

# Employment Protection Legislation, Skills and Productivity: Evidence from Indian Manufacturing

Kumar Abhishek

ICRIER, India

[kumarabhishek16293@gmail.com](mailto:kumarabhishek16293@gmail.com)

The “Make in India” initiative by the government of India attempts to provide an impetus to the manufacturing sector through policy reforms to create jobs through skill enhancement. The employment growth achieved during the last few years have been rather low and is seen as a major challenge for a labour abundant economy reaping demographic dividend. One of the challenges to Job creation is Employment Protection Legislation (EPL) which protects the interest of the workers and seen as the major obstacle to job creation as they constraint the ability of the employers to adjust labour demand, this has led to rising capital intensity and hiring of contract workers across all industries. The other is related to lack of skills and arises through the engagement of workers through a fixed contract as opposed to tenure providing firms with the flexibility to adjust labour demand- ease of hire and fire contract workers. The rising trend of Contract Worker engagement creates an inherent challenge for Skill development, as Singh et al (2017 ) have shown out that under the Incomplete contract framework the incentive to invest in the job is missing on part of both employers as well as employees which results in suboptimal investment in the job and inadequate skill formation. The inherent cost of contractualization seems to emerge in form of productivity loss due to inadequate skill formation. An attempt has been made by Sofi and Sharma (2015) to provide empirical evidence reflecting the detrimental impact of contractualization of the workforce on productivity.

In this context, the paper would study the trade-off between flexibility and productivity using an econometric model examining the determinants of labour productivity in the organized manufacturing industries in India. Two variants of this model using (i) direct and contract workers and (ii) only direct workers would be studied. Using an Industry level panel, the study would evaluate the impact of Employment Protection Legislation for permanent workers and contract workers on labour productivity as an indicator of development and role of skill formation in that. The difference-in-difference models would be used to explain the difference in Labour Productivity between the two groups as a function of Employment Protection, skills and other variables. Appropriate measures of employment protection drawing upon contract and non contract workers and skills using labour Quality indicator of India KLEMS database would be used to study the determinants of labour productivity across the two groups. Several other aspects of improving labour productivity such as export performance, capital intensity along with macroeconomic environment would be examined. The database of the study will consist of firm level data from the Annual Survey of Industries (CSO), Government of India and the period of study will be between 2008-15 to reflect the changing global productivity slowdown era.

Indicative Bibliography:

- Sofi, Irfan Ahmad, and Pritee Sharma. "Labour Regulations, Contractualization and Industrial Performance: Three-dimensional Panel Evidences from Indian Manufacturing Sector." *South Asia Economic Journal* 16, No. 1 (2015): 122-144.
- Lisi, Domenico. *The Impact of Temporary Employment on Labour Productivity: Evidence from an Industry-Level Panel of EU Countries*. No. 26076. University Library of Munich, Germany, 2009.
- David, H., William R. Kerr, and Adriana D. Kugler. "Does employment protection reduce productivity? Evidence from US states." *The Economic Journal* 117, No. 521 (2007).
- Martin, John P., and Stefano Scarpetta. "Setting it right: Employment protection, labour reallocation and productivity." *De Economist* 160, No. 2 (2012): 89-116.
- Bhattacharjea, Aditya. "The effects of employment protection legislation on Indian manufacturing." *Economic and Political Weekly*, Vol XLIV, No.22(2009): 55-62.