
CONTRACT LABOUR IN INDIA: LEGAL EXPLOITATION OR ECONOMIC NECESSITY? A CRITICAL SOCIO-LEGAL ANALYSIS

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ABSTRACT

This research paper explores the complex landscape of contract labour in India, highlighting the legal, socio-economic, and policy dimensions of its existence and growth. Contract labour has become an integral part of India's industrial ecosystem, spanning a wide spectrum of roles from skilled to unskilled jobs. However, this form of employment is often marked by wage disparities, lack of job security, exclusion from statutory benefits, and substandard working conditions when compared to permanent employees. The paper examines the key legislations governing the rights and protections of contract workers, including the Contract Labour (Regulation and Abolition)

Act, 1970, along with allied statutes such as the Employees' Provident Funds Act, Employees' State Insurance Act, and the Factories Act. Despite these legal safeguards, gaps in implementation and enforcement continue to expose contract workers to vulnerabilities. Through an analysis of legal frameworks, judicial precedents, and ground realities, the study reveals the systemic challenges faced by contract labourers in securing fair wages, safe workplaces, and social security. The paper further presents reformative suggestions to enhance the dignity of labour, including equitable benefits, improved health and safety standards, and legislative changes. It concludes by emphasizing the need for a balanced approach that respects both the operational flexibility required by industries and the rights of the workforce. A robust regulatory mechanism is crucial for fostering inclusive growth and labour justice in India's evolving economy.

Keywords: Contract Labour, Labour Laws, Social Security, Wage Inequality, Occupational Safety, Employee Rights.

INTRODUCTION:

In the current era of accelerating globalization, profit-oriented economies with a focus on annual turnovers are increasingly driving the rise of contract labour. The employment of contract workers has become widespread across various industries, encompassing both skilled and semi-skilled roles. This practice is not only limited to the industrial sector but also prevalent in agriculture and other labour-intensive fields that demand a large human workforce. Numerous multinational corporations (MNCs), including some of the world's leading brands, have chosen to invest in India due to its immense market potential, a capable and skilled workforce, and access to modern machinery and advanced technologies. As these companies established operations in India, they intensified competition in the market. To survive and thrive in such a dynamic economic environment, industries are compelled to adopt flexible manpower strategies that can respond effectively to fluctuations in demand. However, the rigidity of India's labour legislation, many of which were enacted decades ago poses significant challenges. These laws often limit the rights of workers and hamper operational efficiency. As a result, many industries prefer employing contract labourers to maintain workforce flexibility, achieve cost-efficiency, optimize resource utilization, and enhance profitability. This shift, though economically strategic, often comes at the cost of job security, employee welfare, and fair compensation. Contract labour differs from direct employment primarily in the nature of the employment relationship and the legal protections afforded to workers.

In India, *the Contract Labour Regulation and Abolition Act, 1970*, serves as the primary legislation for safeguarding the rights and welfare of contract labourers. Under the Act, a contract labourer is defined as an individual hired to perform work in an establishment through a contractor, on behalf of the principal employer, who may be the owner or manager of the firm. The Act includes several provisions aimed at ensuring fair treatment of contract workers, such as the payment of minimum wages, access to social security benefits, and other welfare measures. Over time, the government has introduced amendments to the Act to create a more inclusive and worker-friendly environment. Despite these efforts, the reliance on contract labour has steadily increased across various sectors in India, reflecting a shift towards more flexible and cost-effective employment models. According to the Chief Labour Commissioner, *"The increasing trend of hiring employees on contract, both in the corporate set-up and the government, is a matter of concern especially since there is a difference in salaries between*

permanent employees and contract labour.”¹

BACKGROUND:

The concept of contract labour in India has deep historical roots. It tends back to decades. During the *pre-Independence era*, its origins can be traced to the colonial period, particularly under the rule of the British East India Company. To manage the extensive workforce required for economic activities such as plantation agriculture, mining, railway construction, and other infrastructure projects, the British administration introduced various labour laws and mechanisms. However, this period was marked by widespread exploitation of labourers, who often worked under harsh and inhumane conditions.

