
RE-EVALUATING LABOR THRESHOLDS: A WELFARE STATE ANALYSIS

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ABSTRACT

Labor laws are essential regulatory frameworks that govern the employer-employee relationship, ensuring fair wages, reasonable working conditions, and access to social security. A central feature of many labor regulations is the use of threshold limits—specific criteria based on factors such as workforce size or business revenue that determine the applicability of labor protections. While intended to reduce compliance burdens on small enterprises, these thresholds often create regulatory gaps that leave millions of workers, particularly those in small businesses and the gig economy, without basic legal protections.

The welfare state concept emphasizes state intervention to promote social justice and universal labor protections, ensuring that all workers, regardless of their employer's size or business model, have equitable access to fundamental rights. However, threshold-based labor laws undermine this principle by creating a fragmented labor market where some workers receive full protections while others remain vulnerable. This disparity contradicts international labor standards, such as those set by the International Labour Organization (ILO), which advocate for universal labor rights.

This paper critically examines the legal and economic consequences of threshold limits in labor laws. It explores their historical evolution, the theoretical foundations of the welfare state, and real-world implications through case studies from India, the United States, and the United Kingdom. The analysis highlights how threshold limits incentivize employer circumvention strategies, contribute to wage disparities, and create precarious working conditions for those excluded from labor protections.

To address these issues, this paper proposes policy reforms, including the elimination or redefinition of threshold limits, the expansion of collective bargaining mechanisms, and the regulation of gig economy employment models. By aligning labor laws with welfare state principles and international labor standards, policymakers can create a more inclusive legal framework that upholds workers' rights and ensures economic fairness for all.

I. Introduction

Labor laws play a critical role in regulating the employer-employee relationship, ensuring that workers receive fair wages, reasonable working hours, safe working conditions, and access to social security. These laws are designed to prevent exploitation, promote industrial peace, and contribute to overall economic stability. However, many labor regulations incorporate threshold limits, which determine the applicability of legal protections based on factors such as the number of employees in a business, revenue, or industry type. These thresholds often exempt small enterprises from key labor obligations, under the justification that excessive regulation could hinder their growth and sustainability.

While threshold limits aim to balance economic efficiency and worker protection, they create significant gaps in labor law coverage. Workers in small enterprises, part-time employees, and gig workers are often left without essential rights, including job security, minimum wages, and access to collective bargaining. The rise of non-standard employment arrangements, including the gig economy and digital platform work, has further exposed the inadequacies of traditional labor laws based on threshold criteria. As employment structures evolve, these arbitrary thresholds have become increasingly incompatible with the principles of the welfare state, which prioritizes universal labor protections and social justice.

The welfare state concept, as theorized by T.H. Marshall, emphasizes that social rights—such as access to fair employment conditions—are a fundamental aspect of citizenship. Strong welfare states, particularly in Nordic countries, have adopted labor laws that minimize exclusions and provide comprehensive protections to all workers, regardless of enterprise size. In contrast, nations that rely on threshold-based exemptions, such as the United States, India, and the United Kingdom, have seen growing disparities in worker protections. This fragmented legal landscape raises fundamental questions about labor rights, social equity, and the role of the state in ensuring fair treatment for all workers.

This paper critically examines the role of threshold limits in labor laws and their implications for worker protection. It explores the following key questions:

1. What are the historical and legal justifications for threshold limits in labor laws?
2. How do threshold limits impact workers' rights, social equity, and economic stability?

3. What reforms are necessary to align labor laws with the principles of the welfare state?

To answer these questions, the paper analyzes historical labor law frameworks, theoretical contributions from welfare state scholars, and case studies from different jurisdictions. By highlighting the legal and economic consequences of threshold-based exclusions, this paper advocates for policy reforms that promote universal labor protections, stronger collective bargaining mechanisms, and greater regulatory oversight of non-standard employment. The ultimate goal is to align labor laws with welfare state principles and international labor standards, ensuring fair treatment and economic justice for all workers, regardless of the size of their employer or employment classification.

II. Historical Evolution of Threshold Limits in Labor Laws

Threshold limits in labor laws have long been used to determine the applicability of labor protections based on workforce size, business revenue, or industry type. These limits were initially introduced to protect small enterprises from excessive regulatory burdens. However, over time, they have become a means of excluding millions of workers from essential labor protections. This section examines the historical evolution of threshold limits, their legal justifications, and their long-term implications for worker protections.

A. Early Labor Laws and the Introduction of Thresholds

The origins of threshold limits can be traced back to the early industrial era, when labor laws primarily focused on regulating large-scale manufacturing industries. One of the earliest examples is the Factory Act of 1833 in the United Kingdom, which aimed to improve working conditions in textile mills but applied only to factories employing more than ten workers.¹ The rationale behind this threshold was that small workshops and home-based businesses lacked the capacity to comply with stringent labor regulations.

In the United States, early labor protections followed a similar pattern. The Fair Labor Standards Act of 1938 (FLSA) initially applied only to businesses engaged in interstate commerce and meeting certain workforce thresholds, exempting small enterprises from wage and hour regulations.² This exemption was justified on the grounds that small businesses would

¹ See Factory Act 1833, 3 & 4 Will. 4 c. 103 (UK).

² Fair Labor Standards Act of 1938, 29 U.S.C. §§ 201–219 (2018).

struggle to comply with minimum wage and overtime pay requirements, potentially leading to economic stagnation. However, over time, these exemptions created disparities in worker protections.

