



# Assessing the Impact of Labour Reforms in India

## A Decade in Review

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### 1. Introduction and Context

The discourse on labour market reforms in India has gained renewed attention in the last decade, with a series of significant legislative and administrative initiatives by the Central and State Governments. These reforms aim to enhance labour market flexibility, improve the ease of doing business, promote industrial growth, and foster employment generation in the formal sector. The prevailing view among economists and policymakers is that India's labour regulations have historically been restrictive, impeding firm-level dynamism and formal employment creation, especially in the manufacturing sector (Besley & Burgess, 2004; Dougherty, 2009).

Studies such as those by Fallon and Lucas (1991) and Besley and Burgess (2004) laid the groundwork for subsequent reforms by highlighting the adverse effects of rigid labour laws on output and employment. Further research reinforced these findings, linking inflexible labour regulations to diminished growth in labour-intensive industries (Aghion et al., 2008; Ahsan & Pages, 2007; Gupta et al., 2009).

**Table 1 – Results of Important Studies on Effects of Labour Regulations**

Author	Period covered & nature of industry data	Key findings
Besley and Burgess (2004)	1958-92 ASI state panel; 1980-97 ASI 3-digit industry panel	Pro-worker labour regulation resulted in lower output, employment, investment, and productivity in the formal manufacturing sector
Mitra and Ural (2008)	1988-2000 ASI 2-digit industry panel	Greater flexibility increases labour productivity, TFP, employment, and investment; delicensing raises labour productivity and employment only in flexible states. Trade Liberalization raises productivity more in export-oriented industries in flexible states
Dougherty (2009)	1998-2004 ASI industry level panel	States that have undertaken more labour regulation reforms show greater employment flexibility in the form of inter-industry job flows
Gupta et al (2009)	1980-2004 ASI 3-digit industry panel	States with relatively inflexible labour regulations have experienced slower growth of labour-intensive industries and slower employment growth after delicensing
Goldar (2011)	2003 and 2008 ASI 2-digit industry panel	There is evidence to indicate that state-level labour reforms were one of the factors contributing to the rapid organised manufacturing employment growth



Hasan and Jandoc (2013) in Bhagwati-Panagariya	1994-2005, ASI and NSS Survey of Unorganized Manufacturing Enterprises	In labour-intensive industries, states with more flexible (inflexible) labour regulations tend to have a greater share of employment in larger (smaller) firms
Sundaram, Ahsan, Mitra (2013) in Bhagwati-Panagariya	1989-2001, ASI, NSS Survey of Unorganized Manufacturing Enterprises	Responsiveness of informal sector to formal sector employment is slightly higher in flexible states; formal sector outsourcing has a positive effect on informal sector activity [employment and output]
Rodgers and Menon (2013)	1983-2004 EUS for 5 years	Pro-worker EPL and DL amendments improved job quality (job security, likelihood of full-time work and cash wages) for women, but last two worsened for men. Wages much higher for both. Similar results for Ch. V-B, except no impact on women's wages
Saha et al (2013)	1998-2005 ASI 3-digit industry panel	Industries in more pro-worker states more inclined to use contract labour with greater import penetration and less inclined to use contract labour with greater export orientation
Kapoor (2016)	1999-2011 ASI 3-digit industry panel	States with more flexible labour markets show higher growth in manufacturing value added and employment, but no difference as between labour- and capital-intensive industries. Increase in share of contract labour is higher in inflexible as compared to flexible states
Hasan et al (2017)	2001, 2005, 2010 ASI + NSS enterprise surveys	States with flexible labour regulations have: 1. A larger share of employment in the formal sector. 2. A lower ratio of contract to regular workers. 3. A lower share of workers with wages below state poverty line
Roy et al (2020)	1998-2008 ASI plant level panel	Elasticity of employment with respect to output is lower in flexible as compared to rigid states
Hasan et al (2021)	2009-10 to 2013-14, ASI, five repeated plant-level cross sections (apparel sector only)	In pro-worker states, apparel producers employ more capital-intensive techniques, employ fewer workers (but a higher share of contract workers), produce less output, and export less