In the *post-Independence era*, following India's independence in 1947, the government sought to reform labour practices by enacting laws aimed at protecting workers' rights and regulating employment structures. A landmark legislation in this regard was the *Contract Labour (Regulation and Abolition) Act, 1970*, which aimed to both regulate the employment of contract workers and ensure their welfare. The Act mandates that employers hiring a specified number of contract labourers must obtain a license, uphold defined working conditions, and ensure the timely payment of wages and benefits. Historically, British employers or their agents often failed to understand or address basic issues faced by Indian workers such as their low socio-economic status, limited mobility, discrimination, and language barriers. Lacking the ability to manage these challenges effectively, they relied on intermediaries for labour recruitment and control. These intermediaries, known by various regional names, acted as contractors. Over time, these contractors became a dominant force in the labour market, often exploiting unorganized contract workers. Recognizing the adverse conditions faced by such workers, the *Whitely Commission (1860)* recommended the abolition of the contract labour system. Prior to this, contract labourers faced even harsher realities—notably under the *Workmen's Breach of Contract Act, 1859*, which criminalized workers for breaching employment contracts, placing them in a severely disadvantaged position.

The advent of Liberalization, Privatization, and Globalization (LPG) significantly transformed the business landscape in India, intensifying competition among industries striving for

¹ A.K. Nayak, “High Contract Labour a Matter of Concern,” *The Times of India* (May 19, 2017), available at: <https://timesofindia.indiatimes.com/city/goa/high-contract-labour-a-matter-of-concern/articleshow/58742054.cms>

survival. The growing demand for specialized products, and uncertainty regarding market expansion have driven companies to adopt more flexible labour strategies.² In response to these evolving dynamics, employers have increasingly turned to contract labour as a supplement to their permanent workforce. This shift, accelerated by rapid industrial growth, has led to a notable rise in the employment of contract labour. However, the expansion of contract-based employment has also been accompanied by an increase in workplace-related injuries and occupational diseases among workers. In light of these concerns, various measures have been implemented to reduce the incidence of such workplace hazards—both to alleviate human suffering and to minimize the financial burden on industries that rely heavily on contract labour.

MEANING - CONTRACT LABOUR:

Contract labour represents one of the most vulnerable and unregulated forms of employment within the unorganized labour sector. Under this system, workers are hired on a contractual basis through intermediaries or contractors. A workman is considered to be employed as contract labour when they are engaged in or in connection with the operations of an establishment by or through a contractor regardless of whether the principal employer is directly aware of such hiring. In this arrangement, although the work is carried out on the premises of the principal employer, the contract workers are not legally recognized as employees of that principal employer. Instead, they remain under the purview of the contractor. The roles performed by contract labourers span a wide spectrum from tasks like security, cleaning, and catering to various other services and the scope of such work continues to expand. There is a growing and justified concern that this system is often used as a means to deny workers their rightful wages and benefits typically enjoyed by regular employees, thereby undermining the fundamental rights and protections of the labour force.³

To fully comprehend the concept of contract labour, it is essential to distinguish it from direct employment. In a direct employment relationship, the worker is hired, managed, and compensated by the employer, and is typically entitled to a range of statutory benefits, including social security, paid leave, and job security. In contrast, contract labour operates

² Shyam Sundar K. R., in his 2007 article titled "Contract Workers: The Need for a 'Community of Interest' Perspective", published in *The Indian Journal of Labour Economics* (Vol. 50, Issue 4)

³ *Labour and Industrial Laws* (2014), H. K. Saharay provides a detailed examination of the legislative framework governing labour relations and industrial regulations in India, as published by Universal Law Publications.

within a triangular framework, where the worker is employed by a third party which is commonly referred to as the contractor. In this arrangement, the contractor assumes responsibility for hiring, supervising, and paying the worker, while the principal employer benefits from the services rendered without being legally obligated to extend the same benefits or protections as in direct employment. This model is often employed by industries as a means to reduce costs and increase operational flexibility, enabling them to avoid long-term employment liabilities. However, such a structure frequently gives rise to issues of accountability, as it creates ambiguity regarding who is responsible for ensuring workers' rights. Contract labourers often find themselves in vulnerable positions, lacking adequate legal safeguards and struggling to assert their entitlements. Although the Contract Labour Regulation and Abolition Act, 1970 was enacted to regulate and oversee such employment relationships, in practice, the distinction between legitimate contract labour and disguised direct employment is often unclear. This blurring of lines allows exploitation to persist under the pretext of lawful outsourcing.

