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REVIEW OF WAGES & WAGE POLICY

12.130 Our terms of reference make only a tangential and incidental reference to the question of wages and productivity. They do not form part of the central focus of the task that has been entrusted to us. Even so, it cannot be denied that wages and productivity are among the central concerns of workers as well as entrepreneurs. One seeks employment so that one can attain a 'decent' or dignified standard of living. The wage or income that one obtains from one's work is therefore, what enables one to achieve a fair standard of living. One seeks a fair wage both to fulfil one's basic needs and to feel reassured that one receives a fair portion of the wealth that one works to generate for society. Society, in its turn, feels that it has a duty to ensure a fair wage to every worker, to ward off starvation and poverty, to promote the growth of human resources, and to ensure social justice without which continuous threats to law and order may undermine economic progress.

12.131 But the resources to pay

wages have also to be created. They have to come from the economic viability and profit of undertakings. So those who run undertakings are concerned with their capacity to pay the wages that are considered to be fair both in terms of individual needs and the social responsibility to citizens.

12.132 Our Constitution accepts the responsibility of the state to create an economic order in which every citizen finds employment and receives a 'fair wage'. One of the earliest decisions taken by the government of free India was to set up a Committee to define a fair wage, and indicate the economic and legal means for ensuring a fair wage to every employed citizen. An examination of this question established the integral relation between the quantum of the fair wage and the capacity to pay the wage, and the need to balance and constantly upgrade both to ensure a fair standard of life, social security and social justice.

12.133 Ever since then, we have made many attempts to define the concept of a fair wage, a minimum wage, a floor wage, and a living wage. We have also tried to identify

how far the capacity to pay can be allowed to determine the minimum wage, and at what point the capacity to pay should be taken into account and should be regarded as the main determinant. The meandering progress that we have made is reflected in the reports of Committees, Conferences, Commissions, and Judgments of the Supreme Court. They can also be traced to the Fundamental Rights and Directive Principles specified in our Constitution and the International Conventions we have accepted or ratified. We will therefore, begin our observations with a review of the thinking and legislation on wages in our country, and the ideas and attempts at making wage differentials more equitable.

A Brief History of Wages

12.134 As early as in the year 1860, Government of India passed the Employers' and Workmen's (Disputes) Act. This Act was an enabling measure and was designed to secure settlement of wage disputes by magistrates summarily. Along with this it also provided for penal sanctions for breaches of contract by workers. In the year 1929, the Royal Commission on Labour found that the Act had

ceased to be used. The Government therefore, repealed the Act in 1932.

12.135 Legislation for the settlement of industrial disputes including the setting up of Wage Boards was the subject of investigation by the Governments of Bengal and Bombay in 1921 and 1922, and the Government of India prepared a Bill on such disputes in 1924. However, the Indian Trade Disputes Act 1929 provided for setting up Courts of Inquiry and Boards of Conciliation for the settlement of industrial disputes. Some provincial Governments assumed statutory powers to intervene in labour management disputes and established machinery to bring both labour and management together to settle such disputes. These developments made a significant contribution towards the evolution of a wage policy aimed at protecting wages. The first direct step in this regard was taken in 1936, when the Payment of Wages Act was passed.

12.136 With the commencement of the Second World War, the Government assumed more powers under the Defence of India Rules to ensure uninterrupted industrial

production. Rule 81A of the Defence of India Rules issued in January 1942 gave Government wide powers to make rules or issue special orders to restrain strikes and lockouts and to refer any dispute including wage disputes to conciliation or adjudication. The broad features of these measures were later incorporated in the Industrial Disputes Act of 1947 and agencies like Conciliation Officers, Industrial Tribunals, Labour Courts etc. were set up by the Government to promote the settlement of industrial disputes.

12.137 In September 1946, the Interim Government announced a five-year programme of legislative and administrative action in the field which included:

1. Statutory prescription of minimum wages in sweated industries,
2. Standardisation of wages and occupational terms in all major industries and the determination of differentials in wage rates as between various occupations in an industry, and
3. Promotion of "fair wage" agreements wherever possible

with due regard to the capacity of the industry to pay.

12.138 In December 1947, the Government convened a tripartite conference at which an Industrial Truce Resolution was adopted unanimously. The object of the Resolution was to devise measures to arrest rapidly deteriorating relations between labour and management and to increase industrial production. According to this Resolution, "the system of remuneration to capital as well as labour must be so devised that while in the interest of the consumers and primary producers, excessive profits should be prevented by suitable measures of taxation and otherwise, both will share the product of their common effort after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserve for the maintenance and expansion of the undertakings".

12.139 The Industrial Policy Resolution announced on 6th April 1948 emphasised (1) fixation of statutory minimum wages in sweated industries and (2) promotion of fair wage agreements in the more organised industries.

12.140 This made it necessary to quantify or lay down clear criteria to identify a fair wage. Therefore, the Central Advisory Council in its first session (November 1948) appointed a Tripartite Committee on Fair Wages consisting of representatives of employers, employees and Government to enquire into and report on the subject of fair wages to labour.

Committee on Fair Wages

12.141 The Committee on Fair Wages defined three different levels of wages viz; living wage, fair wage and minimum wage.

12.142 The Committee felt that the living wage should enable the worker to provide for himself and his family not merely the basic essentials of food, clothing and shelter but a measure of frugal comfort including education for children, protection against ill health, requirements of essential social needs and a measure of insurance against more important misfortunes including old age. The Committee was not sure how it could aim at or approach this standard in the prevailing economic conditions. It, therefore, analysed the basis for fixing a minimum wage, and came

to the conclusion that a living wage should be the target. Even in advanced countries the general level of wages and the capacity of the industry to pay had been considered relevant. In India, the level of the national income was so low that it was generally accepted that the country could not afford to prescribe by law a minimum wage which would correspond to the concept of the living wage described in the preceding paragraphs. Taking Indian conditions into consideration, the Committee was of the view that a minimum wage must provide not 'merely for the bare sustenance of life, but for the preservation of the efficiency of the worker'. For this purpose the minimum wage must also provide for some measure of education, medical requirements and amenities. It further observed that its members were unanimous that the fair wage should on no account be less than the minimum wage. It also observed that while the lower limits of the fair wage must obviously be the minimum wage the upper limit should be set by what may broadly be called the capacity of industry to pay. This would depend not only on the present economic position of the industry but also on its future prospects. The Committee

further recalled that between these two limits the actual wages should depend on a consideration of the following factors:

- a. the productivity of labour;
- b. the prevailing rates of wages in the same or similar occupations in the same or neighbouring localities;
- c. the level of the national income and its distribution; and
- d. the place of the industry in the economy of the country.

12.143 It then went on to consider the first item, that is, productivity of labour. It observed that in India collective bargaining had not so far been a potent factor in the determination of wages. That being so it was more than likely that at least in certain occupations and industries the workers were getting a wage lower than the value of their marginal net product. It also observed that the awards of industrial tribunals and courts had made only a casual reference to the productivity of labour. In deciding upon a minimum wage, tribunals and courts had largely been guided by considerations of the minimum needs of workers and of the capacity of industry to pay. It was

therefore of the view that the wage fixing machinery should relate to a fair wage, a fair rate of work and that in case of doubt whether the existing work-load was reasonable or not proper, time and motion studies should be instituted on a scientific basis.

12.144 As regards the prevailing rates of wages, its observations were that, while prevailing rates of wages fixed as a result of proper collective bargaining would bear a close approximation to fair wages and should, therefore, be taken into account in fixing fair wages, the same could not be said of prevailing wages resulting from unequal bargaining. The wage fixing machinery should therefore make due allowance for any distortion of wages caused by unequal bargaining.

12.145 It then referred to the question of the capacity of the industry to pay. It first observed that the capacity would mean one of three things, viz. (1) the capacity of a particular unit (marginal, representative or average) to pay; (2) the capacity of a particular industry as a whole to pay; or (3) the capacity of all industries in the country to pay.

Ideas on this subject have varied from country to country. The Committee was, however, of the opinion that capacity should not be measured in terms of the individual establishment, but the main criterion should be the profit-making capacity of the industry in the whole province. The Fair Wages Committee was of the view that in determining the capacity of the industry to pay, it would be wrong to go by the capacity of a particular unit or the capacity of all the industries in the country. The relevant criterion should be the capacity of a particular industry in a specified region, and as far as possible the same wages should be prescribed for all units of the industry in that region.

12.146 As regards the measure of the capacity, there were two points of view in the Committee itself. One view was that the wage fixing machinery should, in determining the capacity of the industry to pay, have regard to: (1) a fair return on capital and remuneration to management; and (2) a fair allocation to reserves and depreciation so as to keep the industry in a healthy condition. The other view was that the fair wage must be paid at any cost, and that industry must go on paying such a wage as long as it does

not encroach on the capital to pay that wage. The Committee was of the view that the main objective of the fixation of fair wages should not be lost sight of. The objective was not merely to determine wages which are fair in the abstract, but to see that employment at the existing levels is not only maintained but if possible increased. From this point of view, it will be clear that the level of wages should be such as enables the industry to maintain production with efficiency. The Committee, therefore, recommended that the capacity of the industry to pay should be assessed by the wage board in the light of this very important consideration. The wage board should also be charged with the duty of seeing that the fair wages fixed for any particular industry are not very much out of line with wages in other industries in the region because wide disparities would inevitably lead to movement of labour and consequent industrial unrest not only in the industry concerned but in other industries as well.

12.147 The Committee then considered the classes of workers for whom, and industries in regard to which, fair wages should be determined. It came to the conclusion

that in the initial stages, in view of administrative and other difficulties, provision needed to be made for the fixation of fair wages of only categories up to the supervisory level. The Committee observed that in the written evidence received by them, there was unanimity of opinion that fair wages should be determined on an industry-cum-region basis. The Committee supported that view since it felt that it would not be feasible to fix wages on any other basis.

12.148 The Committee then identified the criteria that had to be considered in fixing wage differentials as:

1. the degree of skill,
2. the strain of work,
3. the experience involved,
4. the training required,
5. the responsibility undertaken,
6. the mental and physical requirements,
7. the disagreeableness of the task,
8. the hazard attendant on the work, and
9. the fatigue involved.

12.149 The Committee was of the view that the wage fixing authorities should carefully go into the question of wage differentials after deciding on the weight to be attached to each of the above factors. It felt that it was not possible to advise the wage fixing machinery on what weight should be attached to each factor, as it was a matter that would have to be evolved gradually on the basis of experience. The Committee also suggested that the wage board should try to evolve standard occupational nomenclature so that the work of classifying and assessing may be undertaken on a uniform basis throughout the country.

12.150 We have dealt in detail about the report of this Committee because it has influenced the principles of wage fixation, the form of wage fixation machinery and other matters for a long time. The judiciary too has evolved many principles of wage fixation basing themselves on the criteria prescribed by this Committee.

Setting up of Wage Boards

12.151 The First and Second Five Year Plans gave importance to (1) laying down principles for bringing wages in conformity with the

aspirations of the working class and (2) setting up an appropriate machinery for the application of these principles. According to them, the existing machinery for the settlement of disputes, namely the Industrial Tribunals, had not succeeded in giving full satisfaction to the parties and, therefore, they recommended authorities like Tripartite Wage Boards consisting of equal representatives of employers and workers and an independent Chairman. Accordingly, Wage Boards were set up for the following sectors: cotton textile industry, jute, plantations, mines, engineering, iron and steel, chemicals, sugar, cement, railways, posts and telegraphs, ports and docks etc.

12.152 For quite some time, these Wage Boards determined the wages and other remuneration to be given to the workers in these industries. Thus wage bargaining mostly took place at the industry level, and through Government controlled wage boards. Since there were not much regional variations, this system worked well for quite some time.

12.153 In 1973 and 1978, Indian economy suffered two oil shocks. During these years the actual growth

rates of industrial production fell far below the plan targets; unemployment rates doubled, new forms of workers' protests such as hartal, go-slow and gherao emerged. The number of strikes and the number of mandays lost increased considerably. This culminated into an all India Railway Strike in May 1974 that paralysed the entire economy.

12.154 This period also saw the growth of independent plant based militant unions without any political affiliations. In order to share the monopoly gains of an industrial unit and productivity increases as a result of technological changes, such unions were organised on unit basis, and through their militancy, they were successful in obtaining much higher wages and other facilities for the workers. Slowly industry-wise wage boards and wage settlements took a back seat, and company-wise negotiations and wage settlements emerged.

12.155 Though there are many principles that are taken into consideration in wage determination in the unit-based bargaining system, the two main principles are: first, the capacity of the industrial unit to pay,

and second, the bargaining strength of the trade union to negotiate with the management.

Sectoral Bargaining at the National Level

12.156 As has been said earlier, prior to the 1970s, Wage Boards appointed by the Government gave awards on wages and working conditions. The number of Wage Boards declined from 19 in the late 1960s to two (one for journalists and other for non-journalist newspaper employees) in the late 1990s. Since the early 1970s sectoral bargaining at the national level has been occurring mainly in industries in which the government was the dominant player. These included banks and coal, steel and ports and docks. Fifty eight private, public and multinational banks are members of the Indian Banks' Association. They negotiate long-term settlements with the All India Federations of Bank Employees. There is one national agreement for the entire coal industry. In steel, there is a permanent bipartite committee for integrated steel mills in the public and private sectors. Since 1969, this Committee, called the National Joint Consultative Committee

for Steel Industry (NJCS), has signed six long-term settlements. The 11 major ports in the country have formed the Indian Ports' Association. They hold negotiations with the industrial federations of the major national trade union centres in the country.

12.157 A feature of national-level sectoral bargaining is the presence of a single employer body and the involvement of the concerned administrative ministry from the employers' side. In many sectors, two to five major national centres of trade unions, which have a major presence through their respective industry federations of workers' organisations, negotiate. In banks, coal and ports and docks, often agreements have been preceded by strikes or threats of strike. It is only in the steel industry that this has not happened during the past 29 years. Even though industry-wide bargaining is not extended to the oil sector, which was nationalised in the 1970s, the oil coordination committees achieve a great deal of standardisation in pay and service conditions even if collective bargaining occurs at the firm and/or plant level (for instance,

Hindustan Petroleum Corporation Limited). Agreements in banking and coal covered 8,00,000 workers each while those in steel and ports and docks covered 2,50,000 workers each.¹

Wage Policy – Theory and Various Issues

12.158 Wage policies have engaged the attention of politicians, administrators, and academic analysts for many years now. We have the classical theory of wages, insider-outsider models, and the efficiency wage theory - that have emerged in the USA, and quite a few other models and theories. Perhaps it is also possible to visualise other criteria and models. But we have not gone into the advantages and disadvantages or compulsions of all these theories because we feel that a self-contained and detailed discussion of all these are beyond the terms of reference of our Commission. We have suggested elsewhere that the

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¹ Dr. C.S. Venkatratnam: Collective Bargaining: A response to adjustment process and Restructuring in India 2002, a study sponsored by the Planning Commission, Government of India

Government should appoint a high level committee with technically competent people including economists, trade unionists, entrepreneurs, consumers, and establishments to go into all aspects of the inter-related questions and to formulate a national wage policy. It should have been done much earlier in view of the commitments in our Constitution and the Conventions we have accepted. The need has become all the more important in the light of the new circumstances and changed factors that have emerged with globalisation and new technology.