The Economic Survey 2018-19 offered concrete evidence from Rajasthan, demonstrating increased factory output and employment post-reform, thereby encouraging similar legislative changes in other states. Reforms such as increased thresholds under the Industrial Disputes Act (IDA), Factories Act (FA), Contract Labour (Regulation and Abolition) Act (CLRAA), and the introduction of Fixed Term Employment (FTE), coupled with administrative measures like self-certification and online compliance systems, represent a substantial shift in the regulatory landscape. Recognising that labour reform is a dynamic, long-term process, this article presents evidence from a VVGNI study (published in January, 2024) assessing recent labour reforms in selected states.

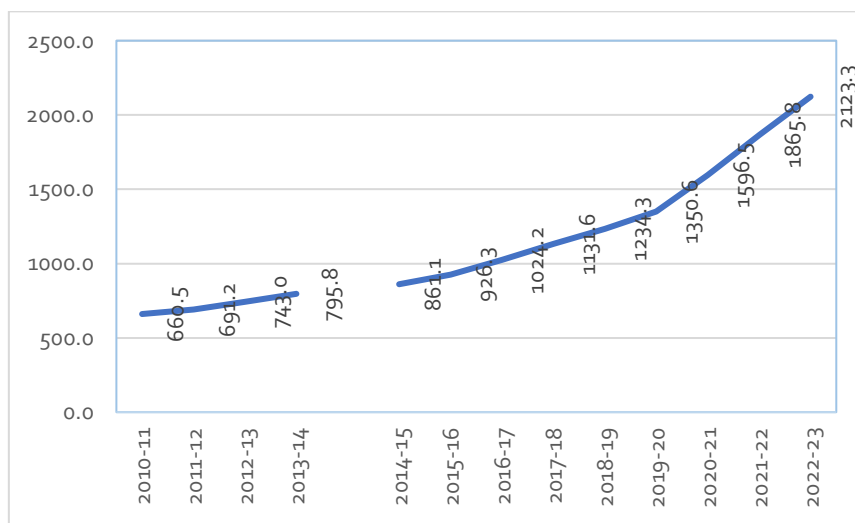


## 2. Evidence and Trends from Labour Reforms

### 2.1 Administrative Indicators: EPFO and ESIC Registration Trends

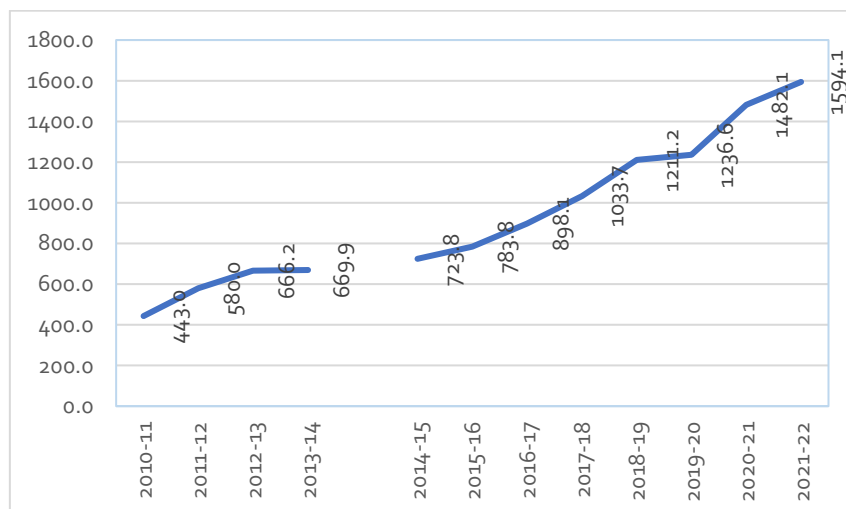
Administrative data from the Employees' Provident Fund Organisation (EPFO) and Employees' State Insurance Corporation (ESIC) provide tangible indicators of increasing formalisation. Between 2010-11 and 2013-14, the number of establishments registered under EPFO increased from 660.5 thousand to 795.8 thousand. A sharper rise followed, reaching 2.12 million in 2022-23 (Figure 1).