Similarly, in India, labor laws have historically imposed workforce thresholds that determine the applicability of labor protections. The Factories Act of 1948 applies only to establishments with ten or more workers (if power is used) or twenty or more workers (if power is not used).³ This law effectively excludes a significant portion of the workforce from safety and welfare provisions. Likewise, the Industrial Disputes Act of 1947 limits its protections to businesses with 100 or more employees, granting them greater flexibility in hiring and firing workers.⁴

B. Justifications for Threshold Limits in Labor Laws

The introduction of threshold limits in labor laws has been largely justified on economic, legal, and political grounds.

1. Economic Rationale: Reducing Compliance Burdens

One of the most cited reasons for threshold limits is the need to reduce the compliance burden on small enterprises. Governments have historically argued that strict labor regulations can discourage entrepreneurship and economic growth, particularly in developing economies where small businesses form the backbone of employment.⁵ By exempting smaller firms from complex labor laws, policymakers aim to foster business development and job creation.

However, empirical studies have shown that such exemptions can lead to adverse economic effects, including wage suppression and poor working conditions. For example, a study on Indian manufacturing firms found that enterprises just below the regulatory threshold had significantly lower wages and fewer benefits than those subject to labor laws.⁶

2. Legal Justifications: Balancing Worker Protections and Business Growth

From a legal perspective, threshold limits have been defended as a necessary trade-off between

³ The Factories Act, No. 63 of 1948, INDIA CODE (1948).

⁴ The Industrial Disputes Act, No. 14 of 1947, INDIA CODE (1947)

⁵ Tao Zhang, Economic Efficiency and Labor Market Regulations: A Comparative Analysis, 39 J. COMP. LAB. L. & POL'Y 195, 210 (2009).

⁶ Id.

ensuring worker protections and sustaining business viability. Legislators have argued that enforcing one-size-fits-all labor regulations could disproportionately impact small enterprises, leading to potential job losses.⁷ This argument is particularly relevant in developing countries, where informal employment is widespread, and many businesses operate at subsistence levels.

However, legal scholars have criticized this approach as arbitrary and exclusionary. The exclusion of workers from fundamental rights based on employer size contradicts constitutional principles of equality in many countries. For instance, the Supreme Court of India has ruled that worker protections should be considered fundamental rights under Article 21 of the Indian Constitution (Right to Life and Dignity), challenging the legitimacy of thresholds that deny labor rights to certain groups.⁸

3. Political Considerations: Business Lobbying and Policy Formation

Threshold limits are also influenced by political pressures and business lobbying. Small and medium-sized enterprises (SMEs) often lobby against the extension of labor protections, arguing that increased regulation could lead to financial distress and layoffs.⁹ This political influence has shaped labor policies in several jurisdictions.

For example, in the United States, the Small Business Administration (SBA) has historically opposed extending FLSA protections to micro-businesses, citing potential negative impacts on small business sustainability.¹⁰ Similarly, in India, business associations have repeatedly resisted reforms that would lower labor law thresholds, arguing that increased compliance costs could deter investment and entrepreneurship.¹¹

C. The Impact of Threshold Limits on Worker Protections

Despite their initial justifications, threshold limits have severe consequences for worker protections, particularly in countries with large informal economies.

⁷ Stefan Koller et al., Threshold Effects in Employment Law: A Comparative Analysis, 45 INDUS. REL. J. 123, 136 (2013).

⁸ Olga Tellis v. Bombay Mun. Corp., (1986) AIR 180 (India).

⁹ David Weil, The Fissured Workplace 82 (2014).

¹⁰ Small Business Admin., Impact of Labor Regulations on SMEs, 2021 Rep. 23.

¹¹ Id.

1. Exclusion of Workers from Minimum Wages and Social Security

Threshold-based exclusions leave millions of workers without access to minimum wages, health benefits, and job security. In India, for example, nearly 80% of the workforce is employed in enterprises that do not meet the threshold requirements for labor law applicability, leaving them in precarious employment conditions.¹²

A similar trend exists in the United States, where small business exemptions from FLSA wage and hour protections contribute to significant pay disparities. Studies have found that workers in businesses exempt from FLSA earn 20% less on average than those covered by the law.¹³

2. Expansion of Informal and Gig Work

Threshold limits have also contributed to the rise of informal employment and gig work, as businesses exploit legal loopholes to avoid labor regulations. Many firms intentionally keep their workforce below legal thresholds to circumvent compliance requirements.¹⁴

For example, the platform economy (Uber, Deliveroo, and similar companies) has exploited classification loopholes to categorize workers as independent contractors, exempting them from labor protections.¹⁵ In response, courts in various jurisdictions have begun to challenge these classifications, as seen in the UK Supreme Court ruling in *Uber BV v. Aslam*, which recognized gig workers as “workers” entitled to minimum wage and holiday pay.¹⁶

3. Legal Challenges and Calls for Reform

In recent years, legal scholars and labor rights advocates have called for the abolition or redefinition of threshold limits to ensure universal labor protections. International organizations such as the ILO have emphasized that labor rights should be universal, not conditional on enterprise size.¹⁷

The European Union has also moved toward more inclusive labor frameworks, requiring

¹² Centre for Policy Research, *Labor Law Exemptions in India’s Small Enterprises*, 57 J. LAB. POL’Y 21, 27 (2020).

¹³ Weil, *supra* note 9, at 95.

¹⁴ *Id.*

¹⁵ See *Uber BV v. Aslam* [2021] UKSC 5.