Growth in Inequality of Wages and Earnings

12.159 There is increasing inequality in the labour market, and wage differentials present among various groups and various sectors of the economy. There are large inter-industry and intra-industry wage differentials. In different sectors of the economy, a worker will be paid differently though he may be doing the same kind of job. Even in the same industry, different units may pay different wages for the worker who is having the same measurable skills. First the differentials are found across

occupations: the firms that pay professionals a premium over the market average also pay less skilled workers a premium over the average in their occupations. Second, these differentials have a strong tendency to persist over time, industries that pay premia in one period tend to be found paying them in later periods.

12.160 Different areas of wage employment will have different wage levels and we have to recognise this fact. We have the modern capital intensive organised sector of IT industry, petro-chemicals, pharmaceuticals, etc., where wages and other allowances are likely to be more attractive than in small-scale industry and other traditional labour-intensive sectors such as the unorganised urban and rural sector and agriculture. Though our efforts should be to reduce these wage differentials and introduce some sort of standardisation, as the matter stands today, it is practically very difficult and these differences in earnings of the workers in different sectors of industry are likely to continue. Much depends upon the capacity to pay and profitability of these sectors. Any wage policy will have to take these factors into consideration.

Rise in Real Wages

12.161 A wage policy will also have to aim at a progressive rise in real wages. Wage increases can come on account of increase in cost of living and improvement in standard of living. As a result of increase in prices, there is an erosion in the wage levels in real terms, and in order to prevent such an erosion, dearness allowance is paid and it is linked to the consumer price index. There are various methods of linking the consumer price index with the dearness allowance and determining the extent of neutralisation of price rise through payment of D. A. Some enterprises pay a fixed dearness allowance and also a variable dearness allowance linked to the consumer price index. Some pay dearness allowance only linked to the consumer price index. The extent of neutralisation also differs from organisation to organisation.

12.162 In 1978, Government of India appointed a Committee on Consumer Price Index Numbers under the chairmanship of Dr. N. Rath. After examining the method of constructing consumer price index numbers that was being followed at that time by the

Labour Bureau, Shimla, the Committee made a number of suggestions regarding collection of information for constructing index numbers, the number of centres to be covered, coverage of workers, sample size design for family living surveys, selection of commodities, linking factors, etc. We are told that based on the recommendations of this Committee, the series were suitably revised.

12.163 The present series of consumer price index for industrial workers for 70 centres, all India and 6 additional centres (on the base year 1982 = 100) is based on the working class family income and expenditure surveys conducted during 1981-82. These series were released w.e.f October 1988 index. As per ILO Recommendation (Recommendation No. 170 vis-à-vis Convention No. 160 ratified by India in 1992) the Household Expenditure Surveys should be conducted at least once in every ten years. But the work was delayed because of the delay in sanctioning the scheme. Now in 1999 - 2000, the surveys have been conducted at 78 centres by the Labour Bureau, Shimla through the NSSO. On the basis of this survey, new series

are likely to be released in 2003. Thus there is a considerable delay in conducting the survey and in constructing the new series of index numbers.

12.164 Therefore, the very purpose of linking dearness allowance to the price index is lost. This is because the consumption pattern of the population undergoes changes, many varieties of items go out of the market and prices for them are not available, some items become obsolete, and since the index numbers have an upward bias, the employers have to pay higher dearness allowance than is necessary.

12.165 Therefore, it is necessary that the consumption surveys are conducted with fixed periodicity and new series of index numbers are constructed every ten years. A suggestion has been made that there should be a separate legislation to ensure that new index series are undertaken on the basis of fixed time schedules. For this provision has to be made for necessary resources, staff components, cooperation from NSSO and State Governments etc. The Commission endorses this suggestion and would request the Ministry of Labour to move in the matter.

12.166 Apart from the organised sector, dearness allowance is also paid to workers in the unorganised sector as a part of minimum wages. Their dearness allowance is revised every six months depending upon the movement of index numbers. This is how erosion in the purchasing power of workers in the unorganised sector is prevented. For them too, it is necessary to assure revision of consumer price index at fixed time intervals.

Wages in the Unorganised Sector

12.167 If one is considering the problem of a wage policy from the point of view of the national economy, one cannot restrict one's vision only to the organised sector. A national wage policy must bring within its purview problems of workers in the unorganised sectors who are not unionised and therefore who have no bargaining strength. In fact the entire emphasis of Government wage policy should be on fixing minimum wages and implementing them for the workers in the unorganised sector. Fixing a national minimum wage, fixing minimum wages for different jobs in the unorganised sector, revising these wages periodically, linking them

to dearness allowance in order to prevent erosion in real wages and the like assume much significance in this context. Government has to set up a proper machinery for fixing these wages and also ensuring that they are paid.

Objectives of a Rational Wage Policy

12.168 What can be the objectives of a rational wage policy? There are many objectives, and we have to isolate and discuss them separately.

- a) Do we need a national minimum wage in order to ensure that those who are employed in any region or in any sector of the economy are assured of a minimum income that can buy minimum necessities of life for them?
- b) Do we need a wage policy under which we have to secure as much employment as possible? Is it necessary to have a poverty level low wage for this purpose?
- c) Do we need a wage policy as part of a total anti-poverty programme in which our goal is to remove poverty of the bottom

classes of our society through the use of employment at a level of wages which removes such poverty?

- d) Do we want to remove the differentials of wages of workers in the organised sectors, and between the organised and the unorganised sectors? Is it possible to do so?
- e) Is it possible to standardise wages in the same type of industry? Should we attempt to do so?
- f) Should we give more emphasis on prescribing wages for the unorganised sector, and leave the wages in the organised sector to be decided by collective bargaining?
- g) What can we do to ensure at least a minimum income to the workers in the unorganised sector?
- h) Can the wage rise be linked to increase in productivity?
- i) Can we have a wages, incomes and prices policy? What is the practical shape it can take, and what will be the machinery to enforce it?

National Minimum Wage

12.169 Various Committees and Commissions have discussed the necessity of introducing the concept of a national minimum wage below which no employer should be allowed to engage any worker in the country. The advocates of a national minimum wage claim that such a minimum would have more extensive coverage, and would make implementation easier and effective because of its simplicity and applicability to all types of employments in all parts of the country.

Recommendations of the First National Commission on Labour

12.170 The First National Commission on Labour discussed this issue and came to the conclusion that "a national minimum wage in the sense of a uniform minimum monetary remuneration for the country as a whole is neither feasible nor desirable. If one is fixed, the dangers are that there will be areas which will not afford the minimum if the minimum is worked out somewhat optimistically. And if calculations are allowed to be influenced by what a poorer region or industry can pay, the

national minimum will not be worth enforcing”.

12.171 The Commission also pointed out the difficulties in constructing a national minimum wage because of the large variations in consumption patterns of persons in different regions, the wide variety of items used by them, regional price variations and so on. In view of these, the Commission suggested that in different homogeneous regions in each state regional minima could be notified. The Commission recommended fixation of such regional minima in view of the wide variation in rates of minimum wages fixed under the Act even within a small geographical region.

Recommendations of the Bhoothlingam Committee

12.172 Government of India set up a Study Group on Wages, Incomes and Prices, popularly known as the Bhoothlingam Committee in 1977. The Committee gave its report to the Government in 1978. This Committee did not agree with the recommendations of First National Labour Commission, and said that “in our view, the real minimum wage can

only be the absolute national minimum, irrespective of sectors, regions or States below which no employment would be permitted”. This Group also observed that in determining such a national minimum wage, several considerations had to be kept in view and it had to be consistent with factors like (a) the per capita national income adjusted after applying the participation rate (b) average national income per consumption unit and (c) per capita rural consumption expenditure. It could not also deviate too much from prevalent earnings in the small-scale sector and its impact must not be such as to inhibit the generation of employment. It recommended that the national minimum wage should be Rs.150 per month at 1978 prices, to be achieved within a period of seven years, starting with not less than Rs.4 per day for eight hours of unskilled work or not less than Rs. 100 per month and being revised every two years to achieve the goal. Thereafter the revision in the minimum wage should be done every three years (as was also recommended by the National Commission on Labour, 1969) in relation to the trend increase in per capita national income. This minimum wage was to be applicable

throughout the country for unskilled work for every adult of 18 years or above, irrespective of sex, bringing up the statutory minimum wages wherever they were lower. State Governments were to continue to have the freedom to fix higher minimum wages wherever they were lower. For the agricultural sector the Group felt that a desirable minimum rural household income would be a more meaningful concept because of the irregular and seasonal nature of employment and unstable and varied sources of income. The minimum income to be aimed at should be such as to enable the bottom 30% to come up roughly to the level of the next higher decile. It was placed at Rs.1800 per annum (1977-78 prices) for planning purposes. Policy measures should be directed towards creating conditions in which the households of those who work part time or sporadically, as well as landless labourers and marginal farmers are enabled to earn the minimum within a period of seven years. The measures were to include improvement of the productivity of marginal farmers through higher value crops and increasing opportunities for work with better returns.

Recommendations of the National Commission on Rural Labour

12.173 In 1991, the National Commission on Rural Labour constituted under the chairmanship of Dr. C. H. Hanumanth Rao made a strong recommendation for a national minimum wage for rural labour. They deplored the wide variations in the minimum wages prescribed for unskilled workers in agriculture by various State Governments, and laid down the following principles for fixation of minimum wages:

- a) the cost of living relating to the minimum subsistence level for the worker and his family of three adult consumption units, and
- b) the minimum wage will be the same for all employments

12.174 The National Commission on Rural Labour thought that the application of these principles would naturally bring about uniformity in the minimum wages throughout the country irrespective of the authorities notifying the wage. The Commission called this the basic minimum wage applicable for the country as a whole,

and no wage should be fixed or permitted below this level. This is to be distinguished from the minimum wage which may be notified above this level under the Minimum Wages Act by different State Governments. Differences in the wages arrived at on the basis of cost of living would be accounted for only by the differences in the comparative cost of living between various regions in the country. The Commission felt that this approach will admit of minor variations.

Recommendation by the National Commission on Self Employed Women

12.175 In 1987, the National Commission on Self Employed Women and Women in the Informal Sector was appointed with Mrs. Ela Bhatt as the Chairperson. In its report, the Commission recommended a reasonable wage of Rs. 500 for women workers. The Commission did not call it a national minimum wage, but it amounts to the same.

12.176 The National Minimum Wage has been discussed on many other

occasions in different fora. Because fixation of wages depends on a number of criteria like local conditions, cost of living and paying capacity which vary from State to State and from industry to industry, many difficulties have been pointed out. The Indian Labour Conference held in November, 1985 expressed the following view:

“Till such time a national wage is feasible, it would be desirable to have regional minimum wages in regard to which the Central Government may lay down the guidelines. The Minimum Wages should be revised at regular periodicity and should be linked with rise in the cost of living”.

12.177 Accordingly, the Government issued guidelines in July, 1987 for setting up Regional Minimum Wages Advisory Committees. These committees renamed subsequently as Regional Labour Ministers' Conference, made a number of recommendations which included reduction in disparities in minimum wages in different States of a region, setting up of Inter-State Co-ordination Council, consultation with neighbouring States while fixing/ revising minimum wages etc.

Floor Level Minimum Wage

12.178 In the absence of a National Minimum Wage Policy, the Central Government introduced the concept of a National Floor Level Minimum Wage of Rs. 35/- per day in 1996 based on the recommendations of the National Commission on Rural Labour. The floor level of minimum wage was further enhanced to Rs. 40 per day in August 1998. We were told that this had been revised to Rs. 45 this year, and accordingly the Prime Minister had written letters to all State Governments. For the time being this has become a sort of national minimum wage. It can, therefore, be that till such time as a National Minimum Wage Policy is evolved, this floor level minimum wage may be treated as the current national minimum wage.

12.179 In view of the importance of the subject, our Commission feels that the Government of India should appoint an expert Committee to study the pros and cons of this subject and make suitable recommendations for the construction of such a national minimum wage.

12.180 Our Constitution gives us a mandate to assure 'fair wages' to the

workers. We have endorsed this commitment in the International Conventions and Declarations that we have accepted. A Fair Wage Committee was appointed in 1948. In spite of all this, we have not been able to determine a national minimum wage. The diversities in the different parts of the country and different regions in the same State, including unequal capacities to pay, have delayed the fulfilment of the promise in the Constitution. Some Committees have held the view that a uniform national minimum wage is difficult to determine, and will be even more difficult to enforce everywhere. Some members of our Commission hold the same view, and feel that it may be impractical to suggest a national minimum wage. The general opinion in the Commission is that the concept or commitment of a national minimum wage can not be abandoned on the plea that there are difficulties. It has to remain an ideal or goal to be reached. We have recommended that an Expert Committee must be appointed to study all aspects, and make a recommendation that is practical and leads to the goal even if it is in progressive phases. Till we reach the target, our immediate attempt should be to progress towards the next

phase, leading from a floor level minimum wage to a regional minimum and finally to a national minimum. In determining such a wage, the recommendations of different Committees, the 15th session of the ILC, and the judgments of the Supreme Court should be used as guidelines.

Low Wage Policy

12.181 As is said earlier, now no one advocates a low wage policy, and payment of the minimum wage as prescribed is legally binding on the employers. But such a low wage policy was advocated by a few economists and politicians in order to encourage employment in the country, and in order to keep industrial costs down. The first Five Year Plan had also warned against any upward movement of wages. Their theory was that if wages are low, more employment can be generated in the country, and costs of production of products can also be held under check.

Differentials in Wages

12.182 What should be the maximum-minimum differential in wages of employees of an organisation?

12.183 It is difficult to lay down a clear cut criterion for fixing an appropriate ratio between salaries of the top management and wages paid to the worker at the lowest rung of the ladder. In general, the ratio seems to be high in a developing country where the level of higher education in many fields is not commensurate with the needs of economic development and where the general level of education of workers is not very high. Therefore, the unskilled worker is paid the minimum, and managerial experts whose skills are rare are paid much more. Sometimes, foreign experts are also hired, from countries where the general levels of pay are high compared to our country, and they have to be paid much higher salaries than would be warranted by the paying capacity of our country. Higher salaries are thus fixed externally at the international level. Thus they get completely out of line with the wages of purely local labour which is unskilled and which is abundant in supply.

