

REDESIGNING A MINIMUM WAGE SYSTEM IN INDIA FOR INCLUSIVE GROWTH

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Abstract: Despite India's outstanding growth in the last two decades, low pay and wage inequality remain serious obstacles towards achieving inclusive growth. An effective minimum wage policy that targets the vulnerable bottom rung of wage earners can help in driving up aggregate demand and building and strengthening the middle class, and thus spur a phase of sustainable and inclusive growth. However, the present minimum wage system in India is extremely complex with 1,915 minimum wages defined for various scheduled job categories for unskilled workers across various states. Despite its complex structure and proliferation of scheduled employment over time, the Minimum Wages Act, 1948 does not cover all wage workers. One in every three wage workers in India has fallen through the crack and is not protected by the minimum wage law. Given this situation, this chapter reviews the situation pertaining to minimum wages in India and suggests the way forward for rationalizing and streamlining the policy for minimum wages.

Keywords- *Inclusive growth, Rationalizing And Streamlining, Proliferation, Obstacles.*

INTRODUCTION

Minimum wages for labour rendered has been a feature of society since ancient times. For instance, the famous Indian treatise from 2nd Century BCE, Arthashastra, ordained "the lowest wages for state employees was 60 panas per year for unskilled workers such as servants, guards, valets, palanquin bearers, and labourers." Similarly, the minimum wages for agricultural labourers, watchmen, cowherds and other unskilled workers in the private sector was effectively set at 60 panas a year. In recent years, minimum wage systems have been strengthened by many countries to lift workers out of poverty and to reduce levels of inequality. The renewed interest in minimum wage arises as recent literature and evidence suggests that minimum wages can promote social justice without any major negative implication for employment if wages are set at an adequate level. In the last five years, during a period of global economic slowdown, sluggish global trade and export growth, India's growth story has been powered by private consumption. Therefore, with 93 per cent workers in the informal economy, a well designed minimum wage system can reduce inequalities in incomes, bridge gender gaps in wages and alleviate poverty. Wage levels and distribution of wages are, to a large extent, influenced not only by skills

and productivity levels, but also by the role of labour market institutions, particularly minimum wages and collective bargaining. But for the minimum wage system to play a meaningful role in aligning protection with the promotion of sustainable growth, it must be properly designed, its goals clarified, and its enforcement made effective. However, the minimum wage system in India is extremely complex with a plethora of minimum wages. Given this situation, this chapter reviews the situation pertaining to minimum wages in India and suggests the way forward for rationalising and streamlining the policy for minimum wages.

MINIMUM WAGE SYSTEM IN INDIA

The Indian Constitution has defined a 'living wage' that is the level of income for a worker which will ensure a basic standard of living including good health, dignity, comfort, education and provide for any contingency. However, to keep in mind an industry's capacity to pay the constitution has defined a 'fair wage'. Fair wage is that level of wage that not just maintains a level of employment, but seeks to increase it keeping in perspective the industry's capacity to pay. Due to an unjust attention towards the decades old law it is now exploited by major businesses to underpay their

employees, In public opinion government must set an yearly wage change just like countries internationally do.

The Indian Minimum Wage System has been quite a debated and dynamic issue.

- India was one of the first developing countries to introduce minimum wages with the enactment of the Minimum Wages Act way back in 1948. The Act protects both regular and casual workers. Minimum wage rates are set both by the Central and the State governments for employees working in selected ‘scheduled’ employment². Minimum wages have been set for different categories of workers according to skill levels, location and occupations. The Act did not prescribe norms for fixing the level of the minimum wage. However, it provided for tripartite advisory boards consisting of employers, employees of scheduled employments, and independent persons to advise the Government in fixing minimum wages.
- The Indian Labour Conference (ILC) of 1957 recommended determining the minimum wage based on the principle of a household’s needs.
- In 1988, the Labour Minister’s Conference made recommendations for linking minimum wage with the cost

of living index, which became mandatory in 1991.

- In 1992, the Supreme Court of India ruled that minimum wage should also be linked with aspects such as children’s education, medical requirements etc.

NATIONAL LEVEL MINIMUM WAGE

The idea of a national level minimum wage has been debated since the enactment of the Minimum Wages Act in India. The main argument against a national minimum wage has been the existence of wide disparities in economic development and large variations in cost of living between regions and states. Box 1 portrays the time-line involved in arriving at a National Floor Level Minimum Wage (NFLMW) in India.