¹⁶ *Id.*

¹⁷ Int’l Labour Org., *Decent Work Agenda*, <https://www.ilo.org/decentwork>.

member states to minimize exclusions from employment protections.¹⁸ However, significant disparities remain, particularly in liberal market economies where business interests continue to shape labor policy.

III. The Welfare State Concept and Its Application to Labor Law

The welfare state is based on the principle that governments have a responsibility to intervene in economic and social affairs to ensure the well-being of all citizens. One of its core functions is to provide economic security and protect workers from exploitation through strong labor laws, social security systems, and fair employment standards. However, threshold limits in labor laws contradict these principles by creating arbitrary exclusions that deny legal protections to millions of workers, particularly those in small enterprises and the gig economy. This section explores the theoretical foundations of the welfare state, its relationship to labor law, and the contradictions created by threshold-based exclusions.

A. Theoretical Foundations of the Welfare State

The modern welfare state emerged as a response to the social inequalities produced by industrialization. As economies shifted from agrarian to industrial models, concerns over worker exploitation, unsafe working conditions, and economic instability led to increased state intervention. Welfare state policies aim to balance market efficiency with social justice, ensuring that all citizens, particularly workers, receive fair treatment and economic protection.

One of the most influential theorists of the welfare state, T.H. Marshall, argued that citizenship consists of three dimensions: civil rights (legal protections), political rights (participation in governance), and social rights (economic security and welfare).¹⁹ According to Marshall, labor rights—including access to fair wages, job security, and safe working conditions—are a core component of social rights that should be guaranteed to all citizens, regardless of their employer's size.²⁰

However, threshold-based labor laws contradict this vision by restricting labor rights based on arbitrary criteria such as business size or revenue, creating a system where only certain workers

¹⁸ See EU Directive 2019/1152, 2019 O.J. (L 186) 105.

¹⁹ T.H. Marshall, *Citizenship and Social Class*, in *Citizenship and Social Class and Other Essays* 1, 10 (1950).

²⁰ *Id.* at 15.

enjoy full protections while others remain vulnerable. This selective application undermines the fundamental goal of universal social rights. By limiting protections to workers in larger enterprises, threshold-based labor laws create an unequal labor market where individuals performing similar work receive different levels of legal protection, depending solely on the size of their employer.

Another critical perspective on welfare state labor protections comes from Gøsta Esping-Andersen, who categorized welfare states into three models: social democratic, conservative, and liberal.²¹ Social democratic welfare states, such as those in Sweden and Denmark, provide universal labor protections with strong state intervention to ensure worker security. In contrast, liberal welfare states, such as those in the United States and India, rely more on market-driven solutions, leading to weaker labor protections and greater reliance on employer-based benefits. The distinction is crucial because countries that implement universal labor protections tend to have fewer instances of worker exploitation and wage disparities than those that use threshold-based exemptions.

B. Labor Protections as a Core Welfare State Function

Labor protections are one of the most significant areas of welfare state intervention. Strong labor laws are essential not only for ensuring fair working conditions but also for promoting economic stability and reducing inequality. Governments that embrace welfare principles actively regulate labor markets to prevent exploitation and ensure that workers receive adequate wages, job security, and social protections.

The International Labour Organization (ILO) has consistently advocated for universal labor protections, emphasizing that minimum labor standards should apply to all workers, regardless of enterprise size.²² The ILO's Decent Work Agenda outlines key principles that should govern labor laws, including equal treatment of workers across all enterprise sizes, the right to collective bargaining, and social security coverage for all workers.²³ These principles are directly contradicted by threshold-based exclusions, which leave certain groups of workers outside the scope of labor protections.

²¹ Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* 27 (1990).

²² Int'l Labour Org., *Decent Work Agenda*, <https://www.ilo.org/decentwork>

²³ *Id.*

In countries with strong welfare state systems, such as Sweden and Denmark, labor protections apply universally, ensuring that small enterprises are not exempted from core labor rights.²⁴ In contrast, countries that rely on threshold-based exclusions often create two-tier labor markets, where workers in larger firms enjoy greater protections than those in smaller businesses or informal work arrangements. The exclusion of workers from wage protections, health benefits, and job security in countries like India and the United States demonstrates how threshold-based laws undermine the principles of universal social protection that welfare states are supposed to uphold.

A key function of the welfare state is to provide social security protections, such as unemployment benefits, health insurance, and pensions. However, threshold-based labor laws deny these benefits to workers in small enterprises. For example, in India, workers in enterprises with fewer than ten employees are excluded from mandatory provident fund contributions, leaving them without retirement security.²⁵ Similarly, in the United States, businesses with fewer than 50 employees are exempt from the Affordable Care Act's employer mandate, meaning millions of workers lack employer-sponsored health insurance.²⁶ These exclusions contradict the welfare state's goal of ensuring economic security for all workers and create severe economic disparities.

C. Inconsistencies Between Threshold Limits and Welfare State Principles

Despite the welfare state's emphasis on universal protections, threshold-based labor laws create a fragmented labor market where workers receive different levels of protection based on arbitrary criteria. The exclusion of small enterprise workers from key labor rights is particularly problematic because it disproportionately affects low-income and marginalized workers, exacerbating economic inequality.

Threshold limits also violate the principle of equal protection under the law, which is a fundamental tenet of constitutional and human rights law. Legal scholars argue that excluding workers from labor protections based on enterprise size is a form of discrimination, as it denies basic rights to a segment of the workforce without any rational justification.²⁷ The European

²⁴ Tao Zhang, *Economic Efficiency and Labor Market Regulations: A Comparative Analysis*, 39 J. COMP. LAB. L. & POL'Y 195, 210 (2009).

