

# Wadhvani/Nathan Breakthrough Index: Labor Law Reform

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**This issue:** Only a handful of states have acted to exempt small and medium-sized businesses from the most onerous sections of India’s labor laws. Thus, instead of ranking all 29 states as we did in [previous issues](#), we are highlighting the few that have increased the number of employees a business can have before it is covered by the laws. **Rajasthan** is this month’s Breakthrough State by default: it is India’s only state to successfully raise employment thresholds in the three areas we reviewed. The other states listed below earn Honorable Mentions for having adopted some reforms.

State	Number of Employees Before Act Takes Effect		
	IDA	Factories Act	Contract Act
Rajasthan	300	20	50
Andhra Pradesh	300	10	50
Madhya Pradesh	300	10	20
Maharashtra	100	20	50
All other states	100	10	20

**Why it matters:** India’s strict labor laws place significant burdens on even small employers, especially those in the manufacturing sector. Although economists are still [debating](#) the exact impact of labor laws on employment, most analysts [agree](#) that the laws make employers unable to fire, even when circumstances demand it, and thus reluctant to hire, even in boom times. This lack of flexibility is part of the reason that Indian manufacturers rank in the [fourth quintile](#) on global competitiveness indices. And labor laws meant to protect workers have resulted in a bifurcated system in which a relatively small group of workers enjoy exceptional protections while the [vast majority](#) of workers, whether in the informal or formal sector, are shut out from labor protections entirely.

**How the Index works:** Most Indian labor laws are passed at the central level but can be amended by the states. We looked at whether states had raised the thresholds for applicability in three different laws: the Industrial Disputes Act of 1947, the Factories Act of 1948, and the Contract Labour (Regulation and Abolition) Act of 1970. In the standard (centrally mandated) form, the Factories Act applies to every facility that uses power and has more than 10 employees and prescribes rigorous inspections; the Contract Labour Act applies to employers with more than 20 employees and limits the use of temporary contract workers; and the Industrial Disputes Act applies to employers with more than 100 workers and requires that employers seek government permission before conducting layoffs.

**Our data:** Our data come exclusively from published government sources. Given our belief that making information available is a crucial part of any policy, if a state did not post an amended version of any of the laws anywhere online, we coded it as using the standard, centrally mandated thresholds. Raw data and sources are available on request; please contact [SWatson@csis.org](mailto:SWatson@csis.org).