of extensive debate and evolution.

- India was one of the first developing countries to introduce minimum wages through the enactment of the **Minimum Wages Act, 1948**, which protects both regular and casual workers.

- **Wage Setting:** Minimum wages were set by both the **Central and State governments** for employees in specific "scheduled" employments. Wage rates are determined based on skill levels, location, and occupation.
- **Advisory Boards:** While the Act did not prescribe specific norms for setting minimum wages, it provided for **tripartite advisory boards** comprising employers, employees, and independent experts to advise the government.

Impact of Minimum Wages (Economic Survey 2018-19)	
Impact on Wage Levels	<ul style="list-style-type: none"> ● “Lighthouse Effect”: Minimum wages act as a benchmark, indirectly raising wages in informal and low-paid sectors. ● Studies highlight: <ul style="list-style-type: none"> ○ Increased compliance benefits male wages more than female wages. ○ Wage bargaining has improved actual wages in sectors like construction.
Impact on Wage Inequality	<ul style="list-style-type: none"> ● Compliance reduces inequality, but India’s wage inequality remains high. ● Key observations: <ul style="list-style-type: none"> ○ Casual Workers: Inequality has decreased. ○ Regular Workers: Inequality has increased. ○ Women, who dominate the lowest wage brackets, benefit most from a well-implemented minimum wage system.

Complex Minimum Wage System in India (Economic Survey 2018-19)	
Coverage-Related Complexities	<ul style="list-style-type: none"> ● There were 429 scheduled employments and 1,915 job categories for unskilled workers. ● This vast expansion has resulted in significant variations in minimum wages, not only between states but also within states.
Lack of Uniform Criteria	<ul style="list-style-type: none"> ● Variable Dearness Allowance (VDA): In some states or scheduled employments, minimum wages are linked to the cost of living through a VDA. However, other states do not include this component. ● This inconsistency has led to wide disparities in wage rates across and within states. ● For example: <ul style="list-style-type: none"> ○ Minimum Wage Rates (Per Day): <ul style="list-style-type: none"> ■ Lowest: ₹115 in Nagaland. ■ Highest: ₹538 in Delhi.
Incomplete Coverage of Workers	<ul style="list-style-type: none"> ● The Minimum Wages Act did not cover all wage workers. ● According to the ILO (2018), 1 in every 3 wage workers in India is not protected under the law. ● Vulnerable categories, such as domestic workers, are only covered in 18 states and union territories. ● Delays in revising minimum wage rates further weaken the system.

<p>Reflection of Gender Discrimination in Minimum Wages</p>	<ul style="list-style-type: none"> Although the Minimum Wages Act did not differentiate based on gender, disparities in wages across occupations dominated by men versus women suggest systematic gender bias: <ul style="list-style-type: none"> Domestic workers (majority women) earn consistently lower wages than security guards (majority men), even though both are categorized as unskilled workers. For example, in Assam, the minimum wage for security guards is 44% higher than for domestic workers, highlighting inherent bias across states.
<p>Regular vs. Casual Workers</p>	<ul style="list-style-type: none"> Compliance was significantly higher for regular workers compared to casual workers.

Code of Wages, 2019

The *Code on Wages, 2019* introduced significant reforms to overhaul the minimum wage framework, aiming to make it more inclusive, transparent, and efficient. These reforms address longstanding challenges under the *Minimum Wages Act, 1948*, and focus on universalization, simplification, and enhanced accountability.

<p>Provisions of Code of Wages, 2019</p>	
<p>Universalisation of Minimum Wages and Floor Wages</p>	<ul style="list-style-type: none"> The Code ensures universal application of minimum wages and floor wages, covering all wage earners, including vulnerable groups excluded under the previous Act. It eliminates distinctions between scheduled and non-scheduled employments, creating a unified wage framework applicable to all workers.
<p>Dual Power to Fix Wages</p>	<ul style="list-style-type: none"> Both the Central and State Governments are empowered to fix minimum wages within their respective jurisdictions. Factors for wage fixation include skills, work difficulty, and geographic considerations.
<p>Statutory Floor Wage</p>	<ul style="list-style-type: none"> A key feature is the statutory floor wage, set by the Central Government, which establishes a baseline for state minimum wages. States must fix wages at or above this floor level, with no reductions allowed if rates are already higher. This aims to improve earnings for millions of workers while reducing disparities across states.
<p>Payment Methods</p>	<ul style="list-style-type: none"> Allows wages to be paid via cash, check, digital means, or directly into bank accounts. The appropriate Government may mandate non-cash payment methods for specific establishments to enhance transparency.
<p>Simplified Wage Structure</p>	<ul style="list-style-type: none"> The Code simplifies the earlier complex system by fixing minimum wages based on skill levels, geographical regions, and the nature of work. This reduces compliance challenges and empowers workers in wage negotiations. States can now set a minimum of three and a maximum of twelve wage rates, ensuring clarity and uniformity.
<p>Worker Welfare and Accountability</p>	<p>Key provisions include:</p> <ul style="list-style-type: none"> Work Hours and Overtime: Clear guidelines on minimum work hours and overtime pay, calculated at twice the regular wage. Bonus and Deductions: Defines bonus criteria and limits on salary