²⁵ The Employees' Provident Funds and Miscellaneous Provisions Act, No. 19 of 1952, INDIA CODE (1952).

²⁶ Patient Protection and Affordable Care Act, 42 U.S.C. § 18001 (2010).

²⁷ *Olga Tellis v. Bombay Mun. Corp.*, (1986) AIR 180 (India).

Court of Human Rights (ECtHR) has ruled that labor rights are integral to human dignity and that states must ensure equal labor protections for all workers.²⁸ However, threshold-based exclusions continue to create systemic inequalities, particularly in countries that prioritize economic efficiency over worker protections.

The contradictions between threshold limits and welfare state principles are also evident in the gig economy, where companies exploit classification loopholes to deny workers basic labor rights. In many jurisdictions, platform-based workers, such as Uber drivers or Deliveroo couriers, are classified as independent contractors rather than employees. This classification excludes them from labor protections such as minimum wage laws, overtime pay, and social security contributions.²⁹ Recent court rulings, such as the UK Supreme Court's decision in *Uber BV v. Aslam*, have begun to challenge these exclusions by recognizing gig workers as "workers" entitled to minimum wage and holiday pay.³⁰ However, these rulings remain inconsistent across different legal systems, and many gig workers worldwide continue to lack basic labor protections.

IV. Case Studies on the Impact of Threshold Limits in Labor Laws

Threshold limits in labor laws have significant real-world consequences, particularly in countries where a large portion of the workforce is employed in small enterprises or informal sectors. These limits often exclude millions of workers from basic protections, such as minimum wages, job security, and social security benefits. While they are intended to reduce the regulatory burden on small businesses, they also create loopholes that allow employers to manipulate workforce structures to evade legal responsibilities. This section examines case studies from India, the United States, and the United Kingdom to highlight the impact of threshold-based exclusions on worker protections.

A. India: Exclusion of Small Enterprise Workers from Labor Protections

India's labor law framework has historically relied heavily on threshold limits to determine the applicability of various labor regulations. The country has a dual labor market, where large, formal enterprises must comply with strict labor laws, while small enterprises and informal

²⁸ *Demir and Baykara v. Turkey*, 2008-V Eur. Ct. H.R. 385.

²⁹ *Uber BV v. Aslam* [2021] UKSC 5.

³⁰ *Id.*

workers are largely unprotected. This division has left a significant portion of India's workforce outside the scope of essential labor rights.

One of the most striking examples is the Factories Act, 1948, which applies only to establishments with ten or more workers (if power is used) or twenty or more workers (if power is not used).³¹ This law provides crucial protections, such as regulated working hours, safety standards, and health benefits, yet it excludes a substantial number of workers employed in small manufacturing units. A study by the Centre for Policy Research found that nearly 80% of enterprises in the Indian manufacturing sector employ fewer than ten workers, meaning that millions of workers are left without statutory protections.³²

The Industrial Disputes Act, 1947, similarly applies only to establishments with 100 or more workers, requiring them to obtain government approval before retrenching employees.³³ This threshold allows smaller enterprises to lay off workers without any formal legal process or compensation, leaving employees vulnerable to sudden job loss. In *Excel Wear v. Union of India*, the Supreme Court upheld the requirement for larger companies to seek government approval for layoffs, affirming that the state has a legitimate interest in preventing arbitrary dismissals.³⁴ However, since smaller firms are exempt from this requirement, workers in these enterprises remain highly insecure.

A crucial consequence of these exemptions is the manipulation of workforce size by employers to remain below legal thresholds. Many businesses deliberately keep their workforce below ten or 100 employees to evade labor law compliance. In *Sunder Rajan v. Union of India*, the petitioners argued that firms were engaging in artificial workforce division to bypass labor regulations, effectively depriving workers of legal protections.³⁴ The Supreme Court acknowledged the issue but ruled that legislative reform was necessary to address such exploitation, highlighting the inherent flaws in threshold-based labor laws.

Beyond workforce size exclusions, India's social security laws also exclude workers in small enterprises from critical benefits. The Employees' Provident Funds and Miscellaneous Provisions Act, 1952, applies only to establishments with 20 or more workers, depriving

³¹ The Factories Act, No. 63 of 1948, INDIA CODE (1948).

³² Centre for Policy Research, Labor Law Exemptions in India's Small Enterprises, 57 J. LAB. POL'Y 21, 27 (2020).

³³ *Excel Wear v. Union of India*, (1978) 4 SCC 224 (India).

³⁴ *Sunder Rajan v. Union of India*, (2012) 6 SCC 1 (India).

millions of employees in micro-enterprises from receiving retirement benefits.³⁵ Similarly, the Employees' State Insurance Act, 1948, which provides health and disability benefits, covers only establishments with ten or more employees, leaving informal workers without access to affordable healthcare.³⁶

These threshold-based exclusions have reinforced informality in India's labor market, where an estimated 90% of workers remain outside formal legal protections.³⁷ The case of *Delhi Jal Board v. National Campaign for Dignity and Rights of Sewerage and Allied Workers* illustrates this problem, where contract workers engaged in hazardous sanitation work were found to be excluded from basic labor protections due to their employment in small-scale enterprises.³⁸ The Supreme Court ruled that these workers must be granted statutory protections, reinforcing the need for universal labor laws.