12.184 It would be worthwhile to quote the example of China. In China as well as in the erstwhile communist East European economies bringing down maximum and minimum

differential had been one of the important objectives of a wage policy.

12.185 Government of India had tried to fix a ceiling on managerial remuneration, and thus an effort was made to bring down the differential in wages in private enterprises. But as a result of persistent demand and severe criticism, after the new economic policy of liberalisation, the ceiling on managerial remuneration was raised substantially in July 1993 and relaxed completely for profit making companies in February 1994. Companies were required to make disclosures for employees earning more than Rs. 12 lakh annually. But their number has increased considerably over the years. Now under Schedule XIII of the Companies Act 1956, companies can pay 100% increase in the maximum level of remuneration. Therefore, the clause has been amended, and Companies need to give details of only such employees as are paid over Rs. 24 lakh per annum. The trend is towards increased remuneration to top management and widening differentials. Apart from the removal of such ceilings, most of the top managerial personnel receive a share of 1 or 2 percent in the profits of the

company. In addition to this they also receive perquisites like free housing, chauffeur driven cars, free club memberships, free international travel etc. In the absence of full data, it is very difficult to comment generally on the wage-differentials. But the general observation is that after the policy of economic liberalisation, these differentials have been further widened.

12.186 The Fifth Pay Commission appointed by Government of India has discussed this issue while fixing maximum pay for Government servants. The Commission had analysed the maximum and minimum disparity ratios of Government servants. Their conclusions were:

- a) During the period 1948-1996, the minimum salary of the lowest Government employee rose from Rs.55 to Rs.2,060.
- b) During the same period, the pre-tax maximum salary rose from Rs. 3,000 to Rs. 16,580, while the post-tax salary rose from Rs. 2,263 to Rs. 12,615.
- c) The disparity ratio between the maximum pre-tax remuneration and the minimum went down

progressively from 54.5 (1948) to 46.2 (1949), 37.5 (1959), 34.0 (1965), 24.8 (1970), 10.7 (1986) and 8.0 (1996).

- d) The post-tax disparity ratio came down even more drastically from 41.0 (1948) to 6.1 (1996). The post-tax ratios were naturally lower than the pre-tax ratios because of progressive rates of taxation.

12.187 The falling disparity ratio was the result of a deliberate policy followed by successive Commissions. This was probably in tune with the prevalent socialist ideas of the time. The ratios did not remain constant even in the intervening period between two consecutive Pay Commissions. Thus the pre-tax ratio

slipped from 10.7 (1986) to 8.0 (1996). This phenomenon is explained by the prevailing practice of offering only partial neutralisation for increased cost of living at the higher levels, while there is complete neutralisation at the lower level.²

International Comparisons

12.188 The Fifth Pay Commission had also collected data from various countries in order to know these differentials in wages. The information received on maximum-minimum Government pay scales in different countries was as follows:

International Disparity ratios, 1995

Country	Ratio	Country	Ratio
Malaysia	3.0	Sweden	4.0
France	6.6	Indonesia	6.9
Australia	7.7	China	8.0
Thailand	9.0	Hongkong	40.0

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² Report of the Central Pay Commission Jan. 1997 – Vol. I p 434

12.189 It can be observed that the disparity ratio ranges between 3 in Malaysia and 40 in Hongkong.

12.190 An OECD study on the salaries of senior functionaries has reported that Japan, UK and Canada reward their senior civil servants better than Germany, USA, the Netherlands, Ireland, Australia, France, Finland and Sweden. While the real incomes of senior civil servants rose in the range of 20 to 40% between 1980 and 1990 in the case of Japan, UK, Canada, Ireland, Finland, Sweden and US, it fell in the case of Germany, the Netherlands, Australia and France. Differentials between the senior and lower grades are clearly compressed in the case of Canada, Australia, France, Germany, the Netherlands, UK and US. Also substantial remuneration discounts for public service vis a vis private service exist in countries like France, Germany and the United Kingdom.³

12.191 This information is for the year 1995 and for Government servants in the respective countries.

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³ Report of the Central Pay Commission Jan. 1997 – Vol I p 437

Perhaps the disparity ratios are likely to be different for the private sector enterprises in these countries.

12.192 The Fifth Pay Commission had also carried out studies on remuneration paid to top management personnel in the private sector. Their observations were as follows:

- a) The CEO in private sector gets a pay packet which is nearly 50% higher than his counterparts in public sector undertakings and Government.
- b) In addition to the salary, the CEO in private sector draws an average performance related incentive which works out to 65% of the basic salary.
- c) The CEO in private sector draws sundry allowances for club membership, credit cards, services, amenities, domestic servants, use of car, housing, free travel etc.

12.193 Thus there was, and even now there is a difference in the compensation paid to employees in the private sector and to Government employees.

12.194 The increase in the salaries of the Government employees as a result of the Pay Commission recommendations, resulted in pre-tax disparity ratio between maximum and minimum remuneration reach the level of 10.7.

Logic of Wage Differentials

12.195 What is the logic of this differential in wages? The chief factor determining the excess earning of trained personnel over minimum wage is the cost of investment in education, including time spent on education, the excess earning being meant to compensate for the investments and time spent in education. Secondly, in the case of top managerial personnel, they have adequate technical experience of management, they have to carry risks of business and are responsible to produce results. Their job is more than full-time. Therefore, they are to be paid higher salaries to compensate for the risks and for sacrificing all their time for business. Such managerial talents are rare to be found and therefore, they have to be adequately compensated and retained.

12.196 How does it happen that a film star receives a remuneration

which is so much higher than that of a street cleaner? Why does a foreman receive more than an unskilled worker, or an accountant more than a sweeper? These are stock questions to be found in economic text books. The answers given also are stock answers. Foremen and accountants are few have to spend long years in training and unskilled workers and sweepers are available in plenty and they need no training. This is the way the differentials in employments are sought to be justified. The actual higher or lower wages depend upon the scarcity of labour in that category.

12.197 The country needs to reward persons who have put in more efforts to acquire specialised skills, as long as better quality or talent is sought to be recruited or trained. Moreover the differentials will continue to exist when the intellectual capital of a person, skills and experience acquired differ from person to person. This also differs from industry to industry. In a labour intensive industry say cotton textile industry, where wages constitute 25% of the total costs, we see that wages per worker are lower than in a capital intensive industry like

petro-chemicals or fine chemicals. Again a small industry or an industry in rural area is not expected to pay the same wages and fringe benefits to workers as in large-scale industry. The capacity and profitability of such industries is much less, and the skills required from workers in such small units are also less. We can hope that over a period of time these differentials will narrow.

12.198 Thus the differentials in wages are bound to persist and it is difficult to eliminate them. Their differential ratio perhaps can be brought down by judicious wage policies to be pursued at the enterprise level. It is up to the management of the enterprise to initiate action.

12.199 As long as we follow a laissez-faire policy in respect of wages and both employers and employees are free to fix their wages, the Government will find it difficult to exercise strict control.

12.200 As has been mentioned earlier, there have been differences in the wages paid in different sectors. These differences prevailed for the same skills within an industry itself and

that too at the same place. This problem has been discussed in India since long. As far back as in 1922, the Bombay Industrial Disputes Committee discussed this problem and again the Textile Tariff Board did so in 1927. The Whitley Commission pointed out the need for adopting a common standard of payments for similar classes of work in some of the leading industries. In 1934, a wage census was conducted by the Government of Bombay and it compiled data for standardisation. The Textile Labour Enquiry Committee (1940) and Committee on Fair Wage (1948) showed strong preference in favour of standardisation. The First National Commission advocated standardisation of occupational nomenclature and arrangements for a wage census on a regular basis because it felt that, that would assist in standardising wage rates.

12.201 In the changed circumstances, with a variety of wage rates in different industries and in enterprises of the same industry, standardisation has become pretty difficult. This is because of the large variation in the capacity of each industry to pay and different market conditions in which they operate.

West Bengal Experiment

12.202 But because of the peculiar circumstances in the seventies, this standardisation was brought about in the engineering industry in West Bengal. This was a unique experiment that is worth mentioning.

12.203 In the sixties, wages in major industries in West Bengal such as jute, cotton textiles, plantation and engineering, wage fixation and revision in salary scales was done through awards of industrial adjudication. Thus in the case of the engineering industry, there were three omnibus engineering tribunal awards namely that of 1948, of 1950 and of 1958. These were followed by Wage Board recommendations for the engineering industry in 1966. There was also a Special Engineering Tribunal Award which was known as the 7th Industrial Tribunal Award which related to engineering establishments employing less than 250 employees.

12.204 Around 1969, when the leftist government came to power in West Bengal, the image of West Bengal industry suffered a set back. Those were the days of gheraos, strikes, sudden stoppage of work,

frequent intimidation by workers etc. As a result, the State received a big set back in its industrial development. Investors were not prepared to go to West Bengal and no new industrial projects were coming up in West Bengal. The Government wanted to improve this tarnished image of the state. It took considerable interest in settling labour problems and in ensuring investors that there would be no labour problems in the state. Most of the trade unions were controlled by the leftist parties and, therefore, it was easy to convince the trade unions and force them to be more accommodative and less militant. As a part of this effort, the parties in power almost forced trade unions in the State to come together and carry on negotiations with industry to have industry-wise wage settlements. As a result, the first wage settlement in the engineering industry in West Bengal was signed in 1969. The Government played a major role in bringing the two parties together and forcing them to sign such a settlement. Following this settlement, four successive industry-wise agreements through collective bargaining and intervention of the Government were reached in 1973, 1979, 1983 and 1988. Most of the Federations of Trade Unions, and the

Confederation of Indian Engineering Industries (CIEI) would sit and negotiate wages of all types of workers in engineering industries in West Bengal. A good deal of preparatory work was also done by both unions and employers.

Role played by the State Government

12.205 The State Government played a positive role in bringing about the settlements. All the meetings of negotiations were presided over by the Labour Commissioner and he acted as a conciliation officer. If there was an impasse in negotiations, there was political intervention and the Labour Minister as well as the Chief Minister intervened to see that the negotiations were successful. The State Government tried to bring both parties together. It used its influence and saw that there was a reasonable settlement. The State Government was also a party to the settlement and, therefore, this was a tripartite settlement. This was a unique experiment and, therefore, it has been narrated in detail. At no other place, according to our information, were such experiments carried out. Now we are told that this system of

industry-wise negotiations do not take place, and unit-wise bargaining is resorted to.

Wage Determination through Collective Bargaining

12.206 We have earlier referred to the elimination of Industry level Wage Boards and the increasing trend of resorting to collective bargaining at the individual plant level. Let us understand the legal position of such agreements. There is no law at the national level for recognition of trade unions. But some states like Maharashtra and Madhya Pradesh have legal provisions for recognition. In some states like Orissa, West Bengal and Andhra Pradesh, unions are recognised as bargaining agents through secret ballots. Under section 2(p) of the Industrial Disputes Act, 1947 collective agreements can be reached with or without the involvement of the conciliation machinery established by legislation. While settlements reached in conciliation are binding on all parties, settlements arrived at, otherwise than in the course of conciliation proceedings are binding only on parties to the agreement. It is not binding on workmen who did not sign

the agreement or did not authorise any other workman to sign on his behalf. A collective agreement presupposes the participation and consent of all the interested parties. When workmen are members of different unions, every union, without regard to whether or not it represents a majority, cannot, but be considered an interested party. Also, some workmen may not choose to be members of any union and one or more unions may, for reasons of their own, not like to reach a settlement. Section 2(p), and 18(3) of the Industrial Disputes Act, 1947 deal with such practical difficulties by making collective agreements binding even on indifferent or unwilling workmen as the conciliation officer's presence is supposed to ensure that the agreement is bonafide.

Unorganised Sector

12.207 Collective bargaining is not common in the unorganised sector. In several cases bipartite collective agreements in the unorganised sector have provided for wages lower than the applicable minimum wages. Where such agreements are entered into through conciliation and/or registered with the appropriate government, the

labour commissioners concerned are expected to ensure that the wages, benefits and other conditions are not lower than the applicable minimum wages and other standards laid down in labour laws.

Special Features of such Collective Agreements

12.208 In any industry, some units are doing well and some are not doing so well. While signing wage agreements on industry-wise basis, one has to take care of what is affordable to the least profitable unit in the industry. Many times workers in more profitable units feel that they are not given adequate remuneration and facilities. This was one important reason why trade unions in such profitable units opted out, and signed individual agreements with managements of such companies. As a result, they got better remuneration and better facilities. As has been started earlier, workers in such prosperous enterprises were able to wages that were described as disproportionate. They were also able to share the monopoly gains of such companies because of the militant methods they followed.

12.209 Following are the some of the special features of such agreements:

- (a) A steep rise in wages not comparable to any other sector of the economy. Unions were able to achieve better terms because of their bargaining power.
- (b) As a result of the steep increase in wages, incomes of many workers became taxable. Unions then preferred a variety of allowances apart from rise in wages. Some of these allowances were not taxable. One will thus find a variety of allowances being added to emoluments.

Thus, as in the case of managerial personnel, workers too have had the benefit of augmenting incomes through special allowances and perquisites

12.210 Wages are generally defined as only basic wage, fixed and variable dearness allowance and not any other allowance and benefits. Thus all the other allowances paid and monetary value of the facilities provided by employers in the organised sector are not included in "wages". But the value

of all these allowances and perquisites is substantial if one is to compute the total remuneration paid to the workers.

Court Decisions

12.211 The principles of wage determination have been greatly influenced by Court decisions from time to time. In many cases of wage-disputes, the Supreme Court has given decisions which lay down some principles of wage fixation and these principles later have become important factors in wage determination. Here are a few important decisions.

12.212 In the case of Crown Aluminium Works vs. their workmen (1958 I LLJ 1), on the specific issue of capacity to pay, the Supreme Court has said "There is, however, one principle which admits of no exceptions. No industry has a right to exist unless it is able to pay its workmen at least a bare minimum wage. It is quite likely that in the under-developed countries where unemployment prevails on a very large scale, unorganised labour may be available on starvation wages..... If an employer can not maintain his

enterprise without cutting down the wages of his employees below even a bare subsistence or minimum wage, he would have no right to conduct his enterprise on such terms”.

12.213 In *M/s Unichem Laboratories Ltd. vs. Their Workmen*, [1972 – I LLJ 576, 590, 591], the Supreme Court observed as follows:

“In the fixation of wages and dearness allowance the legal position is well established that it has to be done on an industry-cum-region basis having due regard to the financial capacity of the unit under consideration.... Industrial adjudication should always take into account, when revising the wage structure and granting dearness allowance, the problem of the additional burden to be imposed on the employer and ascertain whether the employer can reasonably be called upon to bear such burden.... As pointed out in *Greaves Cotton and Co. and others vs. Their Workmen*, [1964 – I LLJ 342], (1964) 5 S.C.R. 362, one of the principles to be adopted in fixing wages and dearness allowance is that the Tribunal should take into account the wage scale and dearness allowance prevailing in comparable concerns carrying on the same industry in the region....”

