

IMPACT OF NEW LABOUR CODES ON THE FORMALIZATION OF UNORGANISED SECTOR IN INDIA

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ABSTRACT:

Nearly 70–80% of employment opportunities in India are held by a large unorganized workforce, which is a key component of the country's labor market. Historically, this group has not been adequately covered by labor laws, which has led to unsafe work environments, insufficient access to social security, unstable employment, and susceptibility to wage exploitation. The adoption of the four labor codes—the Occupational Safety, Health, and Working Conditions Code, 2020; the Industrial Relations Code, 2020; the Code on Wages, 2019; and the Code on Social Security, 2020 represents a major structural change intended to alter India's labor law system. With a focus on extending coverage to unorganized, gig, and platform workers, these regulations combine 29 current labor statutes into a streamlined and consistent approach.

By examining important clauses including uniform minimum wages, obligatory worker registration, the extension of social security benefits, and the recognition of new workforce classification, this study critically investigates the effects of these labor regulations on the formalization of the unorganized sector. It delves deeper into the ways in which these regulations support more accountability, transparency, and inclusiveness in the labor market. However, the report also cites significant implementation problems, such as employee ignorance, digital illiteracy, administrative limitations, and employer reluctance, especially in the unorganized sector.

In order to ensure inclusive and long-lasting labor reforms in India, this article indicates that although the new labor codes offer a solid institutional and legal basis for formalization, their effectiveness relies on efficient implementation, strong enforcement mechanisms, and concerted efforts between the government, employers, and workers.

Key words: unorganised workforce, new labour codes, inclusiveness, social security, enforcement, efficiency.

INTRODUCTION:

The organized and unorganized sectors, which constitute a vast majority of the workforce, have long been clearly separated in India's labor market. Because they frequently lack formal contracts, social security benefits, or sufficient legal protection, workers in the unorganized sector are more susceptible to exploitation and economic shocks. In order to

modernize and rationalize the nation's labor law system, the Government of India launched a thorough reform process in 2019 and 2020 by establishing four integrated labor laws. In order to better protect workers' rights, the labor codes seek to bring India's labor laws in adherence to worldwide labor norms, especially those advocated by the worldwide Labour Organization. In addition to simplifying

complicated and contradictory legislation, these labor rules aim to broaden their application to encompass previously excluded worker groups, such as gig and platform workers. The changes aim to make the labor market more inclusive and welcoming by focusing on social security coverage, universal wage protection, and better working conditions. The reforms attempt to strike a balance between economic growth and social justice, ensuring that formalization does not come at the cost of worker welfare. However, the shift from informality to formality is a complicated process that is impacted by social, administrative, and economic variables. This study examines the extent to which the new labor laws are successful in closing this gap while highlighting the main obstacles and chances for long-term labor formalization.

RESEARCH QUESTIONS:

1. In what ways do the new labor laws encourage the unorganized workforce to become formalized?
2. Which laws specifically target informal workers?
3. What obstacles stand in the way of successful implementation?
4. How does the new structure benefit gig and platform workers?
5. How do the state and employers contribute to formalization?

RESEARCH OBJECTIVES:

- To examine the new labor codes' legal framework.
- To review clauses pertaining to unorganized labor.
- To evaluate how much impacts on formalization.
- To determine implementation obstacles.
- To recommend changes to policy for better implementation.

RESEARCH METHODOLOGY:

This research adopts a doctrinal methodology, focusing on the study and interpretation of

existing legal frameworks relating to the new labour codes in India. The analysis is primarily based on secondary sources, including statutory provisions, government reports, legal commentaries, journal articles, and authoritative texts. The study undertakes a comparative examination of the four labour codes with the earlier labour laws to understand the extent of reforms and their impact on the formalization of the unorganized workforce. Relevant judicial decisions are also analyzed to interpret the scope and application of labour rights and protections. A qualitative approach is employed to critically assess the effectiveness, challenges, and opportunities arising from these reforms.