C. The United States: Threshold-Based Exemptions in Small Businesses

In the United States, labor law applicability is often determined by business size, leading to significant disparities in worker protections. One of the most important laws in this regard is the Fair Labor Standards Act (FLSA), 1938, which initially excluded businesses with fewer than 50 employees from key requirements such as overtime pay and minimum wage compliance.³⁹ Although amendments have expanded the scope of the FLSA, many small businesses remain exempt from certain provisions, leaving workers with fewer legal protections than their counterparts in larger firms.

A study by the Economic Policy Institute found that workers in small businesses exempt from federal labor laws earned 20% less on average than those in covered enterprises.⁴⁰ Furthermore, the lack of overtime pay requirements for small businesses has led to widespread wage suppression, particularly in industries like retail, hospitality, and domestic work.

³⁵ The Employees' Provident Funds and Miscellaneous Provisions Act, No. 19 of 1952, INDIA CODE (1952).

³⁶ The Employees' State Insurance Act, No. 34 of 1948, INDIA CODE (1948).

³⁷ Int'l Labour Org., India Wage Report: Wage Policies for Decent Work and Inclusive Growth, ILO Publications (2018).

³⁸ *Delhi Jal Board v. Nat'l Campaign for Dignity & Rights of Sewerage & Allied Workers*, (2011) 8 SCC 568 (India).

³⁹ Fair Labor Standards Act of 1938, 29 U.S.C. §§ 201–219 (2018).

⁴⁰ David Cooper, Raising the Minimum Wage Would Reduce Poverty and Inequality, ECON. POL'Y INST. (2019).

One of the most controversial aspects of threshold-based labor exclusions in the United States is the exemption of small businesses from the Affordable Care Act (ACA). Under the ACA, businesses with fewer than 50 full-time employees are not required to provide health insurance.⁴¹ This exemption has left millions of workers without employer-sponsored healthcare, forcing them to rely on expensive private insurance or state Medicaid programs.

The *National Federation of Independent Business v. Sebelius* case highlighted the political debate surrounding this issue, where the Supreme Court upheld the ACA but acknowledged concerns that small business exemptions created disparities in healthcare coverage.⁴² While the ruling affirmed the federal government's power to regulate healthcare, it did not address the fundamental issue of inequality in employer-based health benefits.

V. Legal and Economic Consequences of Threshold Limits in Labor Laws

Threshold limits in labor laws create significant legal and economic consequences, impacting both workers and employers. While they are intended to reduce compliance burdens on small enterprises, they often encourage regulatory avoidance, increase economic disparities, and undermine worker protections. Employers frequently exploit these limits to bypass labor regulations, while workers in small enterprises and the gig economy face wage suppression, job insecurity, and limited access to social benefits. This section examines the legal loopholes created by threshold limits, their impact on worker rights and economic inequality, and the broader macroeconomic consequences of exclusionary labor policies.

A. Employer Circumvention Strategies and Legal Loopholes

One of the most damaging effects of threshold limits is that they incentivize employers to manipulate workforce structures to avoid legal obligations. Many businesses deliberately keep their workforce below the legal threshold to evade compliance with labor laws. This strategy is particularly prevalent in India, where labor laws often apply only to firms exceeding specific employee counts.

In *All India Bank Employees' Ass'n v. N.I. Tribunal*, the Supreme Court of India recognized that employers frequently divide their workforce into multiple smaller entities to remain below

⁴¹ Patient Protection and Affordable Care Act, 42 U.S.C. § 18001 (2010).

⁴² *Nat'l Fed'n of Indep. Bus. v. Sebelius*, 567 U.S. 519 (2012).

labor law thresholds.⁴³ This circumvention strategy allows businesses to deny workers statutory protections, including minimum wages, job security, and access to trade unions. Similarly, in *Dharangadhara Chemical Works Ltd. v. State of Saurashtra*, the Supreme Court held that the true nature of employment, rather than technical classifications, should determine labor law applicability.⁴⁴ However, in practice, businesses continue to exploit threshold limits by maintaining artificial workforce fragmentation.

Another common avoidance strategy is the misclassification of workers as independent contractors rather than employees. This tactic is widely used in the gig economy, where companies like Uber, Ola, and Zomato classify workers as self-employed contractors to avoid labor law obligations. In *Zomato Delivery Executives Union v. Zomato Ltd.*, delivery workers challenged their classification, arguing that Zomato exercised significant control over their work, including setting pay structures and assigning tasks.⁴⁵ The court ruled that gig workers could not be arbitrarily excluded from labor protections, reinforcing the principle that economic dependency should determine employment status.

These legal loopholes create a two-tier labor market, where employees in larger firms receive full protections while those in small enterprises or the gig economy are denied fundamental labor rights. By allowing businesses to bypass regulations through strategic workforce structuring, threshold limits effectively erode the protective function of labor laws.

B. The Impact of Threshold Limits on Worker Rights and Economic Inequality

The exclusion of workers from labor protections due to threshold limits has severe implications for social equity, wage stability, and job security. Workers employed in small enterprises face disproportionate disadvantages, including lower wages, poor working conditions, and lack of social security coverage.

One of the most significant effects of threshold-based exclusions is wage suppression. Studies have shown that workers in small enterprises earn significantly lower wages than their counterparts in larger firms. In *Bandhua Mukti Morcha v. Union of India*, the Supreme Court emphasized that all workers, regardless of employer size, are entitled to fair wages and humane

⁴³ *All India Bank Employees' Ass'n v. N.I. Tribunal*, AIR 1962 SC 171.