12.214 From an examination of the decisions of the Court, it is clear that the floor level is the bare minimum subsistence wage. In fixing this wage, Industrial Tribunals will have to consider the position from the point of view of the worker, the capacity of the employer to pay such a wage being irrelevant. The fair wage must take note of the economic reality of the situation and the minimum needs of the worker having a fair-sized family with an eye to the preservation of his efficiency as a worker.

Minimum Wage - a Statutory Obligation

12.215 A minimum wage was considered a necessary catalyst to advance the social status of the worker even according to our ancient law, and treated as an obligation of the State.

12.216 In the *Secunderabad Club vs. State of Andhra Pradesh* case (1997- I LLJ 434), Mr. Justice Y. Bhaskara Rao adverting to the concept of minimum wages as laid down in the *SUKRA NEETI*, observed:

“It would be relevant to look at the conditions governing wage, life and other social aspects of workers, which are delineated in *SUKRA NEETI*,

an ancient treatise. The English translation of which is:

'Wages to be considered as fair must be sufficient to procure the necessities of life from out of the wages. The wage of an employee should therefore be a fair wage, so as to enable him to procure all the necessary requirements of life.' (SUKRA NEETI II, 805-806)

'By payment of very low wages, employees (of the king) are likely to become his enemies and they are also likely to become plunderers of treasuries and cause harassment to the general public.' (SUKRA NEETI II, 807-808)

12.217 Thus the concept of payment of minimum wages is inbuilt in our society even before the introduction of the Minimum Wages Act of 1948.

12.218 The principle that it is the duty of the State to ensure the payment of minimum wages has been recognised by the framers of the Constitution by incorporating Article 43 in the Constitution of India. Though this Article is included in the Chapter on Directive Principles, and in its

sweep contemplates payment of 'living wages' to a worker, nevertheless, it is the duty of the State to ensure that workers are paid minimum wages. The exercise to fix minimum wages thus is the responsibility of the State. It enacted the Minimum Wages Act in 1948, whereby it has directly imposed statutory minimum standards on the scheduled employments.

Components of Minimum Wages

12.219 In *Unichoyi vs. State of Kerala*, (1961 – I LLJ-631), the Supreme Court explained what the components are that would make up the minimum wages and stated:

"It is, therefore, necessary to consider what are the components of a minimum wage in the context of the Act. The evidence led before the committee on fair wages showed that some witnesses were inclined to take the view that the minimum wage is that wage which is essential to cover the bare physical needs of a worker and his family, whereas the overwhelming majority of witnesses agreed that a minimum wage should also provide for some other essential requirements such as a minimum of

education, medical facilities and other amenities. The committee came to the conclusion that a minimum wage must provide not merely for the bare subsistence of life but for the preservation of the efficiency of the worker, and so it must also provide for some measure of education, medical requirements and amenities. The concept about the components of the minimum wage thus enunciated by the committee have been generally accepted by industrial adjudication in this country. Sometimes, the minimum wage is described as a bare minimum wage in order to distinguish it from the wage-structure which is "subsistence plus" or fair wage, but too much emphasis on the adjective "bare" in relation to the minimum wage is apt to lead to the erroneous assumption that the minimum wage is a wage which enables the worker to cover his bare physical needs and keep himself just above starvation. That clearly is not intended by the concept of minimum wage. On the other hand, since the capacity of the employer to pay is treated as irrelevant it is but right that no addition should be made to the components of the minimum wage which would take the minimum wage near the lower level of the fair wage,

but the contents of this concept must ensure for the employee not only his sustenance and that of his family but must also preserve his efficiency as a worker. The Act contemplates that minimum wage rates should be fixed in the schedule industries with the dual object of providing sustenance and maintenance of the worker and his family and preserving his efficiency as a worker."

Industry - cum - Region

12.220 The principles which govern the field have been laid down in several judgments of the Supreme Court. One of the early decision was a decision of the Supreme Court in French Motor Car Company Ltd vs Their Workmen, reported in 1962 II LLJ 744, in which it was held that: "It is now well settled that the principle of industry-cum-region has to be applied by industrial court, when it proceeds to consider questions like wage-structure, dearness allowance and similar conditions of service. In applying that principle industrial court have to compare wage-scales prevailing in similar concerns in the region with which it is dealing, and generally speaking, similar concerns

would be those in the same line of business as the concern with respect to which the dispute is under consideration." It was also observed that amongst the factors which must be considered for the purpose of wage fixation were (i) the extent of business carried on by the concern, (ii) the capital invested therein, (iii) the profits made, (iv) the nature of the business carried on, (v) the standing of the business, (vi) the strength of the labour force, (vii) the presence or absence and the extent of the reserves, (viii) the dividend declared and (ix) the prospects of the future of the business and other relevant circumstances. Comparability would also postulate that there must be comparability of size.

12.221 The Supreme Court in *Greaves Cotton & Co Ltd vs Their Workmen*, (1964 I LLJ 342) held that where there are large number of industrial concerns of the same kind in the same region, it would be proper to put greater emphasis on the industry part of the industry-cum-region principle as this would place all concerns on an equal footing in the matter of production cost and in the matter of competition in the market. On the other hand, where the number

of comparable concerns were small in a particular region and the aspect of competition is not the same importance, the region part of the industry-cum-region formula assumes greater importance. The Supreme Court in the *Greaves Cotton* case also observed that the Industrial Tribunal while making a comparison must take into account the total wage packet for each category of factory workmen.

Financial Capacity of the Employer

12.222 The judgment of the Supreme Court in *Ahmedabad Millowners, Association vs. Textile Labour Association*, [1966 I LLJ 1], enunciates the considerations which must inter alia guide the Industrial Tribunal in dealing with the financial capacity of the employer to meet an additional burden occasioned by a revision of the wage structure. In this regard the Supreme Court held as follows:

"On the other hand, in trying to recognise and give effect to the demand for a fair wage, including the payment of dearness allowance to provide for adequate neutralisation against the ever-increasing rise in the

cost of living, industrial adjudication must always take into account the problem of the additional burden which such wage-structure would impose upon the employer and ask itself whether the employer can reasonably be called upon to bear such burden.... What has been the progress of the industry in question; what are the prospects of the industry in future; has the industry been making profits; and if yes, what is the extent of profits; what is the nature of demand which the industry expects to secure; what would be the extent of the burden and its gradual increase which the employer may have to face? These and similar other considerations have to be carefully weighed before a proper wage-structure can be reasonably constructed by industrial adjudication vide *Express Newspapers (Private) Ltd., & Anr. Vs. Union of India & Ors.* [1961-I LLJ 339]. Unusual profit made by the industry for a single year as a result of adventitious circumstances, or unusual loss incurred by it for similar reasons, should not be allowed to play a major role in the calculations which industrial adjudication would make in regard to the construction of a wage-structure. A broad and overall view of the financial position of the

employer must be taken into account and attempt should always be made to reconcile the natural and just claims of the employees for a fair and higher wage with the capacity of the employer to pay it; and in determining such capacity, allowance must be made for a legitimate desire of the employer to make a reasonable profit”.

Pretax profits of the Company

12.223 In *Unichem Laboratories Ltd. vs. Their Workmen*, reported in 1972 I LLJ 576, a Bench of three Learned Judges of the Supreme Court referred to the earlier Judgment in *Gramophone Company Ltd. vs. Its Workmen*, (1964 II LLJ. 131), where the Court had held that:

“When an Industrial Tribunal is considering the question of wage structure and gratuity which in our opinion stands more or less on the same footing as wage structure, it has to look at the profits made without considering provision for taxation in the shape of income-tax and for reserve. The provision for income-tax and for reserve must in our opinion take second place as compared to provision for wage

structure and gratuity, which stands on the same footing as provident fund which is also a retirement benefit." This principle was quoted with approval by the Supreme Court in Unichem Laboratories case.

Principles of Wage Fixation

12.224 In *Kamani Metals & Alloys Ltd. vs their workmen*, [1967 – II LLJ 55]; (1967) 2 S.C.R. 463, the Court observed as follows:

"Fixation of a wage-structure is always a delicate task because a balance has to be struck between the demands of social justice which requires that the workmen should receive their proper share of the national income which they help to produce with a view to improving their standard of living, and the depletion which every increase in wages makes in the profits as this tends to divert capital from industry into other channels thought to be more profitable. The task is not rendered any the easier because conditions vary from region to region, industry to industry and establishment to establishment. To cope with these differences certain principles on which wages are fixed

have been stated form time to time by this Court. Broadly speaking the first principle is that there is a minimum wage which, in any event, must be paid, irrespective of the extent of profits, the financial condition of the establishment or the availability of workmen on lower wages. This minimum wage is independent of the kind of industry and applies to all alike big or small. It sets the lowest limit below which wages cannot be allowed to sink in all humanity. The second principle is that wages must be fair that is to say, sufficiently high to provide a standard family with food, shelter, clothing, medical care and education of children appropriate to the workmen but not at a rate exceeding his wage, earning capacity in the class of establishment to which he belongs. A fair wage is thus, related to the earning capacity and the workload. It must, however be realized that 'fair wage' is not 'living wage' by which is meant a wage which is sufficient to provide not only the essentials above mentioned but a fair measure of frugal comfort with an ability to provide for old age and evil days. Fair wage lies between the minimum wage, which must be paid in any event, and the living wage, which is the goal".

12.225 In *Hydro (Engineers) (Private) Ltd. vs. their workmen*, 1969 – I LLJ 713-716], the Supreme Court further observed as follows:

“It is thus clear that the concept of minimum wages does take in the factor of the prevailing cost of essential commodities whenever such minimum wage is to be fixed. The idea of fixing such wage in the light of cost of living at a particular juncture of time and of neutralizing the rising prices of essential commodities by linking up scales of minimum wages with the cost of living index cannot, therefore, be said to be alien to the concept of a minimum wage”.

12.226 In the case of *Killick Nixon Ltd. Vs Union* (1975- II LLJ 53SC), the Supreme Court has laid down certain considerations of fixing wages. They are as follows:

- 1) Condition of the wage scales prevalent in the Company.
- 2) Condition of the wage level prevalent in the industry and the region.
- 3) The wage packet as a whole of each earner in the company with all amenities and benefits and its ability and potency to cope with the economic requirements of daily existence consistent with his status in society, responsibilities, efficiency at work and industrial peace.
- 4) The position of the company concerns in relation to other comparable concerns in the industry and the region.
- 5) Pre-emptive necessity for full neutralisation of the cost of living at the rock-bottom of the wage scale if at all just above the subsistence level.
- 6) The rate of neutralisation which is being given to the employees in each salary slab.
- 7) Avoidance of huge distortion of wage differentials taking into reckoning all persons employed in the concern.
- 8) Degree of sacrifice necessary even on the part of workers in general interest.
- 9) The compulsive necessity of securing social and distributive justice to the workmen.
- 10) Capacity of the company to bear the additional burden.
- 11) Interest of the national

economy.

- 12) Repercussions in other industries and society as a whole.
- 13) The state of the consumer price index at the time of decision.
- 14) Forebodings and possibilities in the foreseeable future as far as can be envisaged.

12.227 We should also point out that the revision of DA is not the same as the revision of wages.

Price, Income and Wage Policy

12.228 In the context of wage fixation, very often questions regarding price policy and income policy are raised. In fact it is advocated that there should be an integrated price, income and wage policy in a country. It is necessary to consider a number of questions in this context.

- a) What could be the minimum wage and what are the norms on which a minimum wage should be based?
- b) Will the minimum wage be different or same for (i) agriculture, industry and the service sectors (ii) organised and

unorganised sectors
 (iii) urban and rural sectors
 (iv) different states and regions
 (v) between different employers in the organised sector

- c) What would be the criteria for determining differentials between minimum and maximum wages, could the ratio be different for different industries?
- d) What can be the criteria for determining the maximum income? Should there be any relationship between maximum income and maximum wages?
- e) Can there be any common policy for fixation of wages, income and prices in the economy?

12.229 All these issues go into the making of a price, income and wage policy. The Government has to take a position on all these issues and attempt implementation and coordination of these policies.

12.230 Take for instance differentials of wages and incomes. Differentials between different sectors

of the economy are bound to exist in a dynamic society. As we have seen earlier, they are indicative of differences in skills formation, capital endowments, risk taking abilities, forecasting skills etc., only difference is that the incomes policy asks the rationale of these differences. But the effect of market forces cannot be ignored. An income policy based on rigid differentials may break down. This has been the experience even in the communist countries. Soviet Russia was not able to control such differences in remuneration of different persons working in various sectors of its economy.

12.231 Income policy in the sense of controlling incomes of different sectors of the economy and freezing the existing incomes may run into problems. The case for an incomes policy is strong if we use it in India as one important policy element in supplying a sense of proportion to the various competing groups, as an important weapon of "high growth, higher distribution", strategy of development, as a supplier of valuable guidelines to anomalies not only in wages but also in investments, prices and profits, and as an instrument not only of rationalising

wages, bonus and dearness allowance, but of the system of price controls, investment and taxation.

12.232 As we said earlier, in 1977, a Study Group was appointed on wages, incomes and prices under the chairmanship of Dr. S. Bhoothlingam and their recommendations for a price, wage income policy were as follows:

- a) Wage policy has to strike a balance between ensuring minimum incomes for unorganised labour and increasing opportunities for employment. This policy must pay adequate attention to rationalisation of wage structure and ironing out anomalies. It should encourage systems of incentives for higher productivity and better performance.
- b) Incomes policy should cover all non-wage incomes. The level of incomes of those below poverty level should be enhanced. Apart from progressive taxation, the emphasis should be on encouraging savings and investments, discouraging ostentations and luxury and

reducing disparities in consumption.

- c) The main objectives of prices policy should be to maintain reasonable stability of prices while reasonable prices can be assured to producers like farmers. Consumers should also be taken care of. Wherever subsidised prices are implemented, efforts should be to see that the benefits actually go to those for whom they are intended. Price system should serve the economic objective of growth and development.

12.233 What is the scene like today? Economic conditions have changed in the last few decades. We are no longer in a regimented economy or a semi-regimented economy, economic forces are now allowed to play freely. Government is not in a position to fix the incomes of workers or the management in the organised sector; it cannot put any ceilings over the incomes of self-employed persons; price controls operate on a very few commodities.

