Using Minimum Wages to Organise the Unorganised

The Minimum Wages Act, 1948 in India recognised the argument for minimum protections. In the last 60 years since the Act was legislated inflation has raised costs several hundred percent. The Act does not set a specific minimum wage for all provisions, instead leaves it to the states to set occupation-specific wages. There is a massive variation in wages across the states. Some minimum wages are so low that even if a worker works for all 365 days in a year receiving the state-fixed minimum wages, they may, in all probability, lie below the poverty line. Such low wage rates show that State governments have ignored the injunction of Articles 223 to 228 of the International Labour Organisation Code, as well as a directive of our own Constitution contained in Article 43. States have also brushed aside the five norms for fixing minimum wages which were evolved by the 15th Indian Labour Conference in 1957 - that minimum wages should be high enough to meet all basic needs of a worker's family, including food, clothing, shelter and amenities. The 15th ILC said that in calculating the minimum wage:

- the standard working class family of husband, wife and two children should be taken as three consumption units for one earner.
- minimum food requirement should be calculated on the basis of 2,700 calories per day per consumption unit;
- clothing requirement to be based on per capita consumption of 18 yards per annum, which gives 72 yards per annum for the average worker's family;
- for housing, the rent corresponding to the minimum area provided for under the government's industrial housing schemes should be taken; and
- fuel, lighting and other items of expenditure should constitute 20 per cent of the total minimum wage.

The Supreme Court fully upheld these criteria in the case of *Unichoy vs State of Kerala* in 1961. In the later *Reptakos Brett Vs Workmen* case in 1991, the Supreme Court went one step further, and held that besides the five components enunciated by the 15th ILC, minimum wages should include a sixth component, amounting to 25% of the total minimum wage, to cover children's education, medical treatment, recreation, festivals and ceremonies. The Supreme Court also observed that a wage structure including the above six components would be 'nothing more than minimum wage at subsistence level' which the workers must get 'at all times and under all circumstances'.

The Supreme Court on various occasions has further amplified the need for payment of minimum wages by stating that the minimum wage "sets the lowest limit below which the wages cannot be allowed to sink in all humanity"; that it has to be paid irrespective of the kind of enterprise, the extent of profits and financial condition of the enterprise; or the availability of workmen at lower wages; that non-payment of minimum wages amounts to "forced labour" under Article 23, and that employers have no right to conduct their enterprise if they cannot pay their employees a minimum subsistence wage.

A troubling aspect about the fixation of minimum wages by the Advisory Boards is that many wages are not linked to the payment of dearness allowance so that the real wages of workers keep eroding due to inflation. Another inadequacy is that though the Minimum Wages Act requires wages to be revised every five years, this rarely happens and there are instances of wages not being revised for more than 20 years. The Minimum Wages Act also has a clause, which states that if wages are not revised, the existing wages should continue. This has only led to greater lethargy on the part of labour departments and lesser justice to workers. To overcome these lacunae, the National Commission on Rural Labour in 1990 hence recommended that the Minimum Wages Act should be amended to compel timely revision of wages, that all wages should be linked to Variable Dearness Allowance and ensure automatic enhancement of wages every six months on the basis of the Consumer Price Index. But this amendment has not been accepted till date.

Even when inflation is considered, there is the additional risk that it may not be considered *correctly*. Inflation in India is measured with the Wholesale Price Index (WPI), which involves double accounting. For instance, the WPI keeps a tab of steel prices and the products that are made from it. And it does not account for services of any kind, whether housing, transport or education that impact consumers. The concern however should be on consumer prices that determine the cost of living. The system of computing minimum wages on the basis of different Consumer Price Indices (CPI) for different kinds of work may not be fool-proof but it is definitely better than having a single flat rate for minimum wages across sectors and areas. India has three CPIs, all of which are used to determine wages and neutralise inflation. For instance, the CPI for agricultural workers is used to fix minimum wages for agricultural work. The CPI for industrial workers determines the dearness allowance for employees of state-owned enterprises, while the CPI for urban non-manual employees determines dearness allowance for government employees. The government, in an effort to simplify this computation, is now working on two CPIs, one for rural areas and another for urban areas. This may be one method of eliminating the discrepancies that creep in to the calculation if we take the wholesale price index as the base for setting the minimum wages.

Further, different wages are fixed for the same work in different sectors. For instance, in West Bengal, a peon in a shop receives Rs. 114.97 as against Rs. 120.77 in commercial establishments other than shops. To overcome this, most states today have done away with the system of notifying wages individually for various industries. They have instead rationalised all the different occupational categories into four categories: unskilled, semi-skilled, skilled and highly skilled. Only one notification applicable to all industries needs to be issued as per this system.