In BHEL Workers Assn. v. Union of India⁴, "it was held that contract labourers are entitled to the same wages, holidays, hours of work and conditions of service as enjoyed by workmen directly employed by the principal employer of the establishment, in the same or similar kind of work. On the particular facts of this case, it was held that the working conditions and procedure for recovery of wages applicable to them was to be at par with what applied to workers employed by the principal employer under the appropriate Industrial and Labour Laws. The relationship between an establishment/employer (referred to as the 'principal employer' under the CLRA act) who engages contract labour and the person who provides the same, under a contract for supply of manpower, (referred to as the 'contractor' under the CLRA act) is generally referred to as a 'contract labour arrangement'. The workers provided by a 'contractor' to perform work of a 'principal employer' are referred to as contract labour."

THE OUTLINES OF CONTRACT LABOUR REGULATION AND ABOLITION ACT, 1970:

The Contract Labour Regulation and Abolition Act, 1970, is a significant legislation in India, enacted to regulate the employment of contract labour and safeguard their welfare. Prior to its enactment, there was no comprehensive law that directly addressed the challenges faced by

⁴ BHEL Workers Assn. v. Union of India, (1985) 1 SCC 630.

contract workers. While legislations such as the *Industrial Disputes Act, 1947*, and the *Payment of Wages Act, 1936*, were in place, they were not specifically designed to tackle the unique issues associated with contract labour. The primary objective of this Act is to regulate the engagement of contract labour in certain types of establishments and to prevent their exploitation. It seeks to ensure that contract workers are treated fairly by mandating proper wages, humane working conditions, and access to essential benefits, thereby promoting the dignity and rights of this vulnerable section of the workforce.

The Act applies to establishments in which 20 or more contract labourers⁵ have been employed on any day during the preceding 12 months. However, the Act does not extend to establishments where the nature of work is intermittent or seasonal. Under the Act, every contractor who engages contract labour is required to obtain a license from the appropriate government authority. This licensing mechanism ensures that contractors adhere to various labour laws, obligations, and regulations concerning wages, working hours, and welfare measures. Principal employers i.e. those who engage contract labour through contractors also bear specific responsibilities under the Act. They must ensure that contractors comply with all statutory provisions, including acquiring the necessary licenses, providing legally mandated benefits to workers, and maintaining accurate employment records.

Participants In A Contract Labour Arrangement

Under the Contract Labour Regulation and Abolition Act, 1970, the three key participants forming a contract labour arrangement are the contract labour, the contractor, and the principal employer.

- ❖ **Contract Labour:** A workman who is employed in or in connection with the work of an establishment by or through a contractor.⁶
- ❖ **Contractor:** A contractor is a person who undertakes to execute a specific task or produce a defined result for an establishment through the engagement of contract labour, or who supplies contract labour for any work related to the establishment.⁷

⁵ It is noteworthy that states like Maharashtra (through its 2016 amendment) and Rajasthan (via the 2014 amendment) have revised the applicability threshold to cover establishments employing fifty or more workers.

⁶ Section 2(1)(b), Contract Labour Regulation and Abolition Act, 1970.

⁷ Section 2(1)(c), Contract Labour Regulation and Abolition Act, 1970.

❖ **Principal Employer:** The Act provides an inclusive definition of the principal employer, varying based on the nature of the establishment:

A. Government office or local authority: The head of the department or office.

B. Factory: The owner or occupier of the factory.

C. Mine: The owner or agent of the mine.

D. Other establishments: The individual responsible for the supervision and control of the establishment.⁸

As the core legislation governing contract labour in India, the Act mandates certain welfare measures for contract labourers. These include the provision of canteens, restrooms, safe drinking water, latrines and urinals, washing facilities, first-aid arrangements, and timely payment of wages. The Act clearly delineates the responsibilities of both the principal employer and the contractor in ensuring the implementation of these provisions.⁹

PROHIBITION OF CONTRACT LABOUR:

The issue of contract labour has been critically examined by the in the case of *Sankar Mukherjee v. Union of India*¹⁰. The Court strongly criticized the continued use of contract labour in large enterprises, including public sector undertakings, even decades after India's independence. It remarked:

"It is surprising that more than forty years after the independence the practice of employing labour through contractors by big companies including public sector companies is still being accepted as a normal feature of labour-employment. There is no security of service to the workmen and their wages are far below than that of the regular workmen of the company. This Court has disapproved the system of contract labour holding it to be 'archaic', 'primitive' and of 'baneful nature'. The system, which is nothing but an improved version of bonded-labour, is sought to be abolished by the Act. The Act is an important piece of social legislation for the welfare of labourers and

⁸ Section 2(1)(g), Contract Labour Regulation and Abolition Act, 1970.