	<p>deductions, safeguarding workers' income.</p> <ul style="list-style-type: none"> ● Overtime and Bonus: Overtime is payable at twice the regular wage, and bonus eligibility and calculation criteria will be determined by the appropriate Government. ● Graded Penalties: Penalties are proportionate to the severity of violations, with opportunities for compliance before prosecution for first-time offenses. ● Compounding of Offenses: Non-imprisonable offenses can be compounded, reducing the burden on courts. ● Burden of Proof: Employers bear the responsibility to prove compliance in cases of unpaid wages, bonuses, or unauthorized deductions. ● Specialized Officers for Fines: High-ranking officers are authorized to handle cases involving fines up to ₹50,000, relieving lower courts of excessive caseloads.
State-Specific Implementation	<ul style="list-style-type: none"> ● State governments are responsible for implementation, allowing region-specific adjustments. Employers must maintain detailed records and conduct annual audits to ensure compliance.
Advisory Boards for Oversight	<ul style="list-style-type: none"> ● The Code requires central and state-level advisory boards with equal representation of employers and workers. One-third of members must be women, and another one-third independent experts, ensuring balanced policy decisions on wage revisions and gender representation.
Strengthening Implementation and Accountability	<ul style="list-style-type: none"> ● Inspector-cum-Facilitators: Inspectors are replaced by Inspector-cum-Facilitators, tasked with advising employers and workers on compliance while conducting inspections. This aims to eliminate arbitrary practices and promote collaboration. ● Advisory Boards: Central and State Advisory Boards are mandated to guide on wage matters, including women's employment. These boards feature tripartite representation, with at least one-third of members being women. ● Record Maintenance: Employers must maintain detailed records, including annual audits, to ensure compliance with the Code. ● Grievance Redressal and Claim Resolution: The Code simplifies dispute resolution by appointing a single authority to handle employee claims, replacing the earlier fragmented mechanism. Appellate authorities ensure efficient grievance redressal, and workers now have three years to file claims, up from the earlier six months to two years.

Issues with Code of Wages, 2019

Limited Scope of Universal Coverage	<ul style="list-style-type: none"> ● Exclusion of Key Worker Groups: While the Code aims for universal coverage of minimum wages, it primarily applies to workers employed in establishments, excluding agricultural laborers, domestic workers, homemakers, and gig workers. <ul style="list-style-type: none"> ○ Employer-Employee Relationship: The "control test" traditionally used to define the employer-employee relationship is restrictive, leaving many informal workers outside the scope of the policy.
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	<ul style="list-style-type: none"> ○ Restricted Definition of 'Employee': Only skilled, semi-skilled, or unskilled workers within designated work categories are covered, leaving other types of employment, such as home-based or informal labor, excluded.
<p>Ambiguity in Terminology</p>	<ul style="list-style-type: none"> ● Inconsistent Use of Terms: The Code uses the terms "employee" and "worker" interchangeably, which creates confusion about their coverage under different sections. <ul style="list-style-type: none"> ○ For instance, Section 5 refers to "employees," while other sections like 6(6), 7(1), and 9 refer to "workers." These terms, though related, apply to distinct groups, leading to ambiguity in enforcement and compliance.
<p>Flaws in Calorie-Based Minimum Wage Determination</p>	<ul style="list-style-type: none"> ● Outdated Family Structure: The Code uses a calorie-based standard to determine minimum wages, based on the assumption of a family with one wage earner, a spouse, and two children (3 adult consumption units). <ul style="list-style-type: none"> ○ A more realistic model would include 3.5 consumption units, reflecting modern family structures. ● Gender Bias: The allocation of 0.8 consumption units for a female adult is based on outdated gender biases, which should be adjusted to 1 consumption unit to reflect contemporary realities. ● Underestimation of Children's Needs: The Code underestimates the calorie needs of children by assigning only 0.6 consumption units. This should be revised to 0.75 to better reflect their developmental needs.
<p>Lack of Unified Dispute Resolution Mechanism</p>	<ul style="list-style-type: none"> ● Fragmented Dispute Resolution: The Code does not provide a single unified mechanism for dispute resolution. Instead, it directs workers to multiple authorities based on the nature of the issue: <ul style="list-style-type: none"> ○ Employment discrimination: Specific authority ○ Wage arrears: Civil court-like authority ○ Bonus or underpayment disputes: Industrial Tribunal or relevant authorities under the Industrial Disputes Act. ● This fragmentation complicates the resolution process, potentially leading to delays and inconsistent outcomes.
<p>Complexity in the Inspector-Cum-Facilitator Role</p>	<ul style="list-style-type: none"> ● Overlapping Functions: The introduction of the Inspector-cum-Facilitator role adds complexity to the enforcement system. These officials, appointed by state governments, have powers similar to police officers, including examining workers and confiscating documents. They are also tasked with advising employers and workers on compliance. <ul style="list-style-type: none"> ○ However, this role overlaps with the responsibilities of State Advisory Boards, leading to potential redundancy in functions and creating confusion regarding jurisdiction and authority.