OVERVIEW OF THE UNORGANIZED SECTOR IN INDIA:

With around 70–80% of the workforce employed in small-scale enterprises, construction, agriculture, household work, and informal services, the unorganized sector constitutes the foundation of India's economy. This industry is distinguished by irregular compensation, a lack of written contracts, a lack of formal employer–employee relationships, and no governmental control. Workers in this sector often include migrant workers, street vendors, home-based workers, and self-employed individuals, who remain largely excluded from formal labour protections.

The lack of social security benefits including provident funds, health insurance, maternity benefits, and pension plans is one of the primary concerns that unorganized workers struggle with. Additionally, because of their weak negotiating position, ignorance of their legal rights, and insufficient enforcement of current labor laws, they are extremely susceptible to exploitation. Other common problems include salary discrimination, extensive working hours, and unsafe working conditions.

Particularly in times of crisis like pandemics or economic downturns, the informal nature of work contributes to economic instability and

income insecurity. Despite making a substantial contribution to the country's income, this industry has not received much attention in policy frameworks. Therefore, attaining social justice, inclusive growth, and sustainable economic development in India requires solving the problems of the unorganized labor.

KEY CONCEPTS PROMOTING FORMALIZATION UNDER NEW LABOUR CODES:

- Code on Wages, 2019: By extending minimum wage regulations to all workers across sectors, including the unorganized workforce, the Code on Wages, 2019 establishes a standard and universal framework for wage regulation. It ensures a minimum level of living by carrying out the previous concept of scheduled work and establishing a national floor wage. By ensuring pay stability and lowering exploitation, this clause is essential to formalization.
- Code on Social Security, 2020: By putting unorganized, gig, and platform workers inside the purview of social security legislation, this Code is a significant step toward inclusiveness. It enables the creation of social programs that include disability compensation, health insurance, maternity benefits, and old-age protection. In order to integrate informal workers into the formal system, mandatory registration of workers on a centralized site allows identification and formal recognition.
- Industrial Relations Code, 2020: The Industrial Relations Code, 2020 aims to codify work ties and ensure transparency and legal legitimacy by requiring documented appointment letters. Fixed-term employment is introduced, giving firms flexibility and offering workers benefits comparable to those of permanent employees. Additionally, the Code promotes structured employment practices and lessens reliance on informal and

unregulated labor arrangements by improving dispute resolution mechanisms and regulating layoffs and retrenchment.

- Occupational Safety, Health and Working Conditions Code, 2020: The code aims to standardize and consolidate rules pertaining to workplace welfare, health, and safety across several industries. It brings them under a formal regulatory framework by extending its applicability to a broader range of enterprises, such as those that recruit contract labor, interstate migrant workers, and specific types of unorganized employees. It establishes standardized requirements for things like drinking water, ventilation, cleanliness, working hours, leave, and welfare services. Additionally, it holds employers accountable for maintaining a safe workplace and requires regular health examinations for employees, particularly those working in dangerous jobs.

ROLE OF LABOUR CODES IN FORMALIZATION :

1. Legal inclusion : By giving unorganized, gig, and platform workers legal identity, the labour codes greatly broaden the scope of labour law. Because it places previously excluded workers under statutory protection, its inclusion is essential for formalization.
2. Digital registration: Although digital illiteracy is still a barrier, the implementation of mandatory registration through centralized portals improves transparency and makes benefits more accessible.
3. Reduction in informality: The codes aim to restrict informal employment practices by requiring compliance mechanisms including appointment letters and compensation norms.
4. Expansion of Social Security: Long-term economic stability is encouraged by the

extension of social security payments now includes benefits for workers of informal sector which was not guaranteed under previous labour statutes.

*People's Union for Democratic Rights v. Union of India, 1982*⁷⁵⁸ the Supreme Court held that non-payment of minimum wages amounts to forced labour under Article 23, reinforcing the need for formal wage systems.

INCLUSION OF GIG AND PLATFORM WORKERS IN FORMALIZATION:

The emergence of the gig and platform economy has significantly transformed the nature of employment in India, with workers engaged in app-based services such as ride-sharing, food delivery, and freelance digital work. Traditionally, these workers have been classified as independent contractors, thereby excluding them from the protections of labour laws. The Code on Social Security, 2020 marks a landmark shift by formally recognizing gig workers and platform workers as distinct categories within the legal framework.