⁹ Chapter V (Section 16 – Section 21), Contract Labour (Regulation and Abolition) Act, 1970.

¹⁰ *Sankar Mukherjee v. Union of India*, 1990 Supp SCC 668.

has to be liberally construed.”

The main objective behind the enactment of the Act, 1970 (CLRA Act) is to abolish contract labour in specific contexts. This intention is clearly reflected in Section 10 of the Act, which empowers *the appropriate government (either Central or State) to prohibit the employment of contract labour in any operation, process, or work in an establishment, after consulting the respective advisory board and issuing a notification in the Official Gazette.*¹¹

Before issuing such a notification, Section 10(2) outlines several key factors the appropriate government must consider:

- ❖ Whether the nature of the work is incidental to or essential for the industry or occupation being carried out in the establishment,
- ❖ Whether the work is of a perennial nature, i.e., recurring and permanent,
- ❖ Whether the work is usually performed by the establishment's regular workforce;
- ❖ Whether the volume of work is sufficient to justify hiring a substantial number of full-time workers.¹²

Until now, the Central Government has issued 88 notifications under Section 10 of the Act, abolishing the use of contract labour in certain specified sectors and business activities. These prohibitions were made in consultation with the Central Advisory Contract Labour Board,¹³ and the pattern of notifications indicates a consistent application of the criteria laid out in Section 10(2).

Nature of Relationship between Principal Employer and Contract Labour:

Indian courts have often identified situations where contractual arrangements are used merely as a façade to avoid direct employment obligations. In such cases, a sham contract exists, and a de facto employer-employee relationship is found between the principal employer and the

¹¹ Section 10(1), Contract Labour (Regulation and Abolition) Act, 1970.

¹² Section 10(2), Contract Labour (Regulation and Abolition) Act, 1970.

¹³ The Ministry of Labour and Employment's Annual Report for the year 2016–17, published by the Government of India in New Delhi

contract labourers.

In *Workmen of Nilgiri Coop. Mktg. Society Ltd. v. State of Tamil Nadu*,¹⁴ the Supreme Court emphasized that the determination of such a relationship depends on the facts and circumstances of each case. The Supreme Court highlighted the following criteria for determining the existence of an employer-employee relationship:

- A. Who has the authority to appoint the worker;
- B. Who is responsible for payment of wages;
- C. Who holds the power to terminate the services;
- D. Duration and continuity of the employment;
- E. The level of control and supervision exercised;
- F. The type of job, including whether it is skilled or professional in nature;
- G. The nature of the establishment where the work is performed;
- H. Whether the employer has the right to accept or reject the worker or their services.

RIGHTS OF LABOUR:

Labour rights refer to a wide spectrum of entitlements and legal protections granted to workers to ensure just, equitable, and safe working conditions. These rights aim to uphold the dignity and well-being of employees across various sectors. One of the fundamental labour rights is the right to fair remuneration. Workers are entitled to receive wages that comply with statutory minimums or those fixed through collective bargaining.

According to the Minimum Wages Act, 1948, employers are legally bound to pay their workers at least the government-notified minimum wage, which may differ based on job type and regional classifications. These wage rates are revised periodically to reflect changes in the cost of living and inflation. The Industrial Disputes Act, 1947, further safeguards workers by mandating that employees who work beyond prescribed hours per day or week are eligible for

¹⁴ *Workmen of Nilgiri Coop. Mktg. Society Ltd. v. State of T.N.*, (2004) 3 SCC 514.

overtime compensation, which must be paid at twice the regular rate of wages. In addition, various statespecific laws provide paid maternity leave to women employees following childbirth, supporting their right to work-life balance and health.

