

Employment Impact of Relaxing Employment Protection Legislation in Organized Manufacturing: Evidence from Andhra Pradesh Labor Law

Amendment in 2015-16

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Abstract

The Industrial Disputes Act of 1947 is a pivotal employment protection and industrial dispute resolution legislation in India. It provided mechanisms for resolution, conciliation, and arbitration of industrial disputes in India. It covers various aspects such as strikes, lockouts, layoffs, retrenchment, and closures with the objective of protecting workers and employers from potential exploitation. Given that labor is a subject in the concurrent list of the Constitution of India, which empowers both the state and the central governments to legislate and regulate labor, the relative spatial variability in the nature of labor regulation in different states provides ample opportunity to study their impacts on aggregate firm-level indicators in the organized manufacturing sector. This study focuses on determining the employment impacts of the IDA 1947 amendments introduced in 2015-16 on employment dynamics at the firm level in Andhra Pradesh. The Andhra Pradesh state government made a pro-employer labor market flexibility-inducing amendment to the IDA 1947 by increasing the threshold to which restrictions of IDA applied from firms employing 100 workers to firms employing 300 or more workers. This pro-employer move was not accompanied by any pro-worker amendments to the law, unlike other states which brought IDA amendments, e.g., Rajasthan increased the compensation to workers affected by layoffs, retrenchment, and closures.

Moreover, Andhra Pradesh bifurcated into two separate states, namely Telangana and Andhra Pradesh, in 2014 2013-14. The flexibility-inducing amendments were introduced in the newly bifurcated Andhra Pradesh state and not in Telangana. Telangana and Andhra Pradesh's labor market flexibility was comparable before the Andhra Pradesh labor reforms. Hence, employing the difference-in-differences (DID) design is ideal for examining the impact of Andhra Pradesh's pro-flexibility changes in employment protection legislation on firm-level employment. Using the Annual Survey of Industries panel data, a difference-in-difference methodology is employed to determine the causal impact of relaxing the employment protection legislation on employment. Further, the nature of causality is also targeted. Using the firms located in Andhra Pradesh as treatment and Telangana as the control, the results are computed for two different spans of time. First, we examine the immediate impact post-reforms using the period from 2013-14 to 2015-16 and find a negative and statistically significant (at 5 per cent) impact of employment protection legislation relaxation on firm-level employment in Andhra Pradesh. After a few years, the trends stabilized as we found a