

The job protection diktat-Govt must pay for a part of the wage cost

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The government's decision to reduce the salaries of parliamentarians is a welcome recognition of the magnitude of the Covid-19 crisis. However, the action is in contrast to what it expects the private sector to do. Labour commissioners, acting on the government's behalf, are coming in the way of private companies shedding labour or cutting costs by sending staff on unpaid leave. For instance, the central labour commissioner has asked SpiceJet, which announced a pay cut recently, to submit an action-taken report on government advisories. Similar action is being planned in quite a few other cases as well. While protecting jobs and wages in the private sector is a worthy goal, the government should appreciate the tradeoff. The whole point of a flexible labour market, which has not been adequately addressed by the economic reforms process so far, is that wage costs must be made flexible to the extent possible. When business has gone downhill, high fixed costs, of which wages are usually an important part, can cripple a company by ruining cash flow.

What the government does not seem to understand is that if pay cuts, enforced leave and other such measures designed to share the burden are ruled out, the alternative may be complete closure, which is in no one's interest. Many businesses (like airlines) have been ordered to shut down by the government, so their revenue is zero because of this diktat. Although the government has done this to contain the virus, a number of companies would not be in a position to sustain cash outflows without revenues for a long time. In fact, for businesses such as airlines and hotels, normalcy may not return for an extended period even if the lockdown is lifted in a calibrated manner. So how do they pay wages? Truck sales are down 80-90 per cent; construction work is non-existent, which means high fixed costs will kill all these businesses. Such businesses will need greater operational flexibility and government support to survive. Otherwise, a large number of bankruptcies will not only push more people out of work but will also delay the recovery. Thus, how quickly India is able to recover from this unprecedented shock will depend on the way the government responds.

If the government sees its priority as saving all jobs or protecting all workers, with employers given no flexibility, then it should agree to pay for a part of the wage cost till normalcy returns, as the US, UK and a few other countries have done. The Indian government has announced a package for the most vulnerable section of the population, but a broad strategy to deal with the economic fallout of Covid-19 is still missing. Policymakers would soon need a road map to bring the economy back on track. For instance, some businesses will take more time to recover. The government would do well to make sure that cash flow and liquidity issues do not become a solvency crisis. A blanket diktat to private firms to keep paying wages is hardly a solution.