Indian labour law also emphasizes the right to safe and healthy working conditions. Employers are required to provide adequate lighting, ventilation, sanitation, and safety measures, thereby creating a workspace free from physical and environmental hazards that may jeopardize an employee's health. Workers also enjoy the freedom to form and join trade unions. These unions represent workers' interests, engage in collective bargaining, and help resolve disputes arising between labour and management. Trade unions are instrumental in advocating for employee rights, ensuring compliance with labour laws, and defending workers against exploitation. Furthermore, employees have the right to privacy and dignity at the workplace. This includes protection against workplace harassment, unwarranted surveillance, and invasive monitoring practices, such as tapping or tracking personal activities without consent.

LIABILITIES OF LABOUR:

While labour laws emphasize the rights and protections of workers, employees are also expected to adhere to certain duties and responsibilities in the course of their employment. These liabilities ensure the smooth functioning of the workplace and promote a culture of accountability.

- A. *Duty to Perform Work Obligations:*** Employees are required to perform their assigned duties diligently and efficiently. Failure to meet job responsibilities, repeated negligence, or consistent underperformance may result in disciplinary measures, including suspension or termination.
- B. *Confidentiality Obligations:*** Workers who have access to sensitive company data, proprietary information, or trade secrets are under a legal and ethical duty to maintain confidentiality. Unauthorized disclosure of such information to external parties can lead to legal consequences and breach-of-contract claims.
- C. *Proper Use of Company Property:*** Employees are responsible for the appropriate use, care, and preservation of company-owned property, including tools, machinery, and electronic equipment. Acts such as misuse, theft, or intentional damage to organizational

assets may attract both disciplinary and legal liability.

D. Professional Conduct: Workers are expected to maintain a respectful and professional environment in the workplace. This includes treating colleagues, clients, and superiors with courtesy, refraining from harassment or misconduct, and contributing to a healthy and inclusive work environment.

CHALLENGES OF CONTRACT LABOURS:

Contract labour, often referred to as temporary or contingent work, poses numerous challenges for both the workers and the organizations that engage them. However, the brunt of these challenges is disproportionately borne by the labourers themselves, particularly those from economically and socially marginalized backgrounds. One of the most pressing concerns is the lack of job security. Unlike permanent employees, contract labourers are engaged for short durations or specific projects, making their employment highly unstable. They are frequently employed in hazardous industries with minimal safety measures and limited legal safeguards. These workers often work longer hours, as their wages are typically linked to output or task completion rather than fixed schedules. This results in excessive workloads with insufficient compensation, further worsening their financial and physical well-being.

Another significant challenge is the inadequacy of wages and benefits. Many contract labourers do not receive even the minimum wages prescribed by law, and they are often deprived of basic entitlements such as healthcare, paid leave, provident fund contributions, and retirement benefits. Their limited access to social security leaves them financially vulnerable, especially in times of crisis. Legal non-compliance by contractors and employers exacerbates the problem. Many do not obtain the mandatory licenses, fail to maintain statutory records, or ignore the welfare provisions outlined under the Contract Labour (Regulation and Abolition) Act, 1970. Due to their precarious position, workers are often unable to report violations or demand enforcement of their rights for fear of job loss or retaliation. Another critical issue is the lack of awareness among contract workers about their legal rights and protections. Without access to legal aid or representation, they are unable to assert their claims effectively. This highlights the need for awareness campaigns and capacity-building initiatives to empower workers and enhance their bargaining power.

Additionally, contract labourers are usually excluded from the organizational framework and

longterm planning of the company. As a result, they have limited opportunities for professional growth, training, or internal promotions, which severely restricts their career development. In sum, while contract labour may offer flexibility and cost efficiency for employers, it often results in systemic exploitation and inequality for the workers. Addressing these challenges requires stricter enforcement of labour laws, greater oversight of contractors, and inclusive policy reforms to ensure fair treatment and protection for this vulnerable section of the workforce.

SOCIO-ECONOMIC REALITIES OF CONTRACT LABOUR:

Contract labour in India is emblematic of deep-rooted socio-economic disparities, particularly when juxtaposed with the conditions of permanent employees. A prominent issue is the wage inequality between contract workers and regular employees, even when the nature and intensity of the work performed are virtually identical. This violates the principle of "equal pay for equal work" a tenet enshrined in the Constitution of India and reinforced through judicial interpretations in labour law jurisprudence.