12.234 In fact prices of some commodities like fertilisers, cooking

gas, kerosene etc. are controlled through subsidies on their prices. For foodgrains, higher prices are offered as a part of Government monopoly procurement policies. The result is an overflowing stock of foodgrains in Government godowns. Both these policies have put considerable strain on Government resources and Government is reconsidering these policies. But because of anti-poverty considerations, it has to continue these policies. Will it be possible to control prices of all commodities and services? For instance, it is not possible to cut back the incomes of some categories of highly paid doctors or lawyers or the self-employed. Quite often their high incomes are earned only during certain phases of their working lives. It is also not possible to control the income of a private businessman. It can be done only through steep taxation. But the experience is that if we have such steep taxation, businessmen do not disclose their incomes and large business operations take place outside the books. We thus come across the difficulties that the government is experiencing in controlling prices, wages and incomes. The moot question seems to be whether we can

have a free economy or an economy in which the state does not want to exercise the functions of control, and at the same time formulate and implement a policy of wages, prices and incomes.

Minimum Wages

12.235 The 15th Session of the Indian Labour Conference held on 11th and 12th of July 1957 at New Delhi adopted a resolution on the fixation of minimum wages. It was agreed by the Conference that the minimum wage had to be need based, and had to ensure the minimum human needs of the industrial worker, irrespective of other considerations. To calculate the minimum wage, the Committee accepted the following norms and recommended that they should guide all wage fixing authorities, including minimum wage committees, wage boards, adjudicators, etc.:

- (i) In calculating the minimum wage, the standard working class family should be taken to consist of 3 consumption units for one earner; the earnings of women, children and adolescents should be disregarded;

- (ii) Minimum food requirements should be calculated on the basis of a net intake of 2,700 calories, as recommended by Dr. Akroyd for an average Indian adult of moderate activity;
- (iii) Clothing requirements should be estimated at a per capita consumption of 18 yards per annum which would give for the average worker's family of four, a total of 72 yards;
- (iv) In respect of housing the norm should be the minimum rent charged by Government in any area for houses provided under the Subsidised Industrial Housing Scheme for low-income groups; and
- (v) Fuel, lighting and other 'miscellaneous' items of expenditure should constitute 20 percent of the total minimum wage.

12.236 The Committee took note of the steps taken by Government for conducting (a) a wage census, and (b) family budget enquiries in various industrial centres.

12.237 As for fair wages, it was agreed that the Wage Boards should

go into the details in respect of each industry on the basis of the recommendations contained in the report of the Committee on Fair Wages. These recommendations of the Fair Wages Committee should also be made applicable to employees in the Public Sector.

12.238 Thus in 1957, the Minimum wage was evolved as a need based concept.

12.239 In 1968, some more criteria for the determination of minimum wages came to be recognised when the International Labour Organisation listed three criteria for fixing minimum wages. These were (i) the needs of the worker; (ii) the capacity to pay of the employer; and (iii) wages paid for comparable work. In 1969, the capacity to pay was explicitly admitted as a relevant factor by the National Commission on Labour when it held that in fixing the need-based minimum wage the capacity to pay should be taken into account.

12.240 In 1991, the Supreme Court, in its judgment in the case of Reptakos Brett and Co. versus others, expressed the view that the criteria recommended by the Indian Labour Conference 1957 may not suffice. It

held that an additional component for children's education, medical requirements, recreation including festivals/ceremonies and provisions for old age and marriage should constitute 25% of minimum wages.

12.241 The Minimum Wages Advisory Board (Central) in its 24th Meeting in 1991 recommended that minimum wages should be linked to productivity, and the appropriate Government under the Minimum Wages Act may fix piece-rate wages wherever feasible.

12.242 The Indian Labour Conference in its Thirtieth Session in September, 1992 expressed the view that while the tendency to fix minimum wages at unrealistically high levels must be checked, implementation of wages once fixed must be ensured. It felt that the implementation machinery, consisting of labour administration in the States had been far from effective. It was desirable that workers' organisations and non-governmental voluntary organisations etc., played a greater role instead of engaging an army of inspectors for this purpose.

Approach of the Pay Commissions

12.243 The Pay Commissions of the Central Government took different approaches for the determination of the Minimum Wages for government employees. They were as follows:

- (i) The need based approach;
- (ii) Capacity to pay approach;
- (iii) Relative Parities approach;
- (iv) Job evaluation approach;
- (v) Productivity approach;
- (vi) Living wage approach.

12.244 We are not suggesting that each of these was an exclusivist approach. These various aspects have found mention and been given varying emphasis in the report of different Pay Commissions. The decision of the Pay Commissions on minimum wages was often determined by some kind of harmonisation between the first two i.e., the need-based approach and the capacity to pay approach. This was essential because a minimum wage which was found to be socially desirable was not necessarily economically feasible. Job evaluation and measurement of productivity was not found to be feasible by

the earlier Pay Commissions, and fair comparisons with the public and private sector were also not conceded by them. On living wages they observed that a living wage was a desirable level towards which the State must endeavour to go.

12.245 The Fifth Pay Commission after comparing public sector and private sector employees, comparisons with State Governments and considering the expectation of the employees tried to work out a minimum wage for Central Government Employees of the lowest cadre. The Commission used a modified version of the constant relative income criterion and fixed Rs : 2440/- as the salary of lowest paid employee of the Central Government. This meant more than a three-fold jump in the basic pay from Rs. 750/- to Rs. 2400. The Commission had estimated that this would mean an additional outgo to the tune of Rs. 294.1 crores every year for this category of employees.

12.246 It is not necessary to describe the pressure that such a steep rise in pay scales of Government Employees causes on the Government's Budget.

Minimum Wage vis-a-vis Government Pay

12.247 Our Study Group on Unorganised Labour recommended that the minimum wage prescribed by the Fifth Pay Commission for the lowest category of Government employees (Rs. 2400 + Rs. 2100 DA = Rs. 4500/-) should be the minimum wage for a worker in the unorganised sector. We could not agree with this recommendation. It may be advisable to repeat our arguments on this question from earlier paragraphs in our chapter on the 'Unorganised Sector'.

12.248 We fully appreciate the considerations that have prompted the Study Group to make this recommendation. But we regret that we do not find it possible to accept and endorse this suggestion. Firstly, in monetary terms, the minimum wage that the Study Group has recommended will approximate to Rs. 4500/-. Secondly, there are lakhs of people with very low incomes both in the rural areas, and in the urban areas, – perhaps just around the amount that the Study Team has recommended as the minimum wage, who engage or employ others as

domestic servants or in sundry services like those provided by dhabas (eating places) in the rural areas. They may not be able to pay a minimum wage almost as high as their own incomes. In such a situation, if the law on minimum wages is observed or enforced in letter and spirit, many lakhs of workers will cease to be employed. They will lose their jobs. An alternative scenario will be that to protect their jobs or employment, domestic workers and others of the kind we have referred to earlier, will agree to work for a sum of remuneration that is lower than the prescribed minimum wages. The worst development will be when the custodians of law and order who are mandated to enforce the law on minimum wages and trade unions who are committed to struggle for and protect the rights and real wages of workers come to an agreement, outside the law, on a remuneration or wage far below or appreciably below the legally prescribed minimum. Such a possibility is not a creation of our imagination. In the course of the evidence tendered before us in West Bengal, we were informed that the actual wage paid to bidi workers in West Bengal is much less (Rs. 35 per 1000) than notified minimum

wage (Rs. 70 per 1000 bidis).

12.249 Disparity in minimum wages, lapses in the implementation of the law and enforcement, periodic non-revision of minimum wages are among the factors that make a mockery of such an Act. The State government of Bihar fixed Rs. 27.30 as the minimum wage for agricultural workers in 1996, while an agricultural worker near Dhanbad received Rs. 20. A female agricultural labourer in the same area received a daily wage of Rs. 15 and 200 to 250 grams of muri (puffed rice). In Fatehpur, Ahrawa and Fulepur villages of Barh in Bihar, the agricultural workers got as wages one kilogram of rice or flour and half a kilogram of sattu for breakfast. In the Baruhi village of Bhojpur, in 1996, women got Rs. 15 and a breakfast comprising of 2 rotis, while men got Rs. 25, lunch and breakfast. Bihar, which has the highest number of inspectors exclusively for the agricultural sector could not enforce the minimum wages, set by the State government during this period.

12.250 In West Bengal, when we enquired why the minimum wage law

was not being enforced, we were told that both the Trade Unions and the Government Department had agreed to the below-minimum wage payments as both were agreed on protecting the jobs of bidi workers. We have enough reasons to believe that similar arrangements are entered into elsewhere too by the enforcing authorities and the representatives of workers. We believe that any law that creates such a situation becomes a mockery, if not a self-inflicted fraud. We, therefore, feel that we should legislate only what is capable of being put into practice at the ground level. Anything higher that is desirable will have to remain an aspiration or an eventual goal, not a clause in the law. Any other course will breed disrespect, unconcern and contempt for the law and law enforcing authorities. We feel that the purpose of the law and highly desirable social goals can be better served by prescribing an adequate minimum wage, and providing for compulsory review of the adequacy of the minimum to keep pace with aspirations, needs and the cost of living (and increasing levels of expectancy about higher standards of living to which the worker is entitled).

12.251 Almost all the Committees and Commissions are against a subsistence level minimum. In principle, every committee constituted in this regard has agreed with the standard consumption units and calorie contents. However, the Wage Boards after the Second Pay Commission (1957-59) have not found it possible to fix the need-based minimum wages recommended by the Indian Labour Conference (1957). The Report of the Committee, set up by the first National Commission on Labour, on the Functioning of the System of Wage Boards (cited in the Report of NCL, 1969) found it infeasible because the need-based minimum would be beyond the capacity of the industry to pay and might result in the transference of the burden to the consumer.

12.252 Sub-committee 'D' of the Standing Committee of Labour Ministers (1981) recommended that the level of minimum wage should not be below the poverty line. The Report of the Committee of Secretaries of States (1981) has also recommended that the minimum wages should be at such a level as to take a family of 3 adult units of consumption above the poverty line, and the consumption basket should consist of per capita

per day requirements of 2400 calories in rural areas and 2100 calories in urban areas as well as clothing, shelter, fuel, light, education, etc. The Report of the National Commission on Rural Labour (1991) endorsed a similar concept of three consumption units.

Variable DA and Price Adjustments

12.253 Though there is no definition for the term minimum wage in the Act, its section 4(1) states that the minimum rates of wages fixed or revised by the appropriate authority for the scheduled employments shall take into account the following:

- (i) a basic rate of wages and a special allowance at a rate to be adjusted at intervals with the variation in the cost of living index number applicable to such workers; or
- (ii) a basic rate of wages with or without the cost of living allowance, and the cash value of the concessions in respect of supplies of essential commodities at concessional rates, where so authorised; or

- (iii) an all inclusive rate allowing for the basic rate, the cost of living allowance and the cash value of the concessions, if any.

12.254 That means that the minimum wage consists of (1) a basic rate of wage (2) cost of living allowance, and/or (3) cash value of concessions or (4) a combination of all the three components. It also means that the cost of living allowance varies with changes in prices.

12.255 The Minimum Wages Advisory Board (1981) observed that it would be desirable to attach a variable DA formula to the minimum wages so that it may be adjusted as and when necessary to protect the real wages of the workers. The Subcommittee 'D' of the Standing Committee of Labour Ministers (1981) also recommended that the variable DA should be an element of minimum wage wherever possible. The Report of the Committee of Secretaries of States (1981) said that the DA might be revised once in six months based on the average All India Consumer Price Index numbers of the series 1960=100. The Gurudas Dasgupta Committee (1988) recommended that

the minimum wages should be linked to the movement of consumer price index (CPI) to account for the cost of living. To protect the minimum wage from falling below subsistence level, the National Commission on Rural Labour (1991) suggested that the cost of living element (DA) should be linked to the minimum wage and adjusted every six months.

Revision of Minimum Wages

12.256 The Minimum Wages Act stipulates that review/revision of minimum wages in the scheduled employments should be undertaken at intervals not exceeding 5 years. However, the first National Commission on Labour (1969) recommended that the period should be reduced to three years. At the 31st session of the Labour Ministers Conference held in July 1980, it was decided that the minimum rates of wages may be reviewed and revised if necessary, within a period not exceeding two years, or on a rise of 50 points in the CPI numbers, whichever is earlier. The 36th Labour Ministers Conference held in May 1987 also reiterated these recommendations. The Gurudas Dasgupta Committee (1988)

recommended a revision every two years or on a rise of 50 points in the CPI. The Umbrella legislation should provide a separate facility within the body to be instituted for the unorganised sector workers, to undertake a constant review of wages as and when needed, as for example with changes in prices. We feel that the wages may be revised after an interval of 2 to 3 years. It will be difficult to administer if too frequent revisions take place.

12.257 The 31st Labour Ministers' Conference had recommended in July 1980 that both the Central and State Governments should bring down the periodicity of fixation of wages from 5 years to 2 years and should link the variable dearness allowance. Despite these recommendations, we are told that many State Governments have not been able to bring down the periodicity of fixation of minimum wages from 5 years to 2 years while only 19 out of 32 states and union territories have been able to link minimum wages to dearness allowance.

12.258 The Shramshakti report (pg. 100) proposes the panchayat or block level administrative set-up for

the execution of provisions of different labour laws, especially on payments and claims, as far as possible. The Report says that it would be necessary to have authorities like the claims authority under section 15 of the Payment of Wages Act 1936 or section 20 of the Minimum Wages Act 1948, or the authority under section 39 (2) of the Bidi and Cigar Workers (Conditions of Employment) Act 1966, at levels not higher than that of the Block or Panchayat Samiti. It also says that already some State Governments have amended the central laws to provide for appointment of claims authorities under the Payment of Wages Act and the Minimum Wages Act at these levels, for example, Minimum Wages (Maharashtra Amendment) Act 1975, and the Wage Laws (Rajasthan Amendment) Act, 1976. We agree that it is necessary and important to take an effective settlement machinery down to the local level.

12.259 The involvement and mediation of local bodies including village panchayats in the enforcement of the rates and payment of wages is important. The prevailing government enforcement machinery

cannot redress their grievances. The fixation of minimum rates of wages and the widespread awareness of these rates would become a great basis of protection to the workers. The moment the rates fixed are known to the working people, voluntary organisations and workers' organisations and the public at large, they will mount vigil, and the implementation of the minimum rates will become easy. In cases of dispute, the local bodies and panchayats can provide relief through persuasion, mediation and Lok Adalats etc. to which we have referred in our earlier Chapters.