COMPLEX MINIMUM WAGE SYSTEM IN INDIA

Over the last 70 years, the minimum wage system in India has expanded and has become complex. The first set of complexities arises from issues relating to its coverage. Today, there are nearly 429 scheduled employments and 1,915 scheduled job categories for unskilled workers. This massive expansion in job categories and wage rates has led to major variations not only across states but also within states.

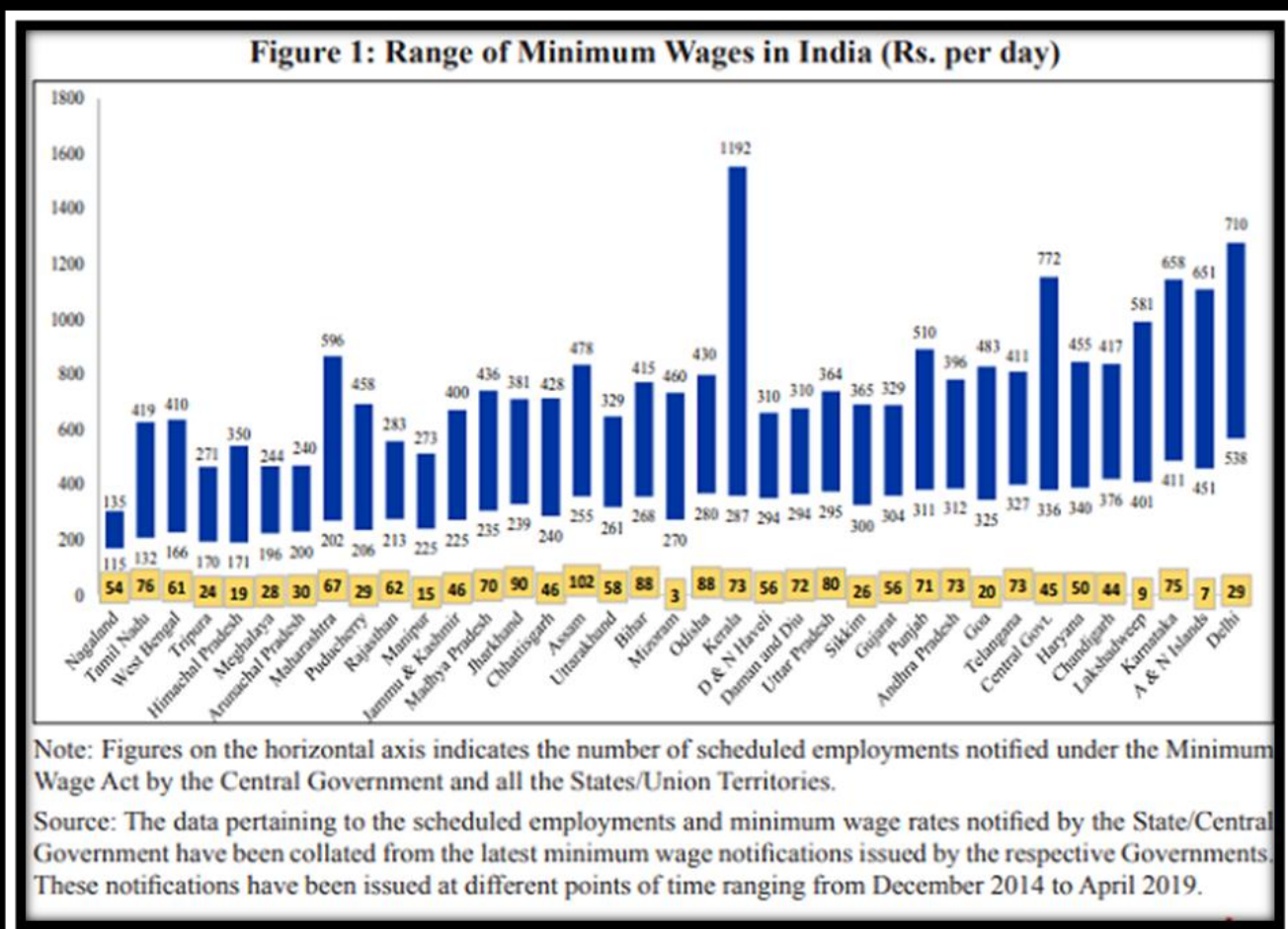


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The variation of scheduled employments and minimum wage rates within and across states is shown in Figure 1. The number of scheduled employments varies from 3 in Mizoram to 102 in Assam with the number of scheduled employments being in the high double digits in most states. Similarly, the notified lowest minimum wage rate (per day) varies from ₹115 in Nagaland to ₹538 in Delhi. The range (difference between highest and lowest minimum wages) in each state varies from ₹16 in Nagaland to ₹905 in Kerala.

