Labour Market Reforms in India: Employment Generation, Wage Security and Inclusive Growth

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ABSTRACT:

India's labour market is characterised by a large informal workforce, uneven access to social protection, differences in wages across sectors and regions, and the continuing challenge of creating productive and decent employment. Labour market reforms seek to address these structural issues while supporting enterprise growth and economic competitiveness. This article examines the relationship between labour reforms, employment generation, wage security and inclusive growth in India, with particular attention to the four Labour Codes: the Code on Wages, 2019; the Industrial Relations Code, 2020; the Code on Social Security, 2020; and the Occupational Safety, Health and Working Conditions Code, 2020. The article adopts a descriptive and analytical methodology based on secondary sources, including legislation, government publications, labour-market reports and research literature. It reviews the policy rationale and principal provisions of the Codes, considers the possible channels through which reforms may influence hiring, formalisation, wages, social protection, productivity and gender inclusion, and identifies implementation challenges. The analysis argues that legal consolidation alone cannot guarantee decent work or inclusive growth. Outcomes will depend on effective enforcement, accessible grievance mechanisms, adequate social-security financing, state-level rule-making, reliable labour-market data, worker representation and support for micro, small and medium enterprises. The article recommends a balanced implementation strategy that combines regulatory clarity with worker protection, skills development, gender-responsive policies and evidence-based monitoring. It concludes that labour reforms can contribute to inclusive growth when employment quantity is pursued alongside employment quality, wage adequacy, safety and social security.

Keywords: Labour market reforms; Labour Codes; employment generation; wage security; social security; informal employment; inclusive growth; India; decent work; labour formalisation.

INTRODUCTION:

Labour is a central factor in economic production and a principal channel through which economic growth improves household welfare. A labour market that creates productive jobs, pays fair wages and provides adequate social protection can reduce poverty, strengthen domestic demand and support social mobility. Conversely, persistent informality, insecure employment, low earnings and unsafe working conditions may weaken the connection between economic growth and broad-based welfare. India's labour market reflects both significant economic dynamism and long-standing structural challenges, including a high incidence of informal work, uneven productivity across sectors, disparities in women's labour-force participation and differences in access to social security.

The reform of labour regulation has therefore remained an important element of India's economic policy. Historically, labour legislation developed through multiple laws covering wages, industrial relations, employment conditions, occupational safety and social security. Although these laws established important protections, their multiplicity and varied definitions could create administrative complexity for employers and workers. The Government of India consolidated 29 central labour laws into four Labour Codes, with the stated

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objectives of simplifying regulation, strengthening worker welfare and modernising the labour framework. The Government announced that the four Codes came into effect on 21 November 2025 (Ministry of Labour and Employment, 2025).

The reforms raise a fundamental policy question: can a simpler and more coherent regulatory framework generate employment while also improving wage security and inclusion? The answer is not automatic. Clearer compliance rules may encourage firms to expand and formalise, while stronger minimum-wage and social-security provisions may improve worker welfare. At the same time, compliance costs, enforcement capacity, enterprise size, productivity and local labour-market conditions influence how employers respond. The impacts may differ between formal firms, small enterprises, casual workers, migrant workers, women workers and gig or platform workers.

This article evaluates labour market reforms in India through three connected dimensions: employment generation, wage security and inclusive growth. It treats the Codes as a policy framework whose actual effects depend on implementation, rather than assuming that enactment itself proves positive outcomes.

REVIEW OF LITERATURE:

2.1 Labour Regulation and Economic Performance

Labour regulations protect workers' rights but may also affect business costs and employment flexibility. Besley and Burgess (2004) found that pro-worker labour amendments were associated with lower manufacturing performance in India. Ahsan and Pages (2009) also highlighted the influence of labour regulations on trade and firm performance.

2.2 Minimum Wages and Wage Security

Minimum-wage policies aim to protect workers from low wages and ensure fair earnings. The Code on Wages, 2019 seeks to expand minimum-wage protection. However, its effectiveness depends on proper wage fixation, compliance and enforcement.

2.3 Formalisation, Social Protection and Decent Work

Formal employment can improve access to regular wages, social security and legal protection. The ILO (1999) emphasises productive employment, workers' rights, social protection and social dialogue as key elements of decent work. Extending these benefits to unorganised, gig and platform workers remains an important challenge.

2.4 Recent Analysis of India's Labour Codes

Recent studies by Afridi et al. (2026) and Afridi and Chandna (2026) highlight that the impact of the Labour Codes depends on implementation, enforcement and state-level conditions. Overall, the literature shows that labour reforms must balance employment generation, wage security, worker protection and productivity to promote inclusive growth.