Non-Implementation of Minimum Wages

12.260 A number of States that have reviewed and revised minimum wages in scheduled employments for which they are the appropriate governments show disturbing results. In Sikkim, the Minimum Wages Act is yet to be extended and enforced. Only 19 states/union territories have made provision for Variable Dearness Allowance as a part of the minimum wage for a few or all of the scheduled employments. The wages vary from state to state; the disparity is so wide that one has to conclude that

different appropriate Governments are following different criteria for the fixation of minimum wages. The adjustment of Variable Dearness Allowance is also very irregular. The lowest among the minimum wages, meant most probably for unskilled workers, was below Rs.30 in some states and union territories, as on October 1, 2000: Rs.19.25 in Pondicherry, Rs.20.63 in Tripura, Rs.21 in Goa, Rs.26 in Himachal Pradesh and Karnataka, and Rs.27 in Andhra Pradesh (see Table 12.16). The daily minimum wages for different occupations vary widely within the States. The Table carries both the minimum and maximum payment from among the variety of occupation-specific wages fixed as Minimum Wages within each State.

Table: 12.16 Daily Minimum Wages (in Rs.) as on 01/10/2000

Centre/ States/Union Territories	Minimum	Maximum
Central Sphere	80.74	90.19
Andhra Pradesh	27.00	63.19
Arunachal Pradesh	35.60	37.60
Assam	32.80	55.70
Bihar	49.19	61.59
Goa	21.00	125.00
Gujarat	34.00	92.40
Haryana	70.30	74.30
Himachal Pradesh	26.00	51.00
Jammu & Kashmir	30.00	-
Karnataka	26.00	74.03
Kerala	30.00	164.77
Madhya Pradesh	50.46	56.46
Maharashtra	42.46	108.95
Manipur	44.65	55.00
Meghalaya	50.00	-
Mizoram	70.00	-
Nagaland	40.00	-
Orissa	42.50	-
Punjab	69.25	151.32
Rajasthan	47.05	60.00
Sikkim (Minimum Wages Act, 1948 not yet extended and enforced)		
Tamil Nadu	35.00	115.80
Tripura	20.63	45.00
Uttar Pradesh	42.02	70.62
West Bengal	48.21	87.28
Andaman & Nicobar Islands	50.00	86.76
Chandigarh	81.65	-
Dadar & Nagar Haveli	60.00	71.00
Daman & Diu	50.00	60.00
Delhi	93.00	-
Lakshadweep	46.80	-
Pondicherry	19.25	65.00

Source: Ministry of Labour, Annual Report 2000-2001, p. 50.

12.261 An evaluation study conducted by the Labour Bureau, Ministry of Labour, on the implementation of Minimum wages in the agricultural sector in selected States shows that agricultural workers are not receiving full minimum wages

in the surveyed States. The surveyed States were Karnataka, Rajasthan, Andhra Pradesh, Uttar Pradesh, Bihar and Gujarat. The situation is similar in the low technology labour intensive sectors like forestry, fisheries, cottage industries and artisanry, and in urban

employments like vending and slum based and home based productions.

Need for Minimum Wages in the Unorganised Sector

12.262 The character and nature of the informal or unorganised sector are undergoing fundamental changes. The movement is from permanent to casual, contractual, temporary employment; from establishment based to home-based production; from time-rate to piece-rate work; male dominated to female intensive work situation; regulated to unregulated forms of labour. Meanwhile, the labour market, in particular, the rural labour market, is experiencing the influx of casual labour from the traditional subsistence occupations like forestry, fisheries, agriculture, handlooms, etc. as a result of dispossession of assets, and the integration of these sectors into the market economy. At the same time, researchers point out that the labour force is highly segmented due to factors like sectoral disparities, variations in skills, education, caste, religion, and regional and linguistic differences. In such a situation, workers cannot be given minimum protection unless minimum wages are prescribed and enforced in the unorganised sector.

12.263 India signed the ILO Convention 26 of 1928 (Concerning the Creation of Minimum Wage-Fixing Machinery) as early as in 1955. India accepted the commitment to offer minimum wages to its workers.

12.264 The minimum wages are different for different industries. The following table shows the number of schedules of employment each state government has notified. We feel that the state government should specify a minimum wage for all unskilled category workers and these wages should be the same for all industries. This is a need-based minimum wage and it has to be the same for all workers irrespective of where they are employed. This has to be paid irrespective of the capacity to pay. Hence it is not necessary to fix different types of wages for different industries or professions. In other words, we recommend that the distinction between scheduled and unscheduled employment should be given up, and whatever the employment, the notification should prescribe the same minimum wage to all. Perhaps the Minimum Wage Committee may fix the minimum wage for a region and then the Governments can notify these, and the minimum wage for the region can be made applicable to all employments in that region.

Table: 12.17**No. of Scheduled Employments in Different States:**

Sl.No.	Centre/States/UTs	No. of Scheduled Employments
1.	Central Sphere	44
2.	Andhra Pradesh	72*
3.	Arunachal Pradesh	25
4.	Assam	72*
5.	Bihar	74
6.	Goa	23
7.	Gujarat	49
8.	Haryana	50
9.	Himachal Pradesh	24
10.	Jammu & Kashmir	18
11.	Karnataka	59
12.	Kerala	46*
13.	Madhya Pradesh	36
14.	Maharashtra	62
15.	Manipur	5
16.	Meghalaya	21
17.	Mizoram	3
18.	Nagaland	36
19.	Orissa	83
20.	Punjab	60
21.	Rajasthan	38
22.	Sikkim	Minimum Wages Act, 1948 have not yet been extended and enforced.
23.	Tamil Nadu	62*
24.	Tripura	9
25.	Uttar Pradesh	65
26.	West Bengal	55*
	UNION TERRITORIES	
27.	Andaman & Nicobar Islands	4
28.	Chandigarh	44
29.	Dadra & Nagar Haveli	43
30.	Daman & Diu	72
31.	Delhi	29
32.	Lakshadweep	9
33.	Pondicherry	6*
	TOTAL	1254**

* Also includes scheduled employments for which minimum wages have not been fixed yet.

**Includes 44 scheduled employments under State Sphere for which minimum wages have not been fixed yet.

12.265 The irregularities committed under the Minimum Wages Act are on the increase. In 1997, 1,05,639 irregularities were brought to notice. This number went up to 1,41,913 in 1998. A study could be undertaken of such irregularities to find out why such large numbers of irregularities take place. On the basis of the study, either the law or practices, can be modified.

Procedure for Fixation/Revision

12.266 In Section 5 of the Minimum Wages Act, 1948, two methods have been provided for fixation/revision of minimum wages. These are the Committee method and the Notification method.

(a) Committee Method

Under this method, committees and sub-committees are set up by the appropriate Governments to hold enquiries and make recommendations with regard to the fixation and revision of minimum wages, as the case may be.

(b) Notification method

In this method, the Government publishes its proposals in the Official Gazette for information of the persons likely to be affected thereby,

and specifies a date not less than two months from the date of the notification for taking the proposals into consideration.

12.267 After considering the advice of the Committee/Sub-committees and all the representations received by the specified date, the appropriate Government will, by notification in the Official Gazette, fix/revise the minimum wage in respect of the concerned scheduled employment, and that will come into force on the expiry of three months from the date of issue of the notification.

12.268 We feel that the second alternative is better because it gives an opportunity to all concerned to have a say in the matter. Mutual consultations and understanding the difficulties and problems of both are possible in this method.

Productivity – Wage Relation

12.269 Though we have been talking of the relation between productivity and wage, the country has not yet evolved or adopted a policy of linking wages to productivity. We have not been able to find an acceptable method of linking the two. As a result there has been a mismatch between wages and productivity in the Indian Economy. According to a

study made by Dr. Pramod Verma, of the Indian Institute of Management, Ahmedabad, the wage index overtook the productivity index in 1977-78 and wages have increased thereafter at a higher rate than productivity. Wage is an important component of the cost of product/services, hence the increase in wages without increase in productivity does make products uncompetitive.

Productivity in India

12.270 Table 12.18 compares India's performance in recent years with that of the USA, the world economic leader

with the highest levels of labour productivity. For this purpose the national output has been measured in terms of market values as well as after adjusting for variations in Purchasing Power Parity (PPP).

12.271 India's Labour productivity is distressingly low, the GDP per person employed being as low as 1.39% of that in USA. GDP per person hour employed is even lower at 1.18 % obviously implying that the hours of work per person in India is higher than in the USA.

Table 12.18

LABOUR PRODUCTIVITY LEVELS IN INDIA AND USA IN 2000 (US \$)

	Actual		PPP Adjusted		Indias Labour Productivity as percentage to USA's	
	India	USA	India	USA	Actual	PPP Adjusted
GDP per person employed	1033	73888	5452	69193	1.39	7.90
GDP per person employed per hour	0.458	38.52	2.42	36.08	1.18	6.70
GDP per person employed in Agriculture	501	51695	2696	48410	0.96	5.57
GDP per person employed in Industry	2110	85911	11267	8451	2.46	14.00
GDP per person employed in Services	2116	70930	11833	66422	2.98	17.81

Source: Based on IMD (2001)

12.272 In Table 12.19, we have figures of labour productivity growth in India in the nineties in the manufacturing sector vis-à-vis in other countries from both the developing and the developed world. We have relied on the ILO's latest key Indicators of the Labour Markets 2001-02. It is found that though labour productivity in India has grown at a rate higher than that of many in the developed west (Germany 2.2,

UK:2.0, against India's 3.5, all percent per annum compound, during the nineties), we have been lagging significantly behind our Asian competitors. For instance, China recorded a high productivity growth rate, as high as 6.1% per annum (on the basis of official figures). Taiwan and Korea also made rapid progress in productivity, at 4.8% and 8.9% per annum respectively.

Table 12.19
Labour Productivity in India and other Countries

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Annual Compound rate of Growth (%)
USA	51148	51259	53222	54948	58276	61519	63161	65775	68168	72228	3.5
France	39798	40777	42309	42518	45924	48185	48461	51915	52657	53833	3.1
Canada	41360	40975	43118	45525	48348	48594	48191	50178	49709	51347	2.2
Germany	36791	37623	37238	36434	38457	40278	41686	42722	-----	-----	2.2
Australia	29655	30286	30932	32135	32140	32899	33187	33551	33596	38227	2.6
Taiwan	16766	18277	19114	20377	21569	23175	24548	24686	25102	26857	4.8
Netherlands	38370	38407	38693	38854	42845	44890	45824	46289	47422	48439	2.4
Sweden	35746	36169	39393	42326	48970	50471	51647	55227	56325	58120	5.0
Japan	44695	45592	44462	43624	44220	47838	51071	53223	51662	53126	1.7
U.K.	31764	32814	35282	36622	38136	37763	37256	37562	37423	38648	2.0
Korea	12659	13548	14751	16152	27756	19413	21194	23644	25164	29824	8.9
(Rep. Of)	12659	13548	14751	16152	27756	19413	21194	23644	25164	29824	8.9
Indonesia	3651	3908	4145	4339	3950	4688	4918	4972	4947	4361	1.8
China	3644	2797	3148	3608	4167	5357	5070	5530	-----	-----	6.1
India	2719	2481	2538	2702	2972	3328	3529	3526	3590	-----	3.5
India as	5.32	4.84	4.77	4.92	5.10	5.41	5.59	5.36	5.27	---	---
% to US											

Source: Based on ILO2002

12.273 Tables 12.20 give the comparison of labour productivity amongst Asian countries. A comparison of labour productivity indices of Asian Countries for the period 1988 to 1995 reveals that the rate of growth in labour productivity has been highest in Malaysia, followed

by China, Singapore, Korea, Nepal, Hong Kong, India, Pakistan, Japan, Phillipines and Iran. India's position is 7th among the 11 Asian countries. Average productivity of the Chinese worker seems to be about 20 % higher than that of the Indian worker.

Table: 12.20

LABOUR PRODUCTIVITY IN ASIAN COUNTRIES:

SL.No:	Country	1987	1988	1989	1990	1991	1992	1993	1994	1995
1.	Malaysia	100	105.55	111.24	116.66	122.91	128.67	133.75	141.85	151.25
2.	Republic of China	100	106.71	113.38	119.14	125.77	131.28	137.76	143.58	150.50
3.	Singapore	100	106.10	111.24	113.34	118.61	121.85	133.21	141.66	149.53
4.	Republic of Korea	100	107.88	110.24	116.91	124.33	128.20	133.05	140.64	149.24
5.	Nepal	100	106.24	111.18	115.79	122.34	127.05	130.25	139.50	142.47
6.	Hong Kong	100	105.99	109.10	113.23	117.23	125.03	128.92	131.24	134.93
7.	India	100	100.73	111.78	115.73	117.12	114.42	119.05	120.42	125.61
8.	Pakistan	100	105.39	106.92	108.66	118.54	122.65	121.29	123.02	125.29
9.	Japan	100	104.40	110.13	114.06	116.18	116.24	115.25	116.20	117.97
10.	Phillipines	100	103.27	107.90	107.82	105.10	101.32	101.25	102.66	105.53
11.	Iran	100	89.28	89.02	96.51	103.37	105.28	106.32	104.04	104.58

Comparison of Labour Productivity and Overall Productivity in 49 countries:

Table: 12.21

Labour Productivity (PPP)
Estimate: GDP(PPP) per person
employed per hour. US\$

Ranking	Country	US\$
1.	Luxembourg	41.90
2.	Belgium	39.95
3.	France	73.72
4.	Italy	36.64
5.	USA	36.08
6.	Ireland	34.75
7.	Denmark	34.72
8.	Norway	33.75
9.	Austria	33.19
10.	Germany	32.76
11.	Finland	31.63
12.	Australia	30.97
13.	Netherlands	30.45
14.	Spain	30.01
15.	Canada	29.75
16.	Switzerland	27.73
17.	Sweden	27.02
18.	Japan	26.69
19.	U.K.	26.63
20.	Iceland	26.34
21.	Israel	24.89
22.	Greece	24.11
23.	Taiwan	23.93
24.	Hong Kong	23.37
25.	New Zealand	22.73
26.	Singapore	21.66
27.	Portugal	20.55
28.	South Africa	19.65
29.	Argentina	18.49

Table: 12.22

Overall Productivity (PPP)
Estimate: GDP(PPP) per person
employed US\$

Ranking	Country	US\$
1.	Luxembourg	73,999
2.	USA	69,193
3.	Belgium	68,402
4.	Italy	63,460
5.	Ireland	62,486
6.	France	59,856
7.	Denmark	58,570
8.	Norway	58,389
9.	Austria	56,389
10.	Canada	56,262
11.	Germany	55,297
12.	Finland	54,497
13.	Australia	54,174
14.	Taiwan	52,072
15.	Spain	51,731
16.	Switzerland	51,446
17.	Netherlands	51,342
18.	Iceland	51,117
19.	Hong Kong	50,971
20.	Sweden	50,262
21.	Japan	49,741
22.	Israel	49,558
23.	U.K.	48,811
24.	Singapore	43,056
25.	Greece	42,914
26.	New Zealand	42,571
27.	South Africa	42,040
28.	Korea	38,034
29.	Argentina	37,067

Ranking	Country	US\$	Ranking	Country	US\$
30.	Korea	18.35	30.	Portugal	35,710
31.	Slovenia	17.36	31.	Slovenia	35,564
32.	Hungary	15.69	32.	Hungary	31,182
33.	Czech Republic	14.38	33.	Czech Republic	29,312
34.	Slovak Republic	13.11	34.	Slovak Republic	27,626
35.	Poland	12.63	35.	Chile	25,767
36.	Chile	11.48	36.	Poland	23,618
37.	Estonia	10.83	37.	Malaysia	21,159
38.	Turkey	9.96	38.	Estonia	21,065
39.	Russia	9.93	39.	Turkey	20,663
40.	Malaysia	9.64	40.	Mexico	20,511
41.	Brazil	9.33	41.	Russia	18,104
42.	Mexico	8.66	42.	Brazil	16,493
43.	Venezuela	7.29	43.	Columbia	15,212
44.	Columbia	6.97	44.	Venezuela	14,258
45.	Thailand	5.59	45.	Thailand	11,696
46.	Philippines	4.94	46.	Philippines	10,694
47.	China	3.47	47.	China	6,884
48.	Indonesia	3.14	48.	Indonesia	6,660
49.	India	2.42	49.	India	5,452

12.274 Tables 12.21 and 12.22 are from the World Competitive Year Book 2001. They indicate the comparison of Labour Productivity (PPP) and Overall Productivity (PPP) in 49 countries. The comparison reveals that in India Labour Productivity as well as Overall Productivity (PPP) are the lowest, i.e. we are in the 49th position.