The *third set of complexities* arises from the fact that

Minimum Wages Act does not cover all wage workers. One in every three wage workers in India has fallen through the crack and is not protected by the minimum wage law (ILO, 2018). Some major vulnerable categories – such as domestic workers – are presently covered only in 18 States and Union Territories. Further, the revision of minimum wage rates has often been delayed (Anant and Sundaram, 1998). India has taken a number of steps to improve overall coherence, for example, by declaring a national minimum wage floor.



DIFFERENT MINIMUM WAGE ACROSS STATES: IS IT JUSTIFIED?

The main justification for persisting with different levels of minimum wages across states is that they reflect different levels of economic development. In Figure 2, the per capita Net State Domestic Product (NSDP) for 2016-17 is plotted against the most recently notified

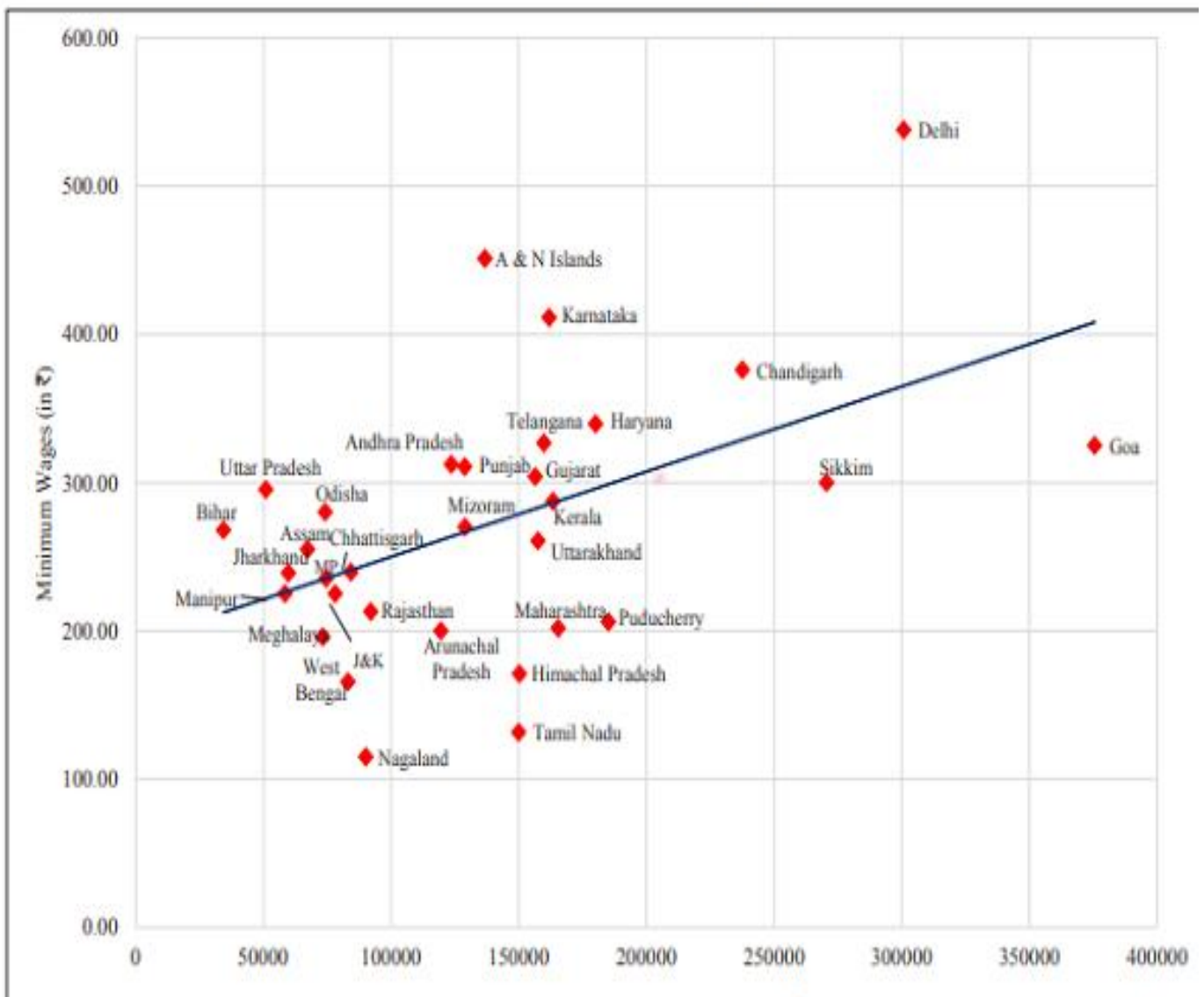
lowest minimum wage rates. Several states are significant outliers with some of the lowest minimum wages for unskilled workers notified by the more advanced and industrialised states and vice versa.

