



Research Brief

An Insight into India's Wage Policies

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LexQuest Foundation is an independent, non-profit research and action organization, striving to develop effective solutions to public policy challenges.

At the core of our vision, is the idea of a proactive citizenry, and to endorse the same, we engage with multiple stakeholders to ensure that policy-making remains a democratic process. We conduct research, training, and consultation for impactful policy formulation and execution, in collaboration with the government as well as private entities.

By employing sustainable and equitable solutions through our multidisciplinary initiatives and programs, we are carving out a consolidated space for legal and policy awareness, deliberation, and implementation, to create empowered communities.

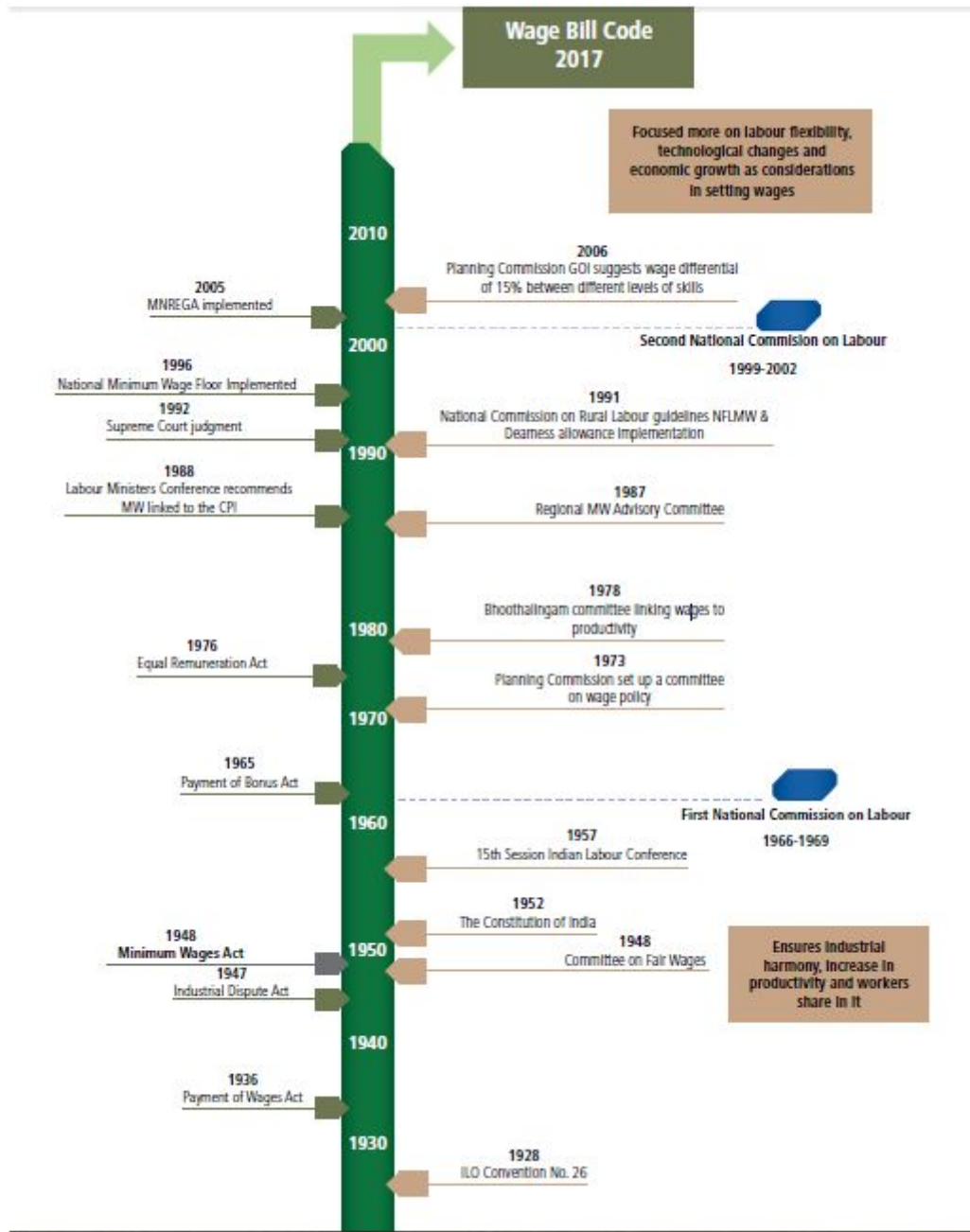


Figure 1: Timeline of Wage Policies in India



Evolution of India's Wages Policies:

India is recognized for its dualist labour sector i.e. the **existence of an organized sector along with the over-populated unorganized sector**. The **unorganized sector constitutes 93% of the workforce in India and contributes more than 50% to the GDP of India**. Therefore determining and regulating the payment of fair as well as minimum wages becomes imperative for a country like India.