Beyond wage disparity, contract workers face systemic exclusion from social security schemes such as the Employees' Provident Fund (EPF), Employees' State Insurance (ESI), gratuity benefits, and pension schemes. Their employment status is typically informal and casualised, with most engaged on a temporary, daily-wage, or project-specific basis. This lack of job permanency strips them of economic security and makes long-term financial planning unattainable.

The exploitative conditions under which contract workers operate are further exacerbated by unsafe working environments, excessively long hours, and a disregard for occupational health and safety standards. Industries such as construction, sanitation, and shipping ports are particularly notorious for neglecting basic safety provisions. Workers are often compelled to work beyond legally permissible hours without corresponding overtime compensation, and are routinely denied safety gear such as helmets, gloves, or harnesses.

Statistical and policy analyses further illustrate this grim reality. Reports by the Labour Bureau and policy briefs by NITI Aayog consistently highlight that a significant proportion of contract labourers live in inadequate housing conditions, lacking access to essential services such as clean water, sanitation, and healthcare. According to data from the International Labour

Organization (ILO), over 50% of contract workers in India remain outside the protective umbrella of formal labour legislation, leaving them highly vulnerable to exploitation and socio-economic marginalisation.

Case studies and field observations underscore the gravity of these issues. Construction workers often operate at great heights without safety harnesses; sanitation workers, especially manual scavengers, are frequently exposed to hazardous waste without protective gear; and port labourers endure irregular hours, minimal pay, and strenuous physical conditions. These examples are not isolated incidents but reflect a systemic pattern of institutional neglect.

The ongoing marginalisation of contract workers calls for urgent policy reforms, legal safeguards, and stringent enforcement mechanisms. There is a pressing need to formalise contract labour through inclusive legislation that guarantees basic rights, ensures fair wages, provides social security, and upholds the dignity of labour. Without such interventions, the socio-economic chasm between contract and regular workers will continue to widen, undermining the very goals of inclusive growth and social justice.

OTHER LEGISLATION:

Apart from the Contract Labour (Regulation and Abolition) Act, 1970, several other labour welfare laws also offer protection to contract workers by recognising them as 'employees' or 'workers' under their provisions. These statutes place legal responsibilities on the principal employer and aim to ensure basic rights, social security, and decent working conditions for contract labour. Key legislations relevant to contract workers are outlined below:

A. EMPLOYEES' PROVIDENT FUNDS AND MISCELLANEOUS PROVISIONS ACT, 1952 ("EPF ACT")

Applicability: The EPF Act applies to all scheduled establishments, including factories, employing twenty or more workers. It also extends to other establishments with 20 or more employees as notified by the appropriate government.¹⁵ Under Section 2(f)(i), the definition of 'employee' explicitly includes individuals hired through a contractor in connection with the work of the establishment, thereby covering contract labour.¹⁶

¹⁵ Section 1(3), Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

¹⁶ Section 2(f)(i), Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

Benefits: The Act mandates provident fund contributions for all eligible employees, including contract workers.¹⁷ The responsibility for ensuring compliance rests with the principal employer, who must deposit the contributions and may recover the same from the contractor.¹⁸ This provision ensures that contract workers are entitled to long-term financial security through the provident fund mechanism.

B. EMPLOYEES' STATE INSURANCE ACT, 1948 ("ESI ACT")

Applicability: The Employees' State Insurance Act, 1948 applies to all factories, including government-owned establishments, as well as to other types of establishments as may be notified by the appropriate government. The Act empowers both Central and State Governments to issue such notifications.¹⁹ In practice, most State Governments excluding a few like Manipur, Sikkim, Arunachal Pradesh, and Mizoram have extended the provisions of the ESI Act to cover a wider range of establishments within their jurisdictions.

Generally, the threshold for coverage under these state-specific notifications is the employment of 20 or more persons. However, some states, such as Delhi and Karnataka, have extended ESI coverage to certain notified establishments employing 10 or more persons. This demonstrates a trend toward broader inclusion of establishments under the ambit of the Act.

Section 2(9)(iii) of the ESI Act includes contract labour within the definition of an 'employee.' It specifically recognises a person whose services are temporarily lent or hired out to the principal employer by another person (typically, the contractor) with whom the worker has entered into a contract of service.²⁰ This provision ensures that contract workers are not excluded from the benefits of the Act solely because they are engaged through a third party.

