Amending Amenables: Labor Law and the Direction of Technical Change in Indian Manufacturing

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ABSTRACT

India's 1982 amendment to the Industrial Disputes Act required firms with 100 or more workers to obtain permission for layoffs and closure, making labor quasi-fixed. Using Annual Survey of Industries data and a difference-in-discontinuities design at the 100-worker threshold, we find treated private firms raised capital intensity by 15% and cut capital productivity by 14% in 1983, with labor productivity unchanged through 1986. The real wage did not move; the cost of adjusting labor did. This is defensive capital deepening: capital-using restructuring without the labor-saving gain of canonical Marx-biased technical change.