3. Research Objectives and Questions:

3.1 Objectives:

1. To examine the objectives and major provisions of India's four Labour Codes.
2. To analyse the potential relationship between labour market reforms and employment generation.
3. To assess the role of reforms in strengthening minimum wages, timely wage payment and social-security access.

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4. To evaluate the implications of labour reforms for informal workers, women, migrant workers, gig workers and small enterprises.
5. To identify key implementation challenges and suggest policy measures for inclusive and sustainable labour-market outcomes.

3.2 Research questions:

a. Through what channels may labour reforms influence employment creation and formalisation?
b. How can the Codes strengthen wage security and social protection in practice?
c. Which groups may face barriers to accessing the benefits of reforms?
d. What institutional and policy measures are necessary to ensure that reforms support inclusive growth?

4. Research Methodology:

The article uses a descriptive, analytical and qualitative research design based on secondary data. It is a policy-review paper and does not claim to estimate causal effects or report original survey findings. Sources include statutory texts and government notifications, Ministry of Labour and Employment and Press Information Bureau publications, research papers, and relevant institutional literature. The materials are analysed thematically under four categories: regulatory simplification, employment and formalisation, wage and social-security protection, and inclusion.

The analytical approach compares the stated objectives of the Codes with the economic mechanisms through which outcomes may occur. It also considers possible trade-offs and implementation conditions. As the Codes are newly implemented, their longer-term impacts cannot yet be established solely from the period immediately following commencement. Accordingly, statements about effects are framed as expected, potential or conditional unless supported by observed evidence.

Limitations:

The study is based on secondary sources and does not include primary survey data, econometric estimation or a state-wise comparative dataset. It cannot quantify the net number of jobs created or the magnitude of wage changes attributable to the Codes. Future research may use Periodic Labour Force Survey (PLFS) data, administrative records, enterprise surveys and state-level implementation indicators to test the propositions presented here.

55. Overview of the Four Labour Codes:

5.1 Code on Wages, 2019:

The Code on Wages, 2019 consolidates laws relating to minimum wages, payment of wages, bonus and equal remuneration. It aims to ensure minimum-wage protection, timely payment and equal remuneration. Its effectiveness depends on proper wage fixation and enforcement.

5.2 Industrial Relations Code, 2020:

The Industrial Relations Code, 2020 deals with trade unions, standing orders and industrial disputes. It aims to improve industrial relations through negotiation and dispute resolution. It also provides for fixed-term employment and worker re-skilling, while requiring safeguards for workers.

5.3 Code on Social Security, 2020:

The Code on Social Security, 2020 consolidates provisions relating to provident fund, insurance, gratuity and maternity benefits. It also recognises unorganised, gig and platform workers. Effective implementation requires accessible registration, adequate funding and simple benefit procedures.

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5.4 Occupational Safety, Health and Working Conditions Code, 2020:

The OSHWC Code, 2020 covers workplace safety, health and working conditions across various establishments. It aims to improve worker welfare, safety and working environments. Its success depends on employer compliance, regular inspections and effective enforcement.

6. Labour Reforms and Employment Generation

6.1 Regulatory Clarity and Enterprise Expansion

Simplified labour regulations can reduce compliance costs and improve business efficiency. This may encourage enterprises to expand and generate employment. However, investment, credit, infrastructure and market demand also influence job creation.

6.2 Formal Employment and Enterprise Incentives

The Labour Codes may promote formal employment through uniform definitions and simplified compliance procedures. Formalisation can improve access to wages, statutory benefits and social security. Small enterprises require adequate support to implement these provisions effectively.

6.3 Fixed-Term Employment and Labour Adjustment

Fixed-term employment allows firms to recruit workers for specific periods or projects while providing applicable wages and benefits. It may create formal job opportunities, but safeguards are necessary to prevent job insecurity and repeated short-term contracts.

6.4 Skills, Productivity and Job Quality

Skill development, apprenticeships and technology adoption can improve productivity and employment quality. Training programmes should be aligned with industry requirements and provide genuine placement opportunities to support sustainable employment.

6.5 Employment Creation: Conditional Outlook:

Labour reforms do not guarantee employment generation. Their success depends on investment, effective implementation and productivity growth. Employment evaluation should consider job creation, real wages, formal hiring, job security and overall working conditions.