Benefits: The ESI Act offers a comprehensive range of social security benefits, including medical care, sickness benefits, maternity benefits, and compensation for employment-related injuries. These benefits are designed to ensure the health, safety, and welfare of workers employed in industrial and commercial settings.

¹⁷ Section 6, Employees' Provident Funds and Miscellaneous Provisions Act, 1952 r/w para 30 of Employees' Provident Fund Scheme.

¹⁸ Section 8A, Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

¹⁹ Sections 1(4) and 1(5), Employees' State Insurance Act, 1948.

²⁰ Section 2(9)(iii), Employees' State Insurance Act, 1948.

As per the statutory scheme, the principal employer bears the initial responsibility for making ESI contributions in respect of all employees, including those engaged through a contractor.²¹ Although the actual cost may be subsequently recovered from the contractor²² (also known as the immediate employer), the legal burden of compliance lies with the principal employer. This legal structure ensures that contract workers are not deprived of essential health and insurance protections due to the nature of their employment.

By bringing contract labour within its scope, the ESI Act plays a crucial role in safeguarding the rights of such workers and promoting equitable access to medical and financial assistance across all categories of employment.

C. EMPLOYEES' COMPENSATION ACT, 1923 ("EC ACT")

Applicability: The Employees' Compensation Act, 1923 is applicable to a specific category of employees, including railway servants, seafarers such as the master or crew members of a ship, and aviation personnel like captains or crew members of aircraft. It also applies to individuals employed as drivers, helpers, mechanics, cleaners, or in any other role connected with the operation of motor vehicles. Additionally, persons recruited by companies for employment abroad, and workers engaged in capacities listed under Schedule II of the Act,²³ fall within its ambit. This legislation is primarily concerned with workers engaged in hazardous or accident-prone employment sectors, ensuring that compensation is provided in the event of injuries sustained in the course of employment.

Benefits: Where the EC Act applies, it establishes a clear liability framework for both the principal employer and the contractor in relation to contract labour.²⁴ Specifically, if a contract worker suffers a personal injury due to an accident that arises out of and in the course of employment, the principal employer is held liable to pay compensation under the Act. However, the principal employer retains the legal right to seek indemnification from the contractor for the amount paid, as the immediate employer of the injured worker. This principle has been consistently upheld by Indian courts,²⁵ which have reinforced the employer's

²¹ Section 40, Employees' State Insurance Act, 1948.

²² Section 41, Employees' State Insurance Act, 1948.

²³ Section 2(dd), Employees' Compensation Act, 1923.

²⁴ Section 12, Employees' Compensation Act, 1923.

²⁵ Sarjerao Unkar Jadhav v. Gurinder Singh, 1990 SCC OnLine Bom 36 : (1991) 62 FLR 315.

responsibility to ensure that contract workers receive fair compensation for work-related injuries, regardless of the intermediary contractual arrangement.

It is important to highlight that where a worker is already covered under the Employees' State Insurance Act, 1948, they are barred from claiming compensation under the EC Act²⁶ for the same injury or disability. The rationale is to prevent overlapping claims and to maintain consistency in the application of labour welfare laws. The EC Act, therefore, acts as a supplementary protective mechanism for those contract workers who fall outside the coverage of the ESI Act.

D. FACTORIES ACT, 1948

Applicability: The Factories Act, 1948 applies to all factories where either (i) ten or more workers are employed and manufacturing activities are carried out with the aid of power, or (ii) twenty or more workers are employed without the aid of power. Under Section 2(l) of the Act, the term 'worker' is defined broadly to include any person employed—either directly or through any agency, including a contractor—in any manufacturing process or in cleaning or any work incidental to the manufacturing process. This inclusive definition ensures that contract workers are not excluded, provided they meet the essential criteria outlined in the Act. Thus, there is no distinction between those employed directly by the principal employer and those engaged through a contractor for the purposes of applicability.

Benefits: The Factories Act mandates a wide range of health, safety, and welfare provisions to be made available to all workers employed in a factory, regardless of the nature of their employment arrangement. These obligations fall on the 'occupier' of the factory, as defined under the Act. These include, among others, ensuring safe working conditions, proper ventilation, disposal of waste, cleanliness, availability of drinking water, and first aid facilities. Additionally, workers whether permanent or contract are entitled to statutory benefits such as overtime wages, compensatory leave, annual leave with wages, and other welfare measures prescribed by the Act.