In the pre-independence era, **Payment of Wages Act, 1936 was the foremost initiative undertaken by the government to protect the workers from exploitation**. The Act regulates the payment of direct as well as indirect wages to employees. It was framed as a **solution against unauthorized deductions in wages or delay in payment by the employers**. Major stipulations included the following:

- a) Payment should be made before 7th of a month for companies with less than 1000 workers and 10th otherwise,
- b) Payment has to be made in cash but exceptions in the form of cheque or credit to bank account can be made with the consent of the employee in writing and
- c) Employer is allowed to authorize deductions on following issues- fines, damages or loss, recovery of loans or advances and payment to cooperative societies and insurance.

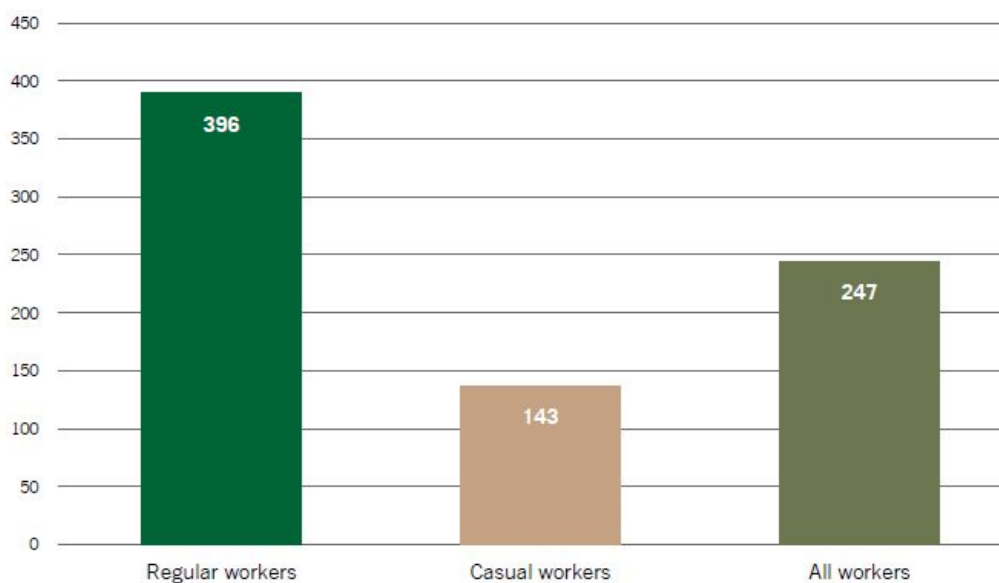
The Payment of Wages Act, however, didn't impact the employees as expected. It **ignored the employees of the informal sector and no proper measure was taken by the government to monitor its effectiveness**. It was also discriminatory in nature as did not apply to employees receiving payment more than Rs.6500 per month.



Due to the dismal condition of the workers' pre-independence, India introduced the **Minimum Wages Act (MWA) in 1948 that empowered the Centre and State governments to fix a minimum wage**. The minimum wage rate is fixed at time rate, piece rate, overtime rate and guaranteed time rate. It applies to

- a) different scheduled employments,
- b) adult (male or female), adolescents and children,
- c) different locations

Variable Dearness Allowance (VDA) which should be linked to the Consumer Price Index, was recommended by Labour Ministers Conference in 1988 and it is adjusted two times in a year. **Ever since, VDA forms an important component of calculating the minimum wages under the Act.**



Source: ILO estimates based on NSSO data.