**Figure 1 – Number of Establishments Registered under EPFO in India (in thousand)**



Source: EPFO, Ministry of Labour and Employment, Government of India.

**Figure 2 – Number of Employers Registered under ESIC in India (in thousand)**



Source: Annual Reports of ESIC.



Likewise, ESIC registrations rose from 443 thousand in 2010-11 to 1.59 million by 2022-23. These trends suggest expanded social security coverage and growing formalisation, potentially driven by both reforms and broader compliance enforcement ([Figure 2](#)).

## **2.2 Employment Trends and Workforce Structure**

Using NSSO-EUS and PLFS data, the VVGNI study shows a significant increase in regular wage/salaried employment between 2004-05 and 2022-23, with 53.6 million new regular workers. The largest share of this growth occurred between 2011-12 and 2022-23, suggesting a structural shift towards more formal work. Simultaneously, casual employment declined, and while self-employment surged post-2018-19, partly due to COVID-19-induced return migration and increased visibility and reporting of women's unpaid work, the underlying trend indicates improving job quality.

The share of informal employment in total employment decreased from 93.1% in 2004-05 to 88.8% in 2018-19, though it rose marginally to 90.3% in 2022-23. In non-agricultural sectors, informality declined by 1.6 percentage points between 2011-12 and 2022-23, with sharper reductions in Andhra Pradesh, Maharashtra, and Tamil Nadu. These states are also among those that adopted significant labour reforms, hinting at a positive association.

## **2.3 Organised Manufacturing Sector Developments**

Annual Survey of Industries (ASI) data show that employment in organised manufacturing increased by 3.3 million in the post-reform period (2014-15 to 2019-20), as opposed to 1 million in the pre-reform years (2010-11 to 2014-15). Notably, directly hired workers constituted a larger share of this growth.

State-level analyses reveal significant employment gains in Tamil Nadu and Maharashtra, followed by Rajasthan, Andhra Pradesh, and Uttar Pradesh. All five states exhibited an increase in large plant employment (300+ workers), reflecting economies of scale and potential reform impact. For instance, Rajasthan witnessed a 27.5 percentage point increase in such employment between 2010-11 and 2019-20.

The number of new entrants in the manufacturing sector also rose, with states like Tamil Nadu and Andhra Pradesh attracting more new firms. Administrative reforms such as single-window clearances and online filing systems appear to have supported these developments.

## **2.4 Perceptions from Industry Associations**

Feedback from four major employers' associations confirms positive outcomes. They observed increased entry of new enterprises, reduction in compliance burden, and improved industrial relations post-threshold enhancements under the IDA and FA. FTE introduction was associated with job creation, higher productivity, and better alignment of workforce with production needs.

While contract labour use increased, the associations noted improvements in job quality due to engagement with organised manpower suppliers. Similarly, administrative reforms, especially online systems and self-certification, were welcomed as trust-building measures that improved ease of doing business.



### 3. Concluding Remarks

Labour reforms over the past decade have begun to yield visible, though differentiated, impacts across states and sectors. Evidence from secondary datasets and perceptions of employers suggest that these reforms, particularly threshold enhancements and administrative streamlining, have contributed to formalisation, improved employment conditions, enterprise growth, and productivity.

However, the effects remain heterogeneous and are influenced by the industrial base and policy ecosystem of respective states. The data also point towards a gradual transition, underscoring that reforms need time and complementary measures to realise their full impact. It is equally critical to address challenges such as the renewal of FTE contracts and residual informality.

The impact of recent labour reforms over the past decade, including the codification of labour codes and key administrative changes, has yet to be comprehensively assessed. These reforms are still unfolding, and their full effects may take time to materialise. Continued state-level studies and sustained monitoring will be crucial to understanding and maximising their potential.

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