Despite these protections, there exist certain limitations in the labour law framework with respect to contract labour. For instance, statutes such as the Payment of Gratuity Act, 1972 and the Payment of Bonus Act, 1965 do not impose direct obligations on the principal employer

²⁶ Section 53, Employees' State Insurance Act, 1948.

regarding the payment of gratuity or bonuses to contract labour. Similarly, the Industrial Disputes Act, 1947 generally does not impose responsibilities on the principal employer for contract labour,²⁷ as such workers are engaged for specific tasks or a defined period and are formally under the employment of the contractor.

The contractor, being the immediate employer, is responsible for fulfilling obligations such as retrenchment compensation, notice pay, and other statutory benefits applicable to the workers. Courts have consistently held that contractors must comply with the legal requirements applicable to workmen engaged in catering or canteen services, or in other similar capacities, including compliance with provisions relating to termination and retrenchment.²⁸ Moreover, in instances where it is demonstrated that the contractual arrangement is merely a sham or camouflage, and that the worker is in fact under the control and supervision of the principal employer, such a worker may file a claim for regularisation under the Industrial Disputes Act, 1947. If the worker has completed 240 days of continuous service in a calendar year and fulfills other conditions prescribed by law, he or she may seek legal recognition as a direct employee of the principal employer.

SUGGESTIONS:

Improving the working conditions of contract labourers requires a holistic approach that ensures fair compensation, adequate benefits, and a safe working environment. Contract workers should be remunerated equitably, keeping in mind their skills, experience, and contributions to the organisation. Extending benefits such as health insurance, paid leave, and retirement provisions can significantly enhance their financial stability and overall quality of life. Employers must also prioritise workplace safety by strictly implementing occupational health and safety standards. This includes providing proper training, personal protective equipment, and support systems to reduce the risk of injury or occupational hazards, particularly in high-risk sectors such as construction, sanitation, and logistics.

Beyond physical conditions, fostering a workplace culture rooted in mutual respect, inclusivity, and professionalism is essential. Contract labourers should be treated with dignity and considered integral to the workforce, irrespective of their temporary or outsourced status. On a broader level, there is an urgent need for legislative reforms that better safeguard the

²⁷ Nuclear Fuel Complex v. K. Penta Reddy, 2002 SCC OnLine AP 123 : (2002) 2 ALT 553.

²⁸ SRF Ltd. v. Govt. of T.N., 1995 SCC OnLine Mad 48: (1996) 73 FLR 1354.

rights and interests of contract workers. Strengthening labour laws, ensuring effective enforcement, and expanding the scope of social security frameworks are necessary steps in addressing systemic vulnerabilities. Additionally, enabling contract workers to participate in skill development programs and collective representation through trade unions or workers' associations can empower them to advocate for better working conditions and long-term job security.

By implementing these measures, employers can build a more equitable and inclusive workplace, while contract labourers can better navigate the challenges of precarious employment. Together, these efforts can contribute to a more just and sustainable labour ecosystem that respects the rights and dignity of all workers.

CONCLUSION:

The widespread use of contract labour across India's diverse industries from skilled to unskilled roles reflects its embeddedness in the modern economy, even as it raises concerns about evasion of core labour protections. Over time, however, there has been a perceptible shift toward more responsible management: many principal employers now extend benefits comparable to those of regular employees. Yet, contract workers still often lack the job security and dignity afforded to permanent staff. Given the persistent and growing demand for flexible labour arrangements, it is imperative to reform existing laws to strengthen the protections available to contract labourers and ensure that their fundamental rights are upheld.

The rise of contract labour must also be understood against the backdrop of an increasingly fragmented production process, where tasks are outsourced to specialised units an approach magnified by the expansion of the information technology sector. While this model can drive efficiency, cost savings, and ultimately higher employment through increased service demand, it simultaneously exposes workers to precarious conditions.²⁹ Thus, contract labour represents a "necessary evil" that requires robust regulation: measures must balance the legitimate needs of industry for flexibility with the equally vital imperative of safeguarding the welfare of those it employs. Only through such calibrated legal and policy interventions can India build a more equitable and sustainable labour ecosystem that benefits both businesses and their workforce.

²⁹ Raj Kapila & Uma Kapila, Planning Commission Reports on Labour and Employment, 204 (2002).