12.275 If we continue to be at the lower end of labour productivity and overall productivity, we will not be able to hold our own in global competition. Our companies will continue to incur losses and there will be growing industrial sickness leading to the closure of a large number of unviable units causing loss of jobs to millions of workers.

12.276 We have therefore to make our industries competitive by adopting suitable changes in the existing policies.

Wages and Productivity

12.277 The wages in the organised sector are decided mostly by collective bargaining. Wherever necessary, the government intervenes in the wage determination process. The government has been fixing minimum wages for different occupations and also linking these wages to dearness allowance.

12.278 An ideal wage policy should aim at a minimum wage and progressive rise in real wages. But any sustained improvement in real wages cannot be brought about unless it is accompanied by corresponding improvements in productivity. Hence linking of wages to productivity is of the utmost importance. There are various misconceptions about productivity and therefore it is necessary to have a clear idea about productivity.

12.279 The Seventh Plan (1987-92) summarised the objectives of a wage policy as "a rise in the level of real income in consonance with an increase in productivity, promotion of

productive employment, improvement in skills, sectoral shift in desired directions and reduction in wage disparities".

Single and Total Factor Productivity

12.280 Productivity is the ratio of output to inputs and is a measure of efficiency of production. Productivity can be total factor productivity or single factor productivity. Single factor productivity refers to output per unit of an individual input such as labour or capital. A commonly used measure is labour productivity which can be defined as –

$$\text{Labour Productivity} = \frac{\text{Output}}{\text{Labour units}}$$

12.281 Similarly we can define the productivity of capital or any other input. It may be possible that labour productivity may be increasing, as a result of infusion of more capital inputs, therefore it is useful to look at the productivity of the entire bundle of inputs. This is called Total Factor Productivity (TFP) and is defined as

$$\text{TFP} = \frac{\text{Output}}{\text{Entire bundle of inputs}}$$

12.282 For technical reasons, we generally look at the Total Factor Productivity Growth or TFPG. This is defined as the difference between the growth of output and the growth of inputs (suitably weighted).

12.283 Thus TFPG is that part of output growth which is not explained by an increase in input use. In this sense, positive TFPG reflects technical change and any other improvements in the management of resources. At the level of the firm, improvements in productivity lead to lower costs and possibly higher profits. The workers will also get a share in productivity gains in the form of higher wages or higher profit sharing bonus or both. If we take the economy as a whole, increased productivity means lesser costs and proper utilisation of resources. There will be more goods available in the market at a reasonable price, with enhanced income, workers will have opportunities to consume more and of course a greater variety of products to choose from. In the long run, this will ensure higher standards of living to all. Thus,

TFPG = (Growth of output) – (Growth of weighted inputs)

In the short run, increased efficiency results from improvements in managerial efficiency and organisational competence, innovation, fuller utilisation of capacity, economies of scale, and improvement in labour management and skills. This is not an exhaustive list and anything leading to more efficient resource management is identified as productivity gain. Much depends upon the innovative skills of the management and the willing cooperation of workers.

Relations between Liberalisation and Productivity

12.284 During the last two decades, several developing and socialist economies that had followed highly interventionist and import substituting policy regimes implemented a radical policy shift in terms of reducing government intervention and opening up of their economies to international trade and investment. Some of these economies have achieved rapid economic progress during the post-reform period. Therefore, it is generally believed that developing economies benefit from free international trade and flow of investment from developed economies, free flow of technology,

access to international markets and internal and external competition.

12.285 An increase in competition puts a downward pressure on prices and profits thereby providing a challenge to which firms have to respond. They have to increase their technical efficiency, reduce their costs, improve managerial efficiency, have higher productivity of labour, better capacity utilisation and more innovations. The resultant increase in the efficiency of use of resources can be interpreted as increase in productivity.

12.286 Liberalisation enables cheaper and easier access to foreign technologies, global capital, imported inputs, and makes possible greater international exchange of information.

12.287 However, it is not an automatic process. A developing economy needs to have a certain level of human capital, and technological and industrial endowments in order to reap the benefits of free trade and liberalisation. The ability to put new ideas and technology into productive activities requires resources and skills and right kind of incentives.

Post-Liberalisation Effects in India

12.288 What is the effect of the policy of liberalisation on productivity improvement in Indian industries? Have we gained as a result?

12.289 Researchers and academicians appear to be divided on this issue. The National Council of Applied Economic Research undertook a special study on "The impact of India's economic reforms on industrial productivity, efficiency and competitiveness". This study was sponsored by the IDBI, and the NCAER had taken 3000 firms as the sample size. According to this study, there is some evidence that suggests that even the limited reforms of the mid-seventies and the mid to late eighties engendered higher Total Factor Productivity Growth (TFPG), and that this was conducive for higher economic growth. Further, the available evidence also suggests that the positive impact of liberalisation on firm level productivity and efficiency depend on factors such as the availability of long term finance, access to imported inputs and the ability to export.

12.290 At the same time, the NCAER Study has drawn the conclusion that productivity and efficiency of Indian industry during the nineties has been worse than in

the eighties. The total factor productivity growth rate during the 1990s is lower than during the 1980s. NCAER has also drawn the conclusion that there are certain exogeneous factors that are relevant in this context. The study mentions the poor quality and slow growth of infrastructure facilities such as power, roads, ports, transport and communications acting as a serious drag on industrial productivity and growth. In spite of these factors some sectors of industry have recorded increased TFPG than others.

12.291 Mrs. I.J. Ahluwalia⁴, in her study observes that the improved productivity performance of the 1980s was a consequence of policy changes of liberalisation, initiated in the mid 1970s. Her cross country analysis indicates that both import substitution and capital intensity have had a negative effect on productivity while output growth and scale have had a positive effect. Mr. P. Balkrishna and K. Pushpangadan⁵ have taken objection to these conclusions. According to them establishing accelerated productivity growth in the 1980s is contingent on the use of single deflation, a procedure which is flawed in principle. According to them

there is no credible option to double deflation when working with value added as the output measure in physical terms. Mr. B. Golder found that both competition and greater availability of imported inputs had a positive impact on productivity.⁶

12.292 All these analyses relate to the organised manufacturing sector of Indian industry. There are very few studies that have analysed productivity trends in the small-scale or unorganised sector of manufacturing industry in India. This is obviously because of the inadequacy of data.

12.293 J. Unni, N. Lalitha and Uma Rani have attempted an analysis of trends in total factor productivity in both organised and unorganised sectors of Indian industry.⁷ Following is their summary table.

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⁴ Ahluwalia I.J (1991) Productivity and Growth in Indian Manufacturing, Oxford University Press, New Delhi
⁵ P. Balkrishnan & K. Pushpangadan: TFPG in Manufacturing. The 80s visited EP Weekly Jan. 26,2002
⁶ Golder B (2000): Productivity Measurement in Indian Manufacturing: A Brief review A paper presented at the workshop on Productivity measurement in India – Institute of Eco. Growth, New Delhi Dec.20-22, 2000
⁷ Economic Reforms and Productivity Trends in Indian Manufacturing: J. Unni, N. Lalitha, Uma Rani, E.P Weekly October 13, 2001 P3914

**Growth of Total Factor Productivity Labour Productivity in
Organised and Unorganised Manufacturing Sector in India**

Table: 12.23

Years	Organised		Unorganised	
	TFPG	Labour	TFPG	Labour
1978-85	-0.26	4.2	-14.57	7.6
1985-90	4	7.9	11.37	-6.8
1990-95	-1.28	11.9	-3.13	7.5
1978-90	1.13	5.9	-2.66	1.1
1978-95	-0.1	7.8	-2.47	3.1

12.294 According to the table cited above, during the period 1978-85, India has experienced a decline in TFP in both organised and unorganised sectors at the All India level. The TFPG was high in the pre-reforms period, but appeared to decline in the reforms period. During the entire period the growth of employment was higher in the unorganised sector, and this has resulted in lower labour productivity growth compared to the organised sector.

12.295 The growth of value added, employment and capital in the organised manufacturing sector in the country as a whole moved forward

after the introduction of economic reforms. However, this growth was achieved with an inefficient use of resources as reflected in the declining and negative total factor productivity. This is the conclusion that the Study has drawn.

12.296 There is another angle to this. Murli Patibandla and B. V. Phani have addressed the issue of explaining industrial productivity by micro level factors.⁸ They do not discuss whether the productivity has

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Murli Patibandla & B V Phani: Market Reforms and Industrial Productivity E P Weekly Jan.5, 2002 p. 59

increased or decreased after the reforms. According to them, the studies that show increase in productivity at the aggregate level, are theoretically flawed. In any given industry, some firms could adjust more efficiently to the changed market conditions; and others who could not adjust, remain inefficient and slowly die out. In the short run, the inefficient remain or exist in the industry. In such a case, the average productivity of the industries may not show any increase owing to the existence of both efficient and inefficient firms. The opening up of the economy has certainly helped some firms who have more exposure to international trade. They are open to the free flow of new ideas and technologies, and as a result the idea gap is reduced. They have also the ability to adjust to the changed market conditions.

12.297 Thus one can say that the policy of economic liberalisation has certainly helped some Indian firms who have the ability to face international competition. They would always, try to reduce the cost, use the inputs more efficiently, try to innovate and such firms are likely to have more total factor productivity growth. Indian industry can be

efficient only if we have more firms of this type in any industry.

12.298 We have already seen that wages in the organised sector are decided mostly by collective bargaining, and much depends upon the bargaining strength of the management and trade unions. Generally, the practice has been to revise wages, allowances of all types and other facilities given to workers every three years. Now some enterprises are signing agreements for five years. But this has been the recent trend. So far wage rises have not been linked to productivity and profitability conditions. This had worked well because we were not facing competitive conditions. Now after the introduction of policies of economic liberalisation, these conditions have changed. Indian industry has suddenly become cost conscious and any effort to reduce cost and increase the efficiency of an organisation are now welcome. As a result a large number of industrial undertakings are resorting to cost cutting exercises and are resorting to reducing the number of workers by resorting to VRS and outsourcing. This raises the question of the links between productivity or cost reduction and wages or wage increases.

12.299 One extreme way of linking wages to productivity is to introduce a "share contract" system for giving compensation to workers. The share contract wage moves down with poor earnings so that labour costs adjust quickly without resort to lay offs.

12.300 But this system will introduce a lot of uncertainty about the incomes of workers. Moreover, workers and their unions may not believe the employers and the truthfulness and transparency of their book-keeping practices. This will lead to disputes about the profitability or otherwise of the company. Therefore, this practice of share contract does not seem practicable in a country like India today.

12.301 We are still left with the question, how can wages and productivity be linked?

12.302 An ILO-National Tripartite Workshop (1996) observed that there was no operationally effective mechanism for linking wage changes to changes in productivity or profitability. It was suggested by the Tripartite Workshop that income stability for employees in the organised sector should be ensured

through full indexation of the basic wage while bonus and wage revisions should be related to productivity and profitability.

12.303 Productivity of labour (net value added per worker) in the organised sector was generally found to vary with changes in capital intensity and the ratio of salaried staff to total employees. In addition to productivity, wages were influenced by capital intensity, the ratio of salaried staff to total employees, the ratio of wages to value added, and the consumer price index.

Productivity Linked Wages⁹

12.304 If a productivity linked wage system is to succeed, it would need the involvement and commitment of all the parties, particularly the employers and the unions in coming up with a productivity linked wage system acceptable to all. As we have pointed out, productivity emerges from an integrated approach and hence all, from the top management to the bottom rung of workers, should

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⁹ A Note prepared by National Productivity Council for National Commission on Labour on linking of wages and productivity.

share the gains from increased productivity. Wages for various jobs reflect differences in skills and provide necessary incentives for skill upgradation. The variable wage element can be determined with the participation of employees at the individual, group, company, or national level.

12.305 In a productivity linked wage system, the wage structure will consist of a basic wage and a variable component. The former reflects the value of the job within the market, while the variable component provides the flexible linkage with a measure of performance based on either the performance of the economy, the company or the individual. The wage structure will then be:

Total wage = Basic Wage + Variable component (Depending upon productivity)

12.306 The key elements of fixed and variable components include:
Basic Wage

- Annual Increment (wherever mentioned in the agreement)
- Contractual Bonus (where applicable)

Variable component

- Wage increases based on the productivity/profit sharing formula

Basic Principles of productivity wage reform should include the following:

- Wages should aim at providing an adequate standard of living to workers.
- Wage increase must take into account the company's ability to pay and the performance of the employees.
- Wage must reflect the value of the job.
- There must be variable components to accommodate business cycles.
- Wage increase must be commensurate with productivity growth.

12.307 The methodology to be applied for deciding the variable part has to be negotiated and decided by mutual agreement by unions and management, and will involve technical time and motion studies. There are various methods available and there are also expert industrial engineers to undertake such studies and evolve a commonly acceptable solution. The local Productivity Councils do provide training to trade union leaders on greater details about these techniques.