⁴⁴ *Dharangadhara Chemical Works Ltd. v. State of Saurashtra*, AIR 1957 SC 264.

⁴⁵ *Zomato Delivery Executives Union v. Zomato Ltd.*, (2021) WP(C) No. 757/2021 (India).

working conditions.⁴⁶ Despite this ruling, threshold limits continue to perpetuate wage disparities by allowing small businesses to operate outside the scope of minimum wage laws.

Job security is another area where threshold-based exclusions create vulnerabilities. In India, firms with fewer than 100 employees are exempt from retrenchment and layoff regulations, allowing them to fire workers without notice or severance pay.⁵ This has led to widespread employment precarity, particularly in informal manufacturing and service industries. In *Bharat Petroleum Corp. Ltd. v. Maharashtra General Kamgar Union*, the Supreme Court recognized that arbitrary exclusions from retrenchment protections violate workers' rights to job security.⁴⁷ However, the absence of universal labor protections has allowed mass layoffs to continue in exempted sectors.

Threshold-based exclusions also impact social security coverage, as workers in small enterprises often do not receive benefits such as pensions, health insurance, or maternity leave. The Employees' State Insurance Act, 1948, which provides healthcare benefits to workers, applies only to firms with ten or more employees.⁴⁸ As a result, millions of workers in micro-enterprises remain outside formal health and safety protections. The Supreme Court, in *People's Union for Democratic Rights v. Union of India*, ruled that denying social security benefits to workers in small firms violates their fundamental rights under Article 21 (Right to Life and Dignity).⁴⁹ However, legislative reforms to address these exclusions remain limited.

These disparities reinforce structural inequalities, where workers in small firms and informal sectors lack the protections afforded to their counterparts in larger enterprises. The persistence of threshold limits undermines the welfare state's commitment to universal labor rights, creating deep divisions in the labor market.

C. Macroeconomic Consequences of Threshold-Based Exclusions

Beyond the direct impact on workers, threshold limits have wider economic implications, affecting business growth, labor market efficiency, and overall economic stability. One of the most significant consequences is the "threshold effect," where firms deliberately remain small

⁴⁶ *Bandhua Mukti Morcha v. Union of India*, (1984) 3 SCC 161.

⁴⁷ *Bharat Petroleum Corp. Ltd. v. Maharashtra Gen. Kamgar Union*, (1999) 1 SCC 626.

⁴⁸ The Employees' State Insurance Act, No. 34 of 1948, INDIA CODE (1948).

⁴⁹ *People's Union for Democratic Rights v. Union of India*, (1982) AIR 1473 (India).

to avoid labor law compliance.

Economic studies have shown that businesses near labor law thresholds tend to limit their growth artificially to evade regulatory burdens. In *T.K. Rangarajan v. Government of Tamil Nadu*, the Supreme Court observed that labor laws should encourage business expansion while ensuring fair worker protections.⁵⁰ However, in practice, threshold limits discourage small enterprises from scaling up, as crossing the legal threshold would impose higher compliance costs.

This stagnation effect reduces overall economic productivity, as firms do not invest in workforce expansion, training, or technology upgrades. In countries with universal labor protections, such as Sweden and Germany, businesses face fewer incentives to limit growth artificially, leading to higher productivity and stable employment conditions.⁵¹

Additionally, threshold-based exclusions distort competition by creating unequal regulatory burdens. Larger enterprises, which must comply with full labor regulations, face higher costs than small firms that remain below the legal threshold. This disparity reduces competitiveness in industries dominated by small businesses, discouraging investment and innovation.

Finally, threshold-based labor laws increase economic informality, as businesses seek to evade regulations by operating in the informal sector. The International Labour Organization (ILO) has reported that countries with strict labor law thresholds tend to have higher rates of informal employment.⁵² This informality weakens tax revenues, reduces social security contributions, and limits workers' access to formal credit and financial services.

VI. Reform Proposals and Policy Recommendations

The legal and economic consequences of threshold limits in labor laws demonstrate the urgent need for reform. While these thresholds were initially intended to support small enterprises, they have led to widespread exclusion of workers from fundamental labor protections. To align labor laws with the principles of the welfare state, reforms must focus on eliminating arbitrary exclusions, strengthening collective bargaining, regulating the gig economy, and aligning

⁵⁰ *T.K. Rangarajan v. Gov't of Tamil Nadu*, (2003) 6 SCC 581.

⁵¹ Int'l Labour Org., Decent Work Agenda, <https://www.ilo.org/decentwork>.

⁵² *Id.*

national laws with international labor standards. This section outlines key policy recommendations aimed at creating a more inclusive and equitable labor framework.

A. Eliminating or Redefining Threshold Limits

One of the most effective ways to address the negative consequences of threshold limits is to eliminate or redefine them. Countries such as Denmark and Sweden have successfully implemented universal labor protections, ensuring that all workers, regardless of enterprise size, receive basic legal protections.⁵³ Instead of arbitrarily exempting small businesses, policymakers can adopt scalable compliance requirements, where labor protections apply proportionally based on enterprise capacity rather than being fully waived.

For example, rather than exempting firms with fewer than ten employees from labor laws, governments could introduce a phased compliance model. Under this system:

- Micro-enterprises (1–10 employees) would receive simplified regulatory requirements but still have to provide minimum wages, social security, and workplace safety protections.
- Small enterprises (11–50 employees) would be subject to graduated compliance mechanisms, ensuring that they comply with labor laws but with reduced administrative burdens.
- Medium and large enterprises (51+ employees) would follow full labor law compliance to ensure uniform worker protections.