Figure 2: Average daily wages of regular and casual workers, 2011–12(INR in nominal terms)



Although the MWA looks great on paper, there are several drawbacks therein. Primarily the Act **failed to fix a minimum wage or mention any criteria for fixing the wage rate pan India due to several conditions such as socio-economic, paying capacity, agro-climatic conditions, etc and it affected the unorganized sector severely as workers started getting different wages for the same job.** Failures of State labour departments to revise the wages led the workers into the below poverty category. The Act also ignored the workers from the unorganized sector since the **minimum wages apply only to employments included in the schedule of employment.** These problems were aggravated by the lack of awareness among the workers about the minimum wages and other labour laws.

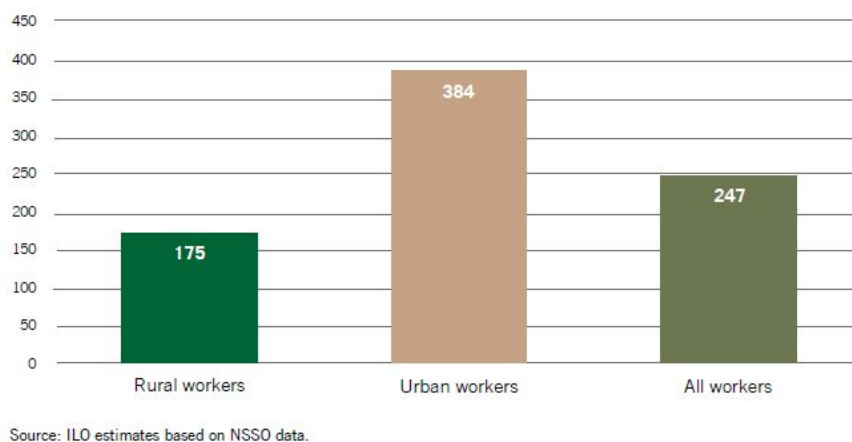


Figure 3: Urban and rural average daily wages, 2011–12 (INR in nominal terms)

The Payment of Bonus Act, 1965 regulates the amount of bonus to be paid to the persons employed in an establishment which have twenty people or more employed on any day during the year. The minimum bonus will be 8.35% of the salary during the accounting year and the maximum bonus will be 20% of the salary during the accounting year. The bonus should be paid in cash within eight months from the end of the accounting year. Another Act adopted to strengthen the labour sector is the



Equal Remuneration Act, 1976, which ensures payment of equal remuneration to men and women and checks on gender discrimination.
Heavy fines are levied on the employers who violate the Act.



Analyzing the Code on Wages, 2019

The **disparity in wages** gave rise to an increased demand from different trade unions and workers from unorganized sector to transform the **obsolete labour laws into more transparent and accountable laws**. This has resulted in the government introducing "Codes on Wages, 2019". It **regulates wages and bonus payments in every type of employment irrespective of industry or business**. Workers from unorganized sector who were earlier neglected from the ambit of minimum wages are now included in the Act. The Act also ensures that employees working for a monthly salary shall get their salary within the 7th of every month, those working on weekly wages shall get the wage within the last day of the week and daily workers shall get their amount on the same day.

The Central government is authorized to fix the floor wage by ascertaining the living conditions of the workers. **It also replaces “type of employment” as a criterion for calculating minimum wage with “geography and skills”**. Floor wages are proposed to vary according to geographical regions and **the minimum wage determined by the Central or State government should be higher than the floor wage**. To ensure transparency and accountability, the Act intends to **restructure the inspection system by introducing a web-based random computerized inspection scheme, jurisdiction free inspections, the composition of fines**, etc. It also prohibits gender discrimination in issues related to wages.

The Code on Wages, 2019 was considered to be a game-changer for the workers in the unorganized sector as it ensures fair wages for them, however, it turned out to be an Act with many flaws that offer mixed results. The **starvation wages which are currently only Rs.178 per day will continue to exist through the concept of the living wage**. Living wage covers food, clothing, and housing but ignores "Need-Based Minimum Wage" (covering nutrition, health care,



education, housing and provisions for old age) proposed by the Supreme Court. This concept will compel the workers to work at less than minimum wages in inhuman conditions. Another flaw of the Act is the **provision for arbitrary deduction of salary which can be upto 50% of monthly salary based on performance, damage or loss, advances, and loans.** This provision **gives employers more authority to force employees to work in exploitative conditions and curtails their bargaining power.** Conferring authority to fix the number of working hours to the government is a bit of an unexpected move. **Instead of standard working hours, it is likely to fix different working hours across the country.**