This inclusion is a crucial step toward formalization, as it enables the extension of social security benefits such as life insurance, accident coverage, health benefits, and old-age protection. The Code also provides for the creation of welfare schemes funded through contributions from aggregators and the government. Additionally, mandatory registration of gig workers on centralized portals helps in creating a formal database, ensuring better policy targeting and delivery of benefits.

REGISTRATION MECHANISM FOR FORMALIZATION OF UNORGANIZED WORKERS:

Under the new labor rules, especially the Code on Social Security, 2020, unorganized workers' shift from informality to formality depends heavily on their registration. In order to register unorganized laborers and build an extensive national database, the Indian government launched the e-Shram Portal, a centralized digital platform. In order to ensure official identity, this portal gives employees a unique Universal Account Number (UAN) and allows them to self-register using Aadhaar-based verification. Details including occupation, skills, and personal information are included in the database, which aids in the targeted distribution of welfare payments and social security programs. By covering a broad spectrum of workers, including as migrant, gig, and platform workers, e-Shram expands formal inclusion. The system strengthens labor governance, improves policy execution, and increases transparency by combining registration with social security programs. Therefore, digital registration is a crucial first step in formalizing India's unorganized labor sector on a wide scale.

CHALLENGES IN FORMALIZATION :

1. Implementation issues: Compliance with law is essential to ensure the effectiveness of labor codes, but implementation is hampered by administrative inefficiencies and delays in the formulation of state regulations.
2. Technological disparity: The reach of reforms is limited since many unorganized workers do not have access to the digital platforms which is needed for registration.
3. Employer resistance: Due to higher

⁷⁵⁸ 1982 AIR 1473, 1983 SCR (1) 456, AIR 1982 SUPREME COURT 1473, 1982 (14) LAWYER 57 1982 SCC (L&S) 262, 1982 SCC (L&S) 262, AIR ONLINE 1982 SC 75

compliance costs and regulatory hurdles, employers particularly MSMEs frequently oppose formalization.

4. Weak enforcement mechanism: Compliance levels may be impacted by the transition to an inspector-cum-facilitator model, which could weaken strict enforcement.

5. Coverage gaps: Despite changes, seasonal and migrant workers continue to be excluded and might face inequality as compared to native workers in terms of pay.

*Bandhua Mukti Morcha v. Union of India, 1984*⁷⁵⁹ the Court emphasized the state's duty to identify and protect vulnerable workers, highlighting gaps in implementation.

OPPORTUNITY CREATED:

1. Social security expansion: By facilitating wider access to welfare programs like insurance, pensions, and maternity benefits, the labor codes enhance worker security.
2. Economic growth: Formalization boosts tax compliance, improves productivity, and promotes economic stability.
3. Gender inclusion: Through improved working conditions and welfare provisions, the codes reinforce protections for female employees.
4. Regulation of the gig economy: Recognition of gig and platform workers gives new forms of employment a legal support.

*Daily Rated Casual Labour v. Union of India, 1988*⁷⁶⁰ the Court upheld the principle of equal pay for equal work, supporting fair treatment and inclusion within formal employment systems.

IMPACT ANALYSIS:

Positive Impacts:

By guaranteeing improved working conditions, legal recognition, and salary security, the labor rules encourage formalization. By requiring paperwork and digital registration, they improve accountability and transparency. The scope of labor protection is also expanded by the inclusion of gig and platform workers, and firms are encouraged to enter the formal economy by the ease of compliance. Standardizing labor regulations also makes doing business easier and less ambiguous.

Negative Impacts:

Despite the advantages, MSMEs may be burdened by more stringent compliance regulations, which could discourage formal hiring. Employers have the possibility of using informal or contractual agreements to evade responsibilities. Benefits may not be fully realized due to implementation flaws, ignorance, and poor enforcement. Furthermore, disadvantaged workers may not be able to obtain legal safeguards due to administrative delays and digital hurdles.