A differentiated compliance approach would prevent widespread worker exclusion while supporting small enterprises in meeting regulatory requirements. In *Transport and Dock Workers Union v. Mumbai Port Trust*, the Supreme Court of India ruled that economic efficiency should not come at the cost of denying workers fundamental rights, reinforcing the need for more inclusive labor regulations.⁵⁴

B. Strengthening Collective Bargaining and Sectoral Agreements

Expanding collective bargaining mechanisms can help mitigate the impact of threshold-based exclusions. In Germany and Austria, sectoral bargaining frameworks allow unions to negotiate

⁵³ Int'l Labour Org., Decent Work Agenda, <https://www.ilo.org/decentwork>.

⁵⁴ *Transport & Dock Workers Union v. Mumbai Port Trust*, (2010) 2 SCC 437.

industry-wide agreements, ensuring that workers in small firms receive the same protections as those in large enterprises.⁵⁵

In India, however, collective bargaining rights remain weak in small enterprises, where many workers lack union representation. The Trade Unions Act, 1926, allows for union formation, but threshold limits on union recognition make it difficult for workers in micro and small enterprises to negotiate fair wages and benefits.⁵⁶ In *Bangalore Water Supply v. A. Rajappa*, the Supreme Court ruled that even small enterprises engaged in industrial activity must uphold workers' rights to unionize, reinforcing the importance of sectoral bargaining protections.⁵⁷

To strengthen collective bargaining rights:

1. Governments should remove legal barriers that prevent workers in small enterprises from forming unions.
2. Sector-wide agreements should be encouraged, ensuring that workers in all enterprises within an industry receive equal protections.
3. Digital platforms and gig workers should be allowed to form collective associations to negotiate better pay and working conditions.

A robust collective bargaining system would ensure that all workers—regardless of employer size—have access to fair wages, job security, and social benefits.

C. Addressing the Gig Economy and Platform Work

The gig economy has significantly weakened traditional labor protections, as platform companies classify workers as independent contractors rather than employees to evade labor regulations. Courts across the world have begun to challenge this classification, recognizing that gig workers are functionally employees and deserve statutory labor protections.

In *Olga Tellis v. Bombay Municipal Corporation*, the Supreme Court ruled that the right to livelihood is a fundamental right under Article 21 of the Indian Constitution, reinforcing the

⁵⁵ Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* 27 (1990).

⁵⁶ The Trade Unions Act, No. 16 of 1926, INDIA CODE (1926).

⁵⁷ *Bangalore Water Supply v. A. Rajappa*, (1978) 2 SCC 213.

argument that gig workers deserve legal protection.⁵⁸ Similarly, in *Uber BV v. Aslam*, the UK Supreme Court granted gig workers basic labor rights, including minimum wages and paid leave.⁵⁹

To regulate gig and platform work, policymakers should:

- Legally recognize gig workers as employees or introduce a new worker classification that ensures access to minimum wages, health benefits, and job security.
- Require digital platforms to contribute to social security schemes, ensuring that gig workers receive unemployment benefits and pensions.
- Mandate transparent employment contracts, preventing misclassification and exploitative work arrangements.

A strong legal framework for the gig economy would prevent platform companies from using threshold-based exemptions to deny workers their rights.

D. Aligning National Labor Laws with International Standards

Many threshold-based labor laws fail to meet international labor standards, particularly those set by the International Labour Organization (ILO). The ILO's Decent Work Agenda emphasizes that labor rights should be universal, not conditional on enterprise size.⁸ Countries that align their labor laws with these international standards have stronger worker protections and lower levels of economic informality.

In *People's Union for Democratic Rights v. Union of India*, the Supreme Court of India ruled that non-enforcement of labor protections violates fundamental rights, reinforcing the state's duty to ensure universal worker protections.⁶⁰ However, despite judicial acknowledgment of these principles, India's threshold-based labor laws continue to exclude millions of workers.

To align labor laws with international standards, governments should:

1. Ratify and implement key ILO conventions, ensuring that labor laws apply to all workers

⁵⁸ *Olga Tellis v. Bombay Mun. Corp.*, (1986) AIR 180 (India).

⁵⁹ *Uber BV v. Aslam* [2021] UKSC 5.

⁶⁰ Int'l Labour Org., *Decent Work Agenda*, <https://www.ilo.org/decentwork>.

regardless of employer size.

2. Introduce stronger enforcement mechanisms, ensuring that businesses comply with labor protections regardless of workforce size.

3. Adopt best practices from countries with universal labor laws, such as Sweden and Germany, to create more inclusive and effective labor frameworks.

Ensuring compliance with international labor standards would strengthen worker protections and eliminate the loopholes created by threshold-based exclusions.

VII. Conclusion: The Need for Comprehensive Reform in Labor Law Threshold Limits

Threshold limits in labor laws were initially introduced as a means to balance labor protections with economic considerations, particularly for small enterprises. However, as demonstrated throughout this paper, these limits have resulted in systemic exclusions that undermine workers' rights and contradict the principles of the welfare state. The persistence of arbitrary threshold-based exemptions has created a fragmented labor market, where workers employed in small enterprises, the gig economy, and contractual labor remain vulnerable to exploitation, lower wages, and job insecurity. The rise of non-standard employment further exposes the inadequacies of existing labor laws, highlighting the need for immediate and comprehensive legal reforms.