<p>Disparities in Penalties and Accountability</p>	<ul style="list-style-type: none"> ● Unequal Penalties for Employers and Corporations: The Code imposes finest of up to ₹1 lakh or three months' imprisonment on individual employers for violations. However, corporations are not subject to similar penalties; instead, they are required only to provide an assurance of future compliance. <ul style="list-style-type: none"> ○ This disparity raises concerns about the accountability of large businesses and whether the Code is adequately holding corporations to the same standards as individual employers. ● Absence of Employer Liability: Employers can avoid liability by demonstrating that violations occurred without intent or due to factors beyond their knowledge. This could undermine the Code's enforcement and reduce its deterrent effect.
<p>"Good Faith" Clause and Limited Accountability for Government Officials</p>	<ul style="list-style-type: none"> ● Protection for Government Officers: The Code includes a "good faith" clause that shields government officers from legal action for actions taken under the Code. While the intention is to protect officials acting in good faith, this provision may limit accountability in cases where officers misuse their powers or act negligently. ● Potential for Reduced Transparency: This clause could potentially reduce transparency and public trust in the enforcement of the Code, especially if it is used to avoid scrutiny in cases of misuse or negligence.

<p style="text-align: center;">Way Forward</p>	
<p>Adopt a Need-Based Minimum Wage System</p>	<ul style="list-style-type: none"> ● Expand Coverage: Minimum wages should cover nutrition, healthcare, education, housing, and old-age provisions, ensuring a living wage for all workers. ● Constitutional Right: Guarantee minimum wage as a fundamental right for every citizen.
<p>Establish National Commission for Labour</p>	<ul style="list-style-type: none"> ● Standardize Wage Computation: Set up a commission to streamline discrepancies in national-level wage calculations, ensuring uniformity and fairness across sectors.
<p>Use Technology for Wage Enforcement</p>	<ul style="list-style-type: none"> ● Bank Payments: Implement a system like the UAE, requiring payments through banks to track wages and reduce underpayment. ● Mobile Reporting: Introduce apps like South Africa's 'Impimpi Alive' for workers to report wage violations anonymously. ● Employer Transparency: Develop apps for employers (like the U.S. models) to easily access wage laws and ensure compliance.
<p>Increase Awareness and Capacity Building</p>	<ul style="list-style-type: none"> ● Educate Workers: Conduct awareness campaigns to inform workers about their rights under the Code. ● Train Employers: Offer training to employers and government officials to ensure proper implementation and compliance.

Report on National Minimum Wage by Dr. Anoop Satpathy Committee

Background and Mandate

- Constituted by: Ministry of Labour and Employment
- Date: January 17, 2017
- Chairperson: Dr. Anoop Satpathy, Fellow, V.V. Giri National Labour Institute (VVGNI)
- Objective:
 - Review and recommend the methodology for fixation of National Minimum Wage (NMW).
 - Propose evidence-based NMW at national and regional levels.

Proposed Methodology

1. Nutritional Requirements:

- Balanced diet approach:
 - $\pm 10\%$ of 2,400 calories/day.
 - Protein ≥ 50 gm/day.
 - Fats ≥ 30 gm/day.
- Culturally acceptable food basket for the Indian population.

2. Non-Food Expenditure:

- Reasonable spending on essential items:
 - Clothing, fuel, house rent, education, medical care, footwear, and transport.
- Spending benchmarks:
 - Median class for essential items.
 - Sixth fractile (25–30%) for other non-food items.

Recommendations

1. National Minimum Wage (NMW):

- **INR 375 per day (INR 9,750 per month)** for a family of 3.6 consumption units (as of July 2018).
- Uniform across sectors, skills, and rural-urban areas.

2. Urban Workers Allowance:

- Additional house rent allowance (City Compensatory Allowance): **INR 55 per day (INR 1,430 per month)** for urban workers.

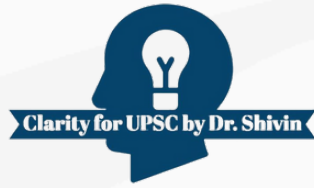
3. Regional Variations:

- States grouped into five regions based on socio-economic and labour market indices.
- Region-specific minimum wages recommended to address local realities.

Region	States/UTs Covered	NMW (Per Day)	NMW (Per Month)
Region I	Assam, Bihar, Jharkhand, Madhya Pradesh, Odisha, Uttar Pradesh, and West Bengal	INR 342	INR 8,892
Region II	Andhra Pradesh, Telangana, Chhattisgarh, Rajasthan, Jammu & Kashmir, and Uttarakhand	INR 380	INR 9,880
Region III	Gujarat, Karnataka, Kerala, Maharashtra, and Tamil Nadu	INR 414	INR 10,764
Region IV	Delhi, Goa, Haryana, Himachal	INR 447	INR 11,622

	Pradesh, and Punjab		
Region V	Arunachal Pradesh, Manipur, Meghalaya, Nagaland, Sikkim, Mizoram, and Tripura	INR 386	INR 10,036





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