*Sanjit Roy v. State of Rajasthan, 1983*⁷⁶¹, the Supreme Court held that payment below minimum wages violates Article 23, emphasizing the necessity of wage protection in ensuring genuine formalization.

RECOMMENDATIONS:

1. Strengthening Implementation: Improve partnership between federal and state agencies to guarantee timely rule formulation and efficient enforcement. Provide funding and training to reinforce labor departments. Utilize technology to enhance grievance resolution and monitoring.
2. Education and Awareness: Educate employees about their rights and perks

⁷⁵⁹ 1984 AIR 802, 1984 SCR (2) 67, AIR 1984 SUPREME COURT 802, 1984 LAB. I. C. 560, 1984 SCC (L&S) 389, (1984) 2 LAB LN 60, 1984 (3) SCC 161
⁷⁶⁰ 1987 AIR 2342, 1988 SCR (1) 598, AIR 1987 SUPREME COURT 2342, 1988 (1) SCC 122, 1988 LAB IC 37, (1988) 1 SERVLR 211, (1988) 1 SCJ 32, 1987 5 JT 164, (1987) 55 FACLR 842, (1988) 1 CURLR 45

⁷⁶¹ 1983 AIR 328, 1983 SCR (2) 271, AIR 1983 SUPREME COURT 328, 1983 (1) SCC 525, 1983 LAB. I. C. 312, (1983) IJR 9 (SC), 1983 UJ (SC) 161, 1983 (15) LAWYER 48, (1983) 96 MAD LW 28

by holding awareness campaigns. To increase access, use community outreach and local languages. Involve NGOs and trade unions in raising awareness.

3. Digital inclusion: Provide easy to use digital worker registration solutions. Provide workers who lack digital literacy with offline support and assistance centers. Encourage regional language-based mobile applications.
4. Employer Incentives: To promote formal employment, provide tax breaks and subsidies. Lessen MSMEs' compliance requirements. To encourage voluntary compliance, implement recognition programs.
5. Focus on Vulnerable Workers: Make sure seasonal, migrant, and female employees have extra protection. Make social security benefits more transferable across states. Encourage safe working conditions and gender-sensitive policies.

*Olga Tellis v. Bombay Municipal Corporation, 1985*⁷⁶², the Court recognized the right to livelihood as part of Article 21, emphasizing the need for policies that protect vulnerable workers and promote dignified employment.

CONCLUSION:

With the goal of addressing the persistent issues related to the unorganized workforce, the new labor regulations represent a revolutionary stage in India's labour law system. The revisions aim to create a more straightforward, clear, and consistent legal framework by combining many diverse laws into four complete codes. The expansion of legal recognition and social security benefits to previously excluded groups including unorganized, gig, and platform workers is a noteworthy accomplishment of these regulations, setting the stage for more

extensive labor formalization. The focus on better working conditions, universal wage protection, and digital registration systems is indicative of a progressive move toward inclusive and technologically advanced governance. These actions could improve accountability, lessen exploitation, and guarantee a minimal level of dignity for workers in all industries. Additionally, easing compliance processes might encourage companies, especially small and medium-sized ones, to enter the formal sector, which will boost the economy as a whole. However, successful implementation and enforcement are necessary for these goals to be realized. Significant obstacles still exist due to issues including employee ignorance, digital illiteracy, administrative limitations, and employer reluctance. It is nevertheless crucial to make sure that the most disadvantaged groups, such as migrant and seasonal workers, benefit from formalization. To conclude, even though the labor codes offer a solid institutional and legal basis for changing India's labor market, their success will ultimately depend on ongoing policy commitment, stakeholder collaboration, and a well-rounded strategy that balances worker welfare, social justice, and economic efficiency.

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⁷⁶² 1986 AIR 180, 1985 SCR SUPL. (2) 51, AIR 1986 SUPREME COURT 180, 1986 CRILR(SC&MP) 23, 1985 (3) SCC 545, (1985) 2 BOM CR 434