REFLECTION OF GENDER DISCRIMINATION THROUGH MINIMUM WAGE PROVISIONS

While the Minimum Wages Act does not discriminate between women and men, an analysis of minimum wages for different occupations shows persistence of systematic bias. For instance, women dominate in the category of domestic workers while men dominate in the category of

security guards. While both these occupations fall within the category of unskilled workers, the minimum wage rate for domestic workers within a state is consistently lower than that for the minimum wage rates for security guards (Figure 3). Furthermore, the differences in their minimum wage rates are quite large with the minimum wage rates for security guards.

Figure 2: Per Capita Net State Domestic Product 2016-17 (at current prices) and Latest Notified Lowest Minimum Wage Rates in India

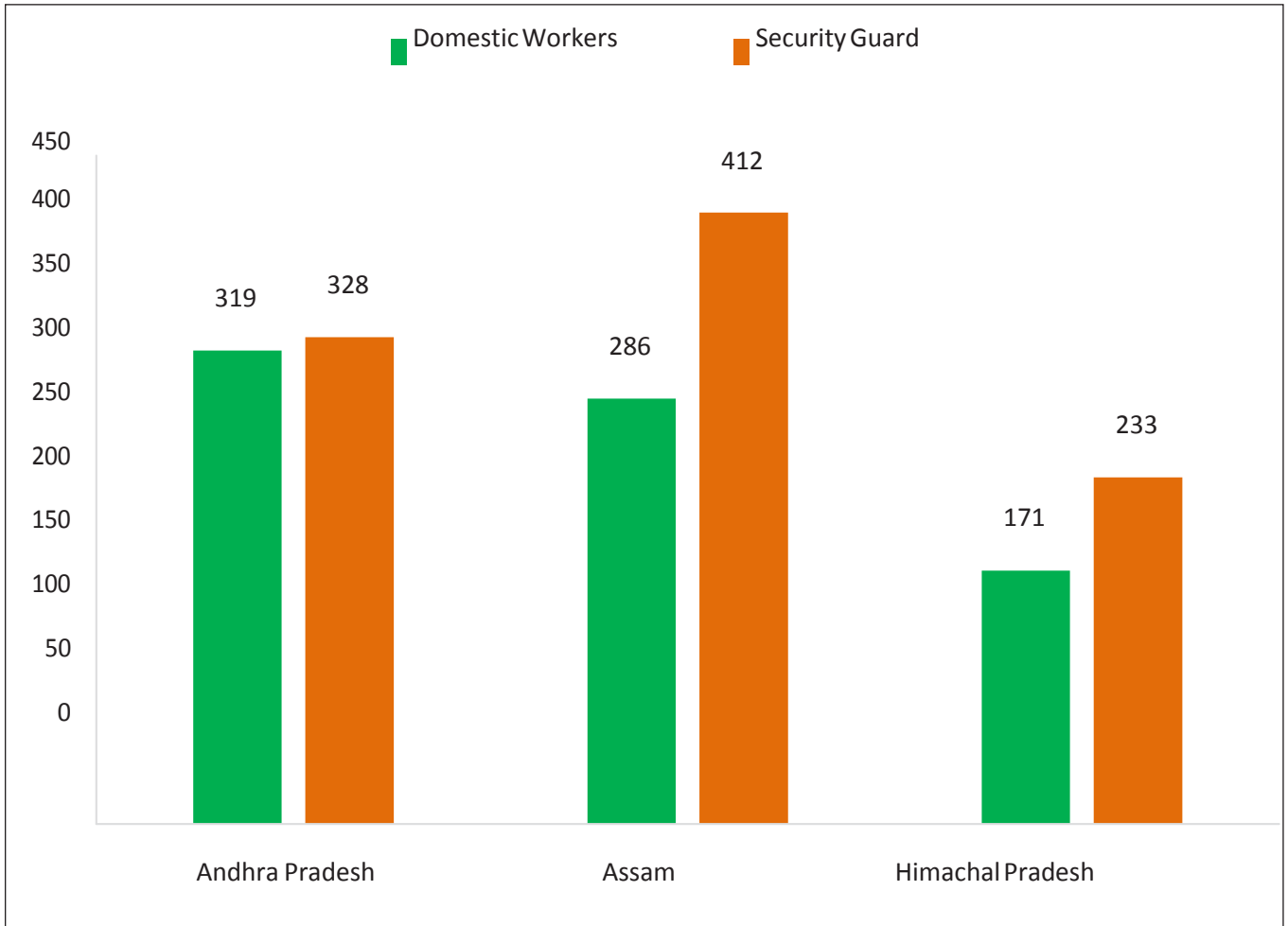


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Source: Per Capita NSDP 2016-17 from CSO. Data pertaining to the lowest minimum wage rates notified by the State/Central Government have been collated from

the latest minimum wage notifications issued by the respective Governments. These notifications have been issued at different points of time ranging from December 2014 to April 2019.

Figure 3: Comparison of Minimum Wages for Domestic Workers (Female Dominated) and Security Guards (Male Dominated)



Source: Based on the latest minimum wage notifications issued by the respective state governments Assam being 44 per cent higher than that for domestic workers. Such large differences can only be attributed to gender bias as is obvious from the disparity across states.

COMPLIANCE WITH THE MINIMUM WAGE ACT






The proliferation of minimum wage rates and scheduled employments is a strong deterrent for compliance.

Different statutory minimum wage rates for the same occupation between states combined with the wide range between the lowest and highest minimum wages can trigger migration of the industry to lower wage regions/state. As the impact of minimum wage levels on employment and poverty depends on the level of compliance and enforcement (Soundararajan, 2014), it is of paramount importance to rationalise the minimum wage policy.

OX 2: MINIMUM WAGE SYSTEM IN BRICS