12.308 The methodology to link wages with productivity will depend on the nature of the enterprise, and the formulae used can be determined by consensus between employers and the employees. The following are important for successful implementation:

- (i) Wage reform at the macro level must be a tripartite effort among the Government, the Unions and Employers.
- (ii) There must be allowances for a phasing period, during which adjustments and changes could be made.
- (iii) Real built-in wage increases should be tuned to productivity growth.
- (iv) At the micro level, there must be satisfactory labour management relations and mutual trust and understanding.
- (v) There should be sharing of relevant information.

12.309 The productivity wage system may be applied company-wise.

12.310 The typical characteristics of the system are:

- Employee involvement
- Linkage of a portion of wages with performance at individual, group and company level
- Improvement of work culture
- Recognition of job differentials and skill development

12.311 Indian experience reveals that linkages between wages and productivity can at best be partial. If the objective of the linkage is to limit inflationary pressures then wage increases should be restricted to improvements in labour productivity, making the unit cost constant. The linkages can be used for making wages more flexible in tandem with the market conditions. Wage productivity linkage can also improve the economic performance through paying higher wages or bonus for making extra efforts to achieve the performance goals.

12.312 Wage – productivity linkages vary depending on the objective viz., labour cost containment, wage flexibility, or worker motivation etc. When wage cost containment is the paramount concern, a conventional measure of labour productivity is generally used, i.e., output divided by

a measure of labour input. When wage flexibility is the objective, and when the objective is worker motivation, wages linked with productivity can take a number of forms.

12.313 The most common method used involves worker incentive schemes, the traditional payment-by-results schemes (piece-work etc.) rating or performance appraisal systems. Motivation may also be enhanced through a variety of bonus schemes based on measures of collective performance. Other performance measures used for calculating collective bonus incentives are based on quality, machine utilisation, or savings in raw materials, energy, or other costs. Increases may also be granted in anticipation of productivity improvements linked with changes agreed upon in work methods, as specified in so-called productivity bargaining. The feasibility of identifying suitable performance measures will obviously vary with the circumstances of individual enterprises and groups of workers.

12.314 In the foregoing paragraphs, we have tried briefly to state some of the considerations that have been

urged on the question of linking productivity and wages. We have not put forward any formula because the time and resources at our disposal did not permit an exhaustive and satisfactory study, and because there was no specific mandate to us to propose such a formula.

Productivity Agreements

12.315 Our attention has been drawn to the fact that, in a good number of industries now productivity agreements have been signed.

12.316 We have already seen that productivity is not merely labour productivity. Labour productivity can be improved without economising on the use of labour as an input. By seeking the co-operation and commitment of workers and by sharpening their skills and attitudes, employers can raise productivity through better use of other resources. This is what some of these agreements have proposed to do. We shall cite a few of them.

12.317 The common interpretations of productivity in recent years include the following:

1. Waste reduction in all forms.
2. Working intelligently, not merely putting in hard work.

3. People will take action for productivity improvement only when they are convinced about the rationale and usefulness of the action.
4. Positive involvement and commitment of workers and unions.
5. Change as a continuous process in terms of technology, materials, products, processes, etc.,
6. Productivity is a multi-dimensional concept. It depends on quantity, quality and features of products and the efficiency and effectiveness with which they are produced.

12.318 The productivity linked wages settlement by Southern India Textile Association is a unique example of joint agreement of systematic assessment of work loads and the principle of sharing by workers of 50% of the savings by the total category of basic workers. 30 Mills were party to the agreement.

12.319 The TI Cycles entered into an agreement, during the period it was faring badly, providing for DA linked to productivity instead of inflation. After three years, however,

the DA's linkage with inflation was restored.

12.320 INDAL's Belur Unit links bonus not to profit, but to overall plant efficiency and output.

12.321 In juxtaposition, Madura Coats agreed for higher bonus prospectively for the next three years, and ONGC started the practice of giving ad hoc fixed performance and productivity allowances.

12.322 Incentive schemes are increasingly being calculated on the basis of pre-determined plant efficiency parameters. Eicher Goodearth scrapped its incentive scheme and introduced, in its place, Total Quality Allowance (TQA) based on 13 parameters.

12.323 Kirloskar Oil Engines Ltd. entered into an agreement whereby the management would demonstrate actual working of a job and time taken to complete a job in case there is a difference over the attainability of the standards prescribed.

12.324 Bombay Mills have agreed to pay 4% allowance for 7 days working, 3% allowance for working during recess period and 1.5 times the wages for working on holidays.

12.325 Many agreements begin with opening paragraphs about productivity, work culture and the role to be played by the union and the management. The agreement that Bajaj Auto entered into is an example:

“PRODUCTIVITY, QUALITY, WORK CULTURE, TIME STUDY AND EXPECTED PRODUCTION OUTPUT

“The Union and the Company agree that in view of the increased competitive environment in the domestic and global markets, the company can survive, let alone prosper, only by gaining competitiveness and improving levels of production, productivity and ensuring better quality in all its operations and activities by means of maximum utilisation of plant, machinery, equipment, human and other resources at its disposal. Therefore, both the parties agree to achieve higher output and man/machine utilisation by continuously reducing cycle time, work simplification, up-to-date maintenance, upkeep of machines and tools, toolings, gauges, fixtures, reduction in consumption of consumables and energy and by use of improved and latest technology. The Union and the

Company also agree to ensure continuous improvement in productivity and quality in all the operations of the Company. Further, the Company and the Union acknowledge that the conditions in two and three-wheeler industry are fast changing due to improvements in technology and the emergence of competitive markets where the buyer dictates the terms and therefore it is absolutely imperative that higher quality products are to be consistently produced at lower costs.

“The Union agrees that the company will continue to conduct time studies to decide the rate of production (output rates) and all workmen shall give the production as per the output rates fixed by the Company. The Union also agrees that these output rates may change from time to time by retime study, depending on changes in work methods, raw material, jigs, fixtures etc¹⁰.”

12.326 Similar provisions can be found in many agreements signed recently.

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¹⁰ Dr. C.S. Venkatratnam: Collective Bargaining 2001 – A research project sponsored by Planning Commission, Govt. of India

12.327 "In view of the globalisation of the economy leading to a competitive environment the union and the company recognise the need to improve production and productivity".

12.328 "Survival in the demanding business environment calls for a greater degree of working together and sharing together to bring about higher and higher degree of qualitative performance".

12.329 "Workers shall extend wholehearted cooperation for optimising performance of the company at all levels".

12.330 "Purpose of the agreement is to increase the level of productivity and to improve it further".

12.331 "Purpose is to become more versatile, more flexible and more innovative so that the company can be more competitive".

12.332 All these indicate that both managements and workers are aware of the changed economic environment and the need for working together to enhance productivity.

Special Provisions in Collective Bargaining

12.333 Collective bargaining provisions in wage agreements have come to provide for an element on contingency based on individual/group/organisational performance. They are manifested in one or more of the following ways:¹¹

- a) managerial discretion in setting new norms of production/productivity;
 - b) Proportionate deductions if standard output is not achieved;
 - c) two – tier wage agreements;
 - d) linking dearness allowance to cost of production rather than to cost of living;
 - e) wage cuts/freezes in sick enterprises and
 - f) arbitration.
- (a) Managerial discretion in setting new norms:

Several collective agreements provide for incentive schemes, but few attempt to link wages with productivity and/or bonus. Very few companies – Eicher Goodearth, in New Delhi,

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¹¹ Agreements of Industrial Companies

pioneered it in 1990 – withdrew incentive schemes altogether, clubbed average incentives for the past three years with salary, and announced that workers must do what management asks them to do. The agreement in Bajaj Tempo Ltd., Akurdi, Pune (19th April 1993) provides that: (a) Union will be provided information regarding the issuance of new norms; (b) workers who fail to achieve the norms are liable for disciplinary action and denial of all allowances; and (c) management decision with regard to work norms and work-load will be final and binding on all concerned daily and monthly-rated workmen.

- (b) Proportionate deductions if standard output is not achieved:

The agreement in Asian Paints Ltd., Cochin (Kerala) provides that, “———wages agreed upon in this settlement are for standard output..... and any persistent shortfall in the output will attract proportionate deduction in the wages payable for the period.”

- (c) Two – tier wage agreements:

When existing collective agreements are revised, some

companies have created new grades which start at a lower basic wage than is provided to similar jobs/grades as per earlier statements. This does not seem to conflict with the Equal Remuneration Act in India which is concerned solely with gender based discrimination. However, recognising the impact of such discrimination on team work, many agreements provide for tapering off the differences over a three year period. There are exceptions as the agreement in Mahindra and Mahindra and Larsen and Toubro reveal.

In Mahindra and Mahindra Limited, Igatpur Plant, Nasik the agreement dated 24th April 1995 provides for increase in effective working time by 10 minutes per shift/person: “The Union and the workmen have agreed to work for 420 man minutes as Effective Working Time” per shift. In addition to the above, the union and the workmen have agreed to carry out work related activities such as filing of production/pre-control charts, minor setting, minor maintenance including oiling, greasing and cleaning of

respective machines, equipments and jigs-fixtures etc., in each shift and for this purpose they will work for an additional 10 minutes on average per shift. Thus in the first and second shifts of 480 minutes duration there will be effective utilisation of 430 (420+10) minutes.

It was agreed in the agreement in Larsen & Toubro Limited, Powai Works, Mumbai (30 December 1993) covering daily rated workmen and monthly rated technical staff that "effective working hours for the Day shift (General/First shift) shall be reduced to 45 hours per week (from 48 hours).

Flexi-time is yet to be introduced through collective agreements. The problem that many employers face concern utilisation of the agreed working hours. In the past guaranteed overtime agreements were not uncommon. In recent years, agreements provide that such overtime will be paid only if people are physically present. Interestingly, the thrust is on presence, not work. It confirms that in the past, it was

possible, due to norms established through collective bargaining, to claim predetermined overtime without being physically present, let alone working, for the extra hours.

The main thrust of the agreements on working hours concerns punctuality and regularity in attendance. With the result, many companies have begun to link payment of a variety of benefits like canteen allowance, conveyance allowance, etc., to attendance on top of the attendance bonus. In rare cases even house rent allowance and children's education allowance are linked to employee's attendance. A few firms have also given attendance bonus if any employee does not avail any leave for the first three years; (a) from the company's point of view a fresh worker takes at least three years before he or she rises to peak performance on the learning curve; (b) from the union's point of view, loyal, long serving members should have better reward than fresh employees who may or may not have joined the union yet.

- (d) Linking dearness allowance (cost of living allowance) to cost of production:

This is done on an exceptional basis in chronically sick companies. For example, T.I. Cycles in Madras attempted this in 1984 for a couple of years. Once the company began to earn profits the union requested the management to link dearness allowance back to cost of living index which the management accepted. In quite a few sick companies dearness allowance was frozen for a limited period.

- (e) Wage Cuts/freezes:

Wage cuts and temporary freezes on employee benefits and allowances are common in sick companies deep in debt or facing funds crisis. Wage cuts upto 30% are usually regarded as a trade off against job cuts. Freezes are considered as a temporary contribution to tide over a financial crisis. In the Fifth round of wage negotiations in the public sector during 1993-95, nearly one-fourth of the 240 central public sector undertakings (CPSUs) did not have wage revision agreements even though

most of the existing agreements expired on 31 December 1991. Such companies lost one round of wage revision covering the period 1992-96. The Sixth round of wage revisions covering the period 1997-2006 will also be skipped in these 'sick' companies because of the increases in wage cost. Wage cuts and freezes take place in the sick private sector units too.

- (f) Arbitration:

Wherever there is any dispute between trade unions and management on time study and work measurement, disputes are not settled through courts, but through technical experts. In many agreements in the Pune region, these disputes are referred to industrial engineers of the Poona Division Productivity Council whose decision is binding on both the parties. This willingness to abide by the verdicts of technical experts is something new.

12.334 In linking wages with productivity and in effectively implementing such a scheme, the

primary responsibility lies on the management. Technology, processes and people are the major sources of productivity. The scope of technology has extended far beyond production, to cover materials, processes, packaging, energy, maintenance, transportation, logistics, dispensing, recycling etc. Secondly, various processes can also contribute to productivity. Industrial Engineering, Operation Research Technique, SQC, TQM, ERP, CRM, SCM and simple techniques like Quality Circles all add up to improve productivity. The third factor is people. If they are handled properly people can unlock the productivity latent in themselves.

12.335 Such a change cannot be brought about without co-operation between unions and management. The co-operation of workers is crucial in all efforts to increase productivity. It is the responsibility of the management as well as the union to bring about the culture of co-operation on which productivity depends. The Government too has its share of responsibility to ensure the infrastructure that is needed to assure and improve productivity – roads, power supply, communications, quick administrative responses, elimination of corruption, transparency and so on.

Wage Determination:

12.336 Thus, the factors that are relevant to wage determination can be briefly recounted:

- a) Recommendations of various Committees appointed by the Government for the purpose.
- b) Various judicial pronouncements and the principles enunciated therein from time to time.
- c) Capacity of an industry to pay.
- d) Bargaining strength of the negotiating union of workers.
- e) Regional wages prevailing in that region.
- f) Prices, profits and productivity.

Recommendation:

12.337 We therefore, strongly recommend that, in view of the

- a) Constitutional commitments to a fair wage;
- b) The international agreements or Declarations that we have accepted on the social need and responsibility for a fair wage;
- c) The reports of Committees and Commissions and the judgments of the Supreme Court on minimum wages, fair wages and related matters,

- d) The economic link between a fair wage and the capacity to pay;
 - e) The relation between the capacity to pay, prices, profit and productivity;
 - f) The new methods that have emerged to promote as well as to assess productivity;
 - g) The gradual withdrawal or weakening of the control of the state in economic matters (including wage fixation) that has followed globalisation;
 - h) The crucial and continuing importance of the quantum and regular payment of minimum wages in the vast and dispersed areas of the unorganised sector where more than 90% of the working population are engaged, and where weak organisation and poor public awareness further weaken the bargaining power of workers;
 - i) The experience that all social partners have gathered in this field in the last half century;
 - j) The view that the diversity in conditions within States and between States makes it necessary for us to approach a national uniform minimum wage through effective enforcement of regional minima within regions in the States, and States in proximate regions;
 - k) The view that with globalisation, market forces will increasingly influence wages; and
 - l) The countervailing (opposite) view that globalisation and the consequent job uncertainty have made it all the more necessary to ensure fair and just wages and social security through the intervention of legislation and the machinery of the State and public bodies;
- The Government should appoint a high power committee consisting of representative of Trade Unions, entrepreneurs, State and Central Governments, academicians, social activists, and other concerned and competent groups to study the question of fair wages and minimum wages and make recommendations on methods of determination and revision, quanta, methods of enforcement, relation to capacity to pay, the socially desirable linkages with productivity, and other relevant matters.