7. Wage Security and Workers' Welfare

7.1 Minimum wages and earnings protection

Minimum wages can provide a legal floor for earnings and reduce vulnerability to underpayment. Their effectiveness depends on the relationship between the notified rate and the cost of living, the clarity of occupational categories, and enforcement. Where rates are too low, the protection may be inadequate; where rates are disconnected from productivity and enterprise conditions, compliance may be weak. A transparent and evidence-based wage-setting process should consider household needs, regional prices, skill requirements and economic conditions.

7.2 Timely payment and wage transparency

Timely payment is essential for workers living close to subsistence. Delayed wages can force households to borrow at high cost and can reduce expenditure on food, health and education. Digital payments, wage slips and accurate records can improve transparency, provided workers retain accessible ways to resolve errors and are not excluded due to banking or connectivity barriers.

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7.3 Gender equality and equal remuneration

Wage security must address gender-based disparities. Women may be concentrated in informal, part-time, home-based or care-related work and may face occupational segregation, unpaid care burdens and barriers to safe transport. Legal provisions on equal remuneration and non-discrimination are important, but they need to be accompanied by effective complaints mechanisms, childcare, safe workplaces, skills access and policies that support work-family balance. The objective should be both equal treatment and expanded access to decent employment.

7.4 Social security across changing work arrangements

Traditional social-security systems often depend on stable employment with a single employer. Gig workers, platform workers, self-employed workers and migrants may move between employers, locations and income sources. Portable benefits, simplified registration and contributions adapted to intermittent work can reduce coverage gaps. Social protection should be designed to avoid creating incentives for employers to misclassify workers or transfer all risks to individuals.

7.5 Occupational safety and health

Workplace safety is integral to wage and employment security. Accidents, occupational illness and unsafe conditions impose costs on workers, families, firms and public services. Compliance should include preventive training, appropriate equipment, health checks where prescribed, incident reporting and effective inspection. Workers should be able to report hazards without fear of retaliation.

8. Inclusive Growth: Groups and Structural Issues

8.1 Informal-sector workers

The informal economy includes a wide range of self-employed and wage workers, from street vendors and domestic workers to small workshops and agricultural labourers. These workers often have limited written contracts, irregular earnings and restricted access to social protection. Reforms can improve inclusion only if legal coverage is matched by practical mechanisms: worker identification, registration assistance, accessible benefits, local-language information and enforcement that reaches dispersed workplaces.

8.2 Women workers

Inclusive growth requires the removal of barriers to women’s participation and advancement. Allowing women to work across establishments and shifts subject to consent and safety requirements can expand opportunities, but implementation must ensure safe transport, adequate facilities, prevention of harassment and genuine choice. Care infrastructure and flexible arrangements may also influence participation. Evaluation should examine women’s employment rates, wages, hours, occupational distribution and social-security coverage.

8.3 Inter-state migrant workers

Migrant workers contribute substantially to construction, manufacturing, services and urban infrastructure. Their vulnerabilities can include wage delays, unstable housing, limited access to local services and difficulty transferring benefits. Provisions concerning migrant-worker definitions and portability may help, but effective access requires interoperable records, multilingual outreach, coordination between origin and destination states, and grievance systems that operate across jurisdictions.

8.4 Gig and platform workers

Platform-mediated work has expanded in transport, delivery, domestic services and other sectors. Workers may face variable income, algorithmic management, opaque ratings and limited bargaining power. The

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recognition of gig and platform workers within the social-security policy framework is important, yet it must be translated into clear eligibility rules, benefit design, contribution arrangements and transparent platform obligations. Worker consultation is essential to ensure schemes respond to actual risks.

8.5 Micro, small and medium enterprises

Micro, small and medium enterprises (MSMEs) are important sources of employment, including in smaller cities and rural areas. They may have limited human-resource and legal-administration capacity. Compliance assistance, simple portals, standardised documentation, helplines and phased technical support can help ensure that reforms do not inadvertently discourage hiring or formalisation. Support should facilitate compliance, not dilute core worker protections.

9. Major Implementation Challenges

State-level rules and administrative coordination

Labour administration involves central and state institutions. Differences in rules, procedures and enforcement capacity may lead to uneven implementation. Clear coordination, timely notifications and accessible guidance are necessary.

Enforcement capacity and inspection quality

A modern inspection system requires trained personnel, transparent risk-based methods, adequate staffing and credible follow-up. A facilitative approach should not mean weak enforcement where serious violations occur.

Awareness and worker access

Workers may not know their entitlements or how to claim them. Information should be disseminated in local languages through unions, worker organisations, local offices, digital platforms and community institutions.

Data gaps and evaluation

Reliable and comparable data on wages, formalisation, social-security coverage, job stability and workplace safety are needed. Administrative data should be complemented by household and enterprise surveys, with privacy safeguards.