Even this system is flawed as it assumes a class hierarchy in establishing minimum wages. Skill cannot be a determinant for **minimum wages**. Minimum wages set the standard for subsistence of a worker, which in no way can be dependent on the level of skill a person has acquired. The cost of living in a particular area for an ‘unskilled’ worker can not be different from that of a ‘skilled’ worker. Thus minimum wages should be so fixed such that any worker receiving it can lead a decent standard of living. Therefore instead of having sector specific or skill specific wages, the rational way to set minimum wages would be to set a floor-level rural minimum wage and a floor-level urban minimum wage as the cost of living differs from region to region as opposed to from person to person.

The minimum wage has become a poverty wage instead of an anti-poverty wage. The minimum wage is supposed to set the wage floor, instead it now sets the wage ceiling in most informal sectors of employment.

Minimum wage – the 'Great Leveller'

The neo-classical argument that an imposition of a statutory minimum wage would increase unemployment in an economy and therefore cannot be prescribed for a less developed economy falls through as it assumes a perfectly competitive market structure, which in itself is utopian. No market in any economy operates in perfect competition and especially a labour market. The need for a minimum wage arises as a result of a structural imbalance of power between labour and capital. Typically a labour market can be viewed as a monopsony, especially in a third world economy, and is, more often than not, in a position to pay wages below the rate that would have emerged under conditions of perfect competition. Hence the neo-classical argument of relation of statutory minimum wages to unemployment is untenable.

The determination of wages, particularly a statutory minimum wage, is a political and institutional process, reflecting decisions and choices, reflected in social and political institutions, as to how labour is to be valued. The determination of a statutory minimum wage is closely connected to political and economic notions of 'just' and 'fair' pay. The labour market is embedded in its social and economic environment; the actors within the labour market operate according to rules and norms that have been generated over the long term and do not necessarily immediately accommodate to new patterns of behaviour. Thus the labour market more often than not continues to reflect traditional patterns of gender relations, caste relations embedded in pay systems and structures. Consequently, wages tend to reflect on the one hand traditional social relations in some sectors while it reflects the capitalist notion of being just another cost of business—like rent, electricity or raw materials on the other. However, wages are not only the price of a factor of production but also the means by which people are able to sustain themselves and their families. There is a constant tension between wages as a living and wages as a price. Moreover, wages are also part of the process through which social identities are constructed and reproduced.

Following the South African experience[1], a wage subsidy to firms may be considered as an option for strict implementation of the statutory minimum wages by employers as it will not only increase the incentive of employers to hire semi-skilled and unskilled labour but will also impose a regulatory framework for employment. This subsidy will ensure a reduction in unemployment and a redistribution of income. The cost of this employment subsidy can be substantial, depending on the extent of the target group but the benefit of increased employment will justify this cost. The negative indirect effects of raising funds for the scheme, either via an increased budget deficit or increased taxation, if counter posed against the positive impact of an employment subsidy scheme, the overall net benefits are positive. All household groups increase their income, while all industries are able to employ more workers than before.

Employment subsidies aim at expanding employment by reducing the cost of labour to the employer. Typically the state subsidises the wage paid by the firm without lowering the wage received by the worker. This encourages higher labour absorption by firms, the direct employment effect of the subsidy. Further there will also be an accumulation effect: this occurs when lower labour costs raise expected profits and lead to increased capital investment. Employment is also induced indirectly. Since more workers are employed, household income increases, which in turn leads to an increase in consumption. At the same time, firms are able to lower prices, thus increasing the real spending power of households. Firms increase their output to satisfy higher consumption demand, and hence demand more labour indirectly. Employment subsidies therefore have various positive downstream effects, which render them useful to address a number of issues directly and indirectly, including poverty alleviation, income redistribution, and the stimulation of private investment and aggregate demand.

Working towards an Need Based Minimum Wage

The notion of different minimum wages for different skills arises out of the notion of average productivity of a particular set of workers. It is unfair to link the concept of a

[1] The South African unemployment level was as high as 40% posing a serious threat to political and economic stability in South Africa. The GEAR strategy failed in its objectives of achieving high economic growth and job creation. Reasons for its failure range from institutional problems and misaligned government policies to global market constraints and the economy's inability to create jobs through growth. Various factors have contributed to the high unemployment in South Africa. The economy is characterised by a strong capital-bias in production, while past policies of discrimination and educational inequalities have contributed greatly to the structural unemployment problem in this country. While about 40% of workers can be classified as semi - or unskilled, firms are demanding more skilled and professional workers. A further important cause of unemployment is the sharp rise in real wages of particularly semi - and unskilled workers over the last two decades. Given that lowering the real wage has been an unfeasible solution to the problem, the focus has been on supply-side policies, since demand-side policies have proven to be ineffective in times of global uncertainty. Increased investment in education and training is important, as this will reduce the pool of unemployed semi- and unskilled workers in the long run. However, in the short run, alternative options should be explored. The implementation of a 'wage incentive scheme' was one such alternative proposed by the National Government in the 2001 Budget Review. In his State of the Nation address on