The Code proposes a three-tier minimum wage system- National minimum wage, Regional or Zonal minimum wage and State-level minimum wage. This type of minimum wage system can become problematic as it **paves the way for different minimum wage rates which can generate unnecessary complications.** While the **Equal Remuneration Act, 1976 prohibits discrimination in terms of wages, recruitment, and conditions of service, the new Code ignores the latter two provisions. This violates gender equality provided for under our Constitution.** Moreover, the digital mode of payment to labour has a good chance to be a failure in rural areas due to lack of digital infrastructure and awareness amongst the labourers. The government should concentrate on developing adequate infrastructure before implementing such rules. The nominal representation of the trade unions in the wage-fixing committee is worrisome. They are the major stakeholders and their input is essential for fixing the minimum wage.

The initiative from the government to replace the obsolete labour laws can indeed strengthen the labour system and its ripple effect can be discerned in the economy in the long run. Several modifications are needed for its successful functioning. Primarily, it should be **simpler to have a two-tier system- Centre and State level in fixing the wages.** In the era of women empowerment, it is **necessary to**



bring prohibition of discrimination on recruitment and condition of services. The government should ensure that proper infrastructure facilities such as internet connectivity, net banking, etc are provided before the implementation of the code. More trade unions should be included in the national and regional meetings and their problems should be duly addressed. The **success of the “Code on Wages” will depend on the degree to which various stakeholders pledge their support and implement it efficiently to incorporate millions of neglected workers from the unorganized sector.**



Scope of a National Minimum Wage in India

Minimum wages are globally accepted as an effective tool to combat poverty as well as for the smooth functioning of a country's economy. The primary intent of minimum wages is to ensure protection of workers against unfair pays and facilitate reducing wage inequality. According to the International Labour Organization, “minimum wages are defined as the **minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period**, which cannot be reduced by collective agreement or an individual contract”.

National Minimum Wage is vital for a developing economy such as India as it can keep a check on inequality and poverty by increasing the income of the workers. **Higher wages induce the labourers to perform more which will be reflected in labour productivity.** This is beneficial to both labour force and employers. On one hand, higher minimum wages can increase the efficiency among the workers and on the other hand, increased productivity encourages firms to invest more leading to higher employment. It also reduces the chances of exploitation of the labour force. amin

The government should not only concentrate on fixing the minimum wage but also on revising the wage regularly at par with inflation. For instance, the primary reason for the success of the minimum wage system in countries such as the Netherlands and Ireland is because they revise the wages every six months.

In India, the **national minimum wage is necessary for providing a base for the States to fix their respective rates that may differ according to socio-economic conditions.** Taking into account the nutrition intake, housing cost, health and education, the Committee appointed by the **Union Labour Ministry in 2019 proposed a national wage at INR 375 per day. Although**



this seems like a comprehensive minimum wage, insistence by the government to exclude the recommendation of the Committee and fix the minimum wage at INR 178 in the Code will have a negative impact on the workforce. Initially, the **variation in the wage rate as suggested by the Code can result in the migration of workers to places with higher minimum wages and no immediate result can be expected by the government to overcome this scenario.** The efficient enforcement of minimum wage across India **can drop the rural-urban migration and inter-state migration in the long run.** There are however, possibilities of retaliation from the firms in the form of hiring fewer workers or firing workers to meet their profit margins. The government can intervene by providing flexibility in labour contracts. **Laws can be amended to allow for an intermediate contract where workers gain rights steadily overtime of employment but do not have to be made permanent.** This system widely followed in Western countries impart firms with benefits such as flexibility, lower chances of protests from trade unions, etc. The employers in unorganized sector, particularly the agricultural sector can be provided relief from higher minimum wages by ensuring easier access to inputs like seeds, technology, power, finance and insurance. The success of minimum wage will depend on primarily two aspects- enforceability of the wages and its collaboration with other policies of the government.



Concluding Remarks

India's predicament to minimum wages is apparent. The government's intent to strengthen the minimum wage policies through the "Codes on Wages", 2019 is noteworthy, but it fails to uplift the lives of the workforce as desired. Through the analysis of various wage policies of India, we can point out two **major drawbacks** in our present policies. One, **lack of coordination among State and Central government and two, lack of rigour on enforcement**. Resolving these issues are imperative for the workforce to reap the benefits of India's growing economy. For efficient enforcement, structural reforms in each sector are necessary as it will help employers to adapt to the changes in minimum wage policies.



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