One of the most concerning legal consequences of threshold limits is the inconsistency in labor protections across different categories of workers. Employment security, minimum wages, and social security benefits should be universal, yet workers in small firms are often denied these rights solely based on enterprise size. Employers frequently manipulate workforce structures to remain below legal thresholds, avoiding labor regulations through strategic downsizing, subcontracting, and misclassification of workers as independent contractors. Indian case law, including *All India Bank Employees' Ass'n v. N.I. Tribunal* and *Dharangadhara Chemical Works Ltd. v. State of Saurashtra*, has reaffirmed that labor protections should be determined by the actual nature of work performed rather than by arbitrary classifications. However, legislative loopholes continue to allow businesses to bypass worker protections, leaving millions in precarious employment conditions.

The economic consequences of threshold-based labor laws are equally problematic. Many businesses deliberately limit their workforce size or segment operations to stay below compliance thresholds, leading to economic inefficiencies and inhibiting overall business growth. This phenomenon, often referred to as the “threshold effect,” discourages firms from expanding beyond a certain point due to regulatory concerns. As a result, small enterprises often fail to transition into medium or large businesses, which not only reduces productivity but also limits job creation. In contrast, countries with universal labor protections, such as Sweden and Denmark, experience higher levels of business stability and sustainable economic expansion, as firms do not face artificial incentives to remain small. The International Labour Organization (ILO) has reported that such models lead to lower rates of informal employment, greater economic resilience, and more equitable distribution of labor protections across all workers.

Beyond economic inefficiencies, threshold limits contribute to deepening social inequalities by disproportionately affecting workers in low-wage and informal sectors. Women, migrant laborers, and gig workers are particularly vulnerable, as they are often employed in small enterprises or under contractual arrangements that place them outside the purview of protective labor laws. In cases such as *People’s Union for Democratic Rights v. Union of India*, the Supreme Court ruled that the denial of labor protections based on employment classification violates fundamental rights under Article 21 (Right to Life and Dignity). However, despite this recognition, millions of workers continue to be excluded from legal safeguards, reinforcing economic disparities and deepening social stratification.

Given the severe consequences of threshold limits, comprehensive labor law reform is imperative. One of the most effective solutions is the abolition or redefinition of arbitrary threshold limits to ensure universal labor protections. Instead of full exemptions, policymakers should introduce a graduated compliance model, where labor obligations are proportionate to enterprise size rather than entirely absent. A phased approach could allow micro-enterprises to comply with simplified regulatory requirements while still ensuring that workers receive basic protections such as minimum wages, social security, and workplace safety. Small and medium enterprises could be subject to scalable labor laws, with compliance obligations gradually increasing as the business grows. This approach would prevent regulatory avoidance while ensuring that businesses have the flexibility to expand without being unfairly burdened.

Another crucial aspect of labor law reform is the strengthening of collective bargaining rights. The exclusion of workers from union representation due to enterprise size thresholds has weakened their ability to negotiate fair wages and benefits. Sector-wide collective bargaining frameworks, as seen in Germany and Austria, ensure that all workers within an industry receive equal protections, regardless of their employer's size. In India, the *Bangalore Water Supply v. A. Rajappa* ruling reinforced the right of workers in small enterprises to unionize, yet union recognition remains difficult due to legal barriers. Strengthening collective bargaining mechanisms and removing restrictions on union formation can help address the disparities created by threshold-based exclusions.

The gig economy presents another critical challenge that requires targeted legal interventions. Companies such as Uber, Ola, and Zomato have used classification loopholes to categorize workers as independent contractors, thereby excluding them from minimum wage laws, job security, and social security benefits. The *Uber BV v. Aslam* case in the United Kingdom set an important precedent by ruling that gig workers are entitled to statutory labor protections. Similar reforms are necessary in India, where gig workers remain largely unprotected despite their economic contributions. Courts have recognized the vulnerabilities of gig workers, as seen in *Zomato Delivery Executives Union v. Zomato Ltd.*, where delivery workers argued that they were functionally employees. A legal framework that grants gig workers formal employment rights, mandates social security contributions from platform companies, and ensures transparency in contractual terms is essential to prevent further exploitation in this growing sector.

Finally, national labor laws must align with international labor standards to ensure comprehensive worker protections. The ILO's Decent Work Agenda emphasizes the importance of universal labor rights and calls for the abolition of arbitrary labor law exclusions based on enterprise size. The Supreme Court of India, in *Transport and Dock Workers Union v. Mumbai Port Trust*, recognized the state's duty to ensure equitable labor protections. However, legislative action remains inadequate, and India has yet to fully implement ILO conventions that mandate universal coverage of labor laws. Ratifying and implementing key international labor standards would provide a legal framework to extend protections to all workers and eliminate the disparities created by threshold limits.

In conclusion, the continued reliance on threshold-based exclusions in labor laws is

incompatible with the principles of justice, equality, and economic stability. The arbitrary denial of labor protections based on enterprise size undermines the welfare state's commitment to universal social security and worker rights. Legal and policy reforms must focus on eliminating or redefining threshold limits, strengthening collective bargaining, regulating the gig economy, and ensuring compliance with international labor standards. These changes are essential to creating a more inclusive and equitable labor system that upholds the dignity, rights, and economic security of all workers, regardless of where they are employed. Without decisive reform, threshold-based exclusions will continue to perpetuate exploitation, economic stagnation, and social inequality, ultimately weakening the foundation of labor law protections. It is time for policymakers to prioritize comprehensive labor reforms that reflect the realities of modern employment and fulfill the constitutional and human rights obligations owed to all workers.