Balancing flexibility and security

The policy challenge is to enable firms to adjust while preventing insecure work, arbitrary treatment and loss of benefits. Social dialogue and clear dispute-resolution mechanisms can help manage this balance.

Digital exclusion and portability

Digital registration can simplify access but may exclude workers lacking devices, connectivity, literacy or documentation. Assisted and offline options are needed, as well as interoperable benefit systems.

Financing social protection

Extending social-security coverage requires sustainable financing, transparent governance and clear responsibilities among governments, employers, platforms and workers. Scheme design should avoid excessive burdens on low-income workers.

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10. Policy Recommendations

1: Strengthen implementation monitoring

Develop a public dashboard of implementation indicators, including wage compliance, registrations, formal hiring, social-security coverage, workplace inspections, grievance resolution and occupational injuries. Indicators should be disaggregated by gender, sector, state, enterprise size and employment type.

2: Ensure evidence-based minimum-wage setting

Use transparent criteria that reflect essential consumption needs, regional price differences, skill levels and economic conditions. Review rates periodically and communicate them clearly to employers and workers.

3: Expand accessible social-security coverage

Design portable, worker-friendly schemes for unorganised, migrant, gig and platform workers. Simplify enrolment and claims, provide assisted access and establish clear financing arrangements.

4: Support MSME compliance

Provide standard templates, multilingual guidance, online and offline help desks, compliance clinics and affordable digital record-keeping. Encourage formalisation through support and predictable procedures.

5: Promote skills and transition pathways

Link re-skilling and apprenticeship programmes to employer demand, regional industrial strategies and measurable placement outcomes. Include women and disadvantaged workers in training access.

DISCUSSION

The review indicates that labour reforms can influence employment and inclusion through several channels. Regulatory consolidation may reduce administrative friction and improve predictability for employers. Wage provisions may strengthen income protection and reduce unfair competition based on underpayment. Social-security and occupational-safety provisions may improve resilience and worker welfare. The benefits, however, are conditional: they require effective implementation and cannot substitute for broader policies that generate demand, investment and productive capacity.

A key distinction is between labour-market flexibility and labour-market insecurity. Flexibility can help firms respond to demand and may support job creation, but insecurity can undermine household consumption, worker health and skill investment. A well-functioning labour framework should provide both adjustment mechanisms for enterprises and credible safeguards for workers. This is consistent with the decent-work perspective, which places productive employment and rights, protection and social dialogue within a common agenda.

Another important distinction is between formalisation on paper and substantive formalisation. Registration, digital payment or a written contract is meaningful when it is accompanied by enforceable wages, benefits, safety and access to remedies. Policies should therefore evaluate outcomes experienced by workers. In addition, the diversity of India’s labour market requires differentiated implementation: large enterprises may be able to comply through formal human-resource systems, while small firms and dispersed informal workers may need targeted administrative support.

Finally, labour reform is not a standalone growth strategy. Its success depends on complementarities with education, skill development, infrastructure, industrial policy, credit access, childcare, public health and

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regional development. Employment generation becomes inclusive when workers can enter productive occupations, progress through skills, earn adequate incomes and remain protected during transitions.

CONCLUSION

Labour market reforms in India represent an important effort to modernise the legal and institutional framework governing wages, industrial relations, social security and occupational safety. The four Labour Codes consolidate a large body of central labour legislation and establish a framework intended to simplify compliance while strengthening worker protection. Their relevance to employment generation, wage security and inclusive growth is substantial, but their impact cannot be assumed from legal enactment alone.

The analysis shows that regulatory clarity may encourage enterprise expansion and formalisation, while minimum-wage provisions, wage transparency, social-security mechanisms and safety standards can strengthen workers' welfare. Yet the extent of these benefits depends on wage-setting, enforcement capacity, state-level implementation, worker awareness, sustainable financing, social dialogue and the ability of enterprises—especially MSMEs—to comply. Informal workers, women, migrants and gig workers require particular attention to ensure that legal recognition translates into practical coverage.

A balanced policy approach should pursue employment quantity and quality simultaneously. Government institutions should monitor measurable outcomes, strengthen enforcement, provide compliance assistance, expand portable social protection, invest in skills and create gender-responsive workplaces. Future empirical research should examine state-wise and sector-wise changes in employment, real wages, formalisation and social-security coverage over time. Ultimately, labour reforms can contribute to inclusive and sustainable growth when they create a labour market in which enterprises are productive, workers are protected, and the gains from economic development are broadly shared.

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