BRICS countries have varied systems in terms of coverage, degree of tripartite consultation, criteria for setting the minimum wage and adjustment procedure. However, in all these countries, minimum wages are explicitly embedded within a larger wage policy aimed at balancing needs of the workers with overall economic factors.

Table 3: Minimum Wage System in BRICS countries

	 Brazil	 China	 Russia	 South Africa	 India
Coverage	National minimum wage, covering all workers. Regions can also define minimum wages above the national level.	Minimum wage rates are established by province.	Regional minimum wages that coexist with a national minimum wage. The regional minimum wages are fixed above the federal rate.	A national minimum wage was approved in 2018, covering all groups of wage earners.	Minimum wages are limited to Scheduled Employments, diff. skills & occupations.

Consultation	‘Quadripartite commission’ in 2005, composed of federal government, state government, employers and unions, formulates a long-term minimum wage policy - until 2019.	Administrative authorities, in charge of labour issues prepare a programme to fix and adjust minimum wages.	Russian Tripartite Committee- the Employers’ association, trade unions and the Government of the Russian Federation decides.	The tripartite Employment Conditions Commission (ECC) advises the Minister of Labour on the determination of the minimum wage.	Minimum Wages are set through Notification or Consultation, based on the tripartite Advisory Board and Committees set for this purpose.
Criteria	Minimum wage is increased by the sum of inflation in the previous year plus the GDP growth of 2 years before (if >0)	Cost of living of workers and their dependents; the consumption price index; the average wages of workers; labour productivity; the urban economic situation; and the level of economic development.	Regions choose different criteria for their minimum wages but the subsistence minimum is a need-based income level that is the benchmark that guarantees minimum consumption requirements.	Cost of living and minimum living levels, poverty alleviation, wage differentials & inequality, OSH, conditions and level of employment, inflation, GDP, productivity, collective bargaining.	Adopted need-based norms from the 1957, 15th ILC Session and 1992 Supreme Court Judgment
Adjustment	Adjusted on an annual basis	At least every two years, and whenever appropriate when the indicators change.	No specific periodicity	Regular annual adjustment.	Adjusted at least every five years.

Source: ILO, 2018

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However, Menon and Rogers (2017) report a positive effect of minimum wages on employment levels for both men and women. They find that a 10 per cent rise in minimum wages raised the employment level by 6.34 percentage points in rural areas while it had a statistically insignificant impact on urban employment levels for both men and women.

WAY FORWARD

It is evident from above that a well- designed minimum wage system can be a potent tool for protecting workers and alleviating poverty, if set at an appropriate level that ensures compliance. International experience has shown that relatively simple systems are more effective and usually complex systems are least effective. Cunningham (2007) and Ghose (1997) show that a complex system of

minimum wages shows lack of coherence about wage levels and wages being set in an arbitrary fashion. United Kingdom, for example, abolished its system of industry-wide trade boards in the 1980s and replaced it with a simple national minimum wage. This trend is reflected in evolution of ILO standards as well, which earlier encouraged the adoption of a select system of minimum wages to groups of workers who are in a weak bargaining position in the labour market, but later promoted a comprehensive approach that covers as many workers as possible.

Multiple minimum wages usually exist to take care of the needs of a heterogeneous labour force. For example, this is the case in India and the Latin American Countries that have a high diversity of labourers. *Some policy recommendations for an effective design of minimum wages system are as follows:*

Simplification and Rationalisation: Rationalisation of minimum wages as proposed under the Code on Wages Bill needs to be supported. This code amalgamates the Minimum Wages Act, 1948, the Payment of Wages Act, 1936, the Payment of Bonus Act, 1965 and the Equal Remuneration Act, 1976 into a single piece of legislation. The definition of wage in the new legislation should subsume the present situation of 12 different definitions of wages in different Labour Acts.

Setting a National Floor Level Minimum Wage: Central Government should notify a “national floor

minimum wage” that can vary across the five geographical regions (Figure 9). Thereafter, states can fix the minimum wages, which shall not be less than the “floor wage.” This would bring some uniformity in the minimum wages across country and would make all states almost equally attractive from the point of view of labour cost for investment as well as reduce distress migration.

Criteria for setting minimum wage: Further, the Code on Wages Bill should consider fixing minimum wages based on either of the two factors viz; (i) the skill category i.e unskilled, semi-skilled, skilled and highly skilled; and (ii) the geographical region, or else both. This key change

would substantially reduce the number of minimum wages in the country. For instance, Madhya Pradesh has notified minimum wages based on just four skill levels of unskilled, semi- skilled, skilled and highly skilled across occupations and regions. The state has just four basic minimum wages for the four skill categories.

Coverage: The proposed Code on Wages Bill should extend applicability of minimum wages to all employments/ workers in all sectors and should cover both the organized as well as the unorganized sector.

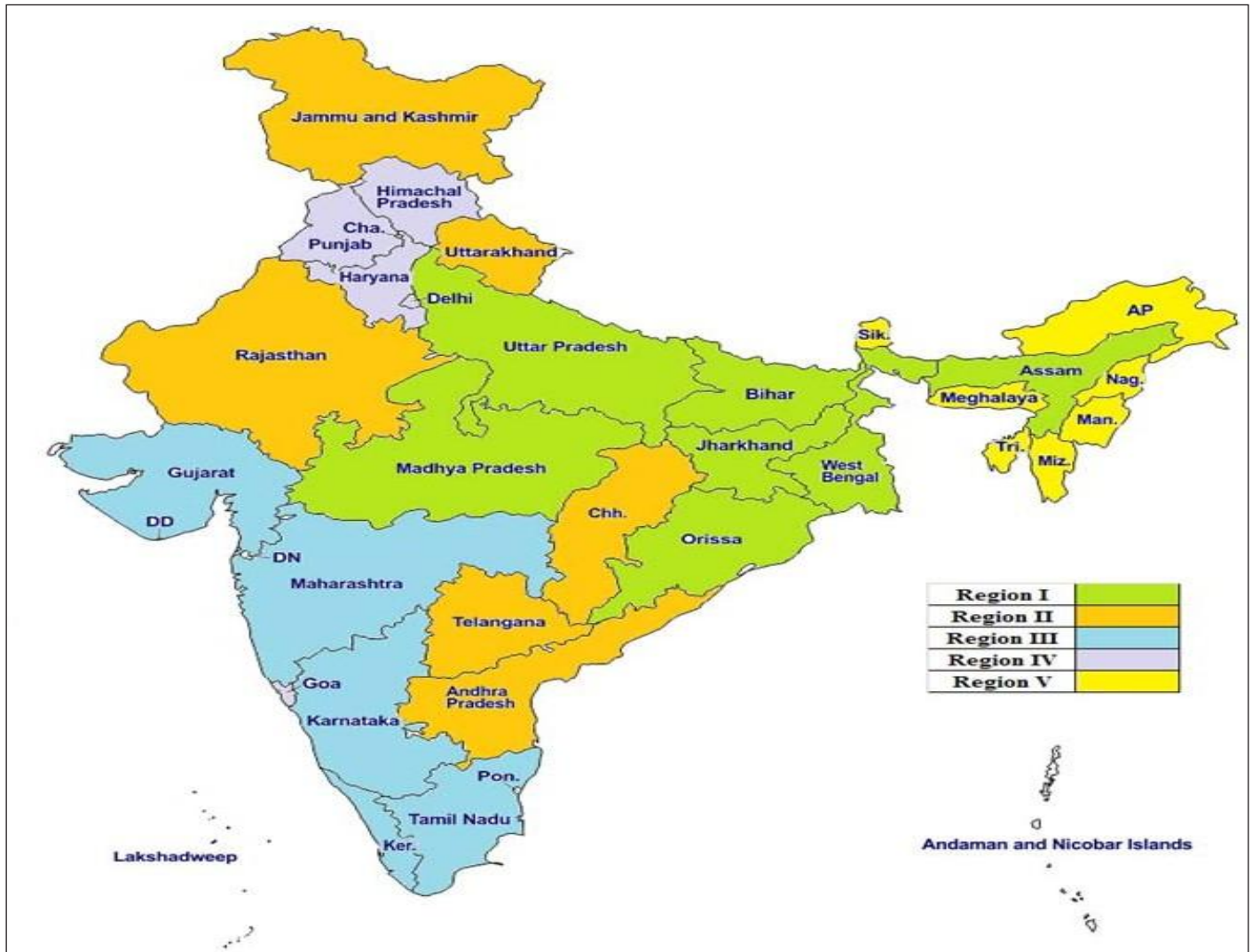
Regular adjustment: A mechanism should be developed to adjust minimum wages regularly and more frequently, similar to countries like Montenegro, Nicaragua, Netherlands, Uruguay, and Costa Rica, where the minimum wage adjustment takes place every six months (ILO, 2014). A dashboard needs to be set up by the Ministry of Labour & Employment, which shows the date of the last revision in the minimum wage adjunct to the mandated period. This would enable dissemination of information and increased transparency in the system.

Role of Technology: The concept of ‘bounded rationality’ in behavioural economics is that there are restrictions to human information processing, due to limits in knowledge (or information) and computational capacities (Kahneman, 2003). A complex system with multiplicity of wages across states and across occupations sets limits on how workers process the information available and use it to their benefit. Technology can help in overcoming this behavioural bias by making information available in a simple and clear manner. Use of a variety of online, mobile phone and networking technologies have the potential to facilitate the

collection and analysis of labour statistics, assist with the dissemination of information about labour laws and policies, reduce costs and improve transparency. A national

level dashboard can be created at the Centre with access to the state governments whereby the states can regularly update the notifications regarding minimum wages.

Figure4: Geographical regions as determined by the Expert Committee on determining the methodology for fixing the National Minimum Wage, 2019



Source: Expert Committee on determining the methodology for fixing the National Minimum Wage, 2019

Grievance Redressal: There should be an easy to remember toll-free number for anybody to register his grievance on non-payments of the statutory minimum wages. This number should be given wide publicity to make people aware of this avenue for grievance redressal. Swift action should

be taken against the offenders and this action should be flashed on the dashboard without going into specific details. The impression of action being taken would act as a deterrent to employers to flout the statute.

AT A GLANCE

The present minimum wage system in India is complex with 1,915 minimum wages defined for various scheduled job categories across various states.

One in every three wage workers in India is not protected by the minimum wage law.

Minimum wages should be fixed for four categories namely, unskilled, semi-skilled, skilled and highly skilled based on the geographical region and should cover all workers, irrespective of any wage ceilings.

A simple, coherent and enforceable Minimum Wage System should be designed with the aid of technology as minimum wages push wages up and reduce wage inequality without significantly affecting employment.

An effective minimum wage policy is a potential tool not only for the protection of low-paid workers but is also an inclusive mechanism for more resilient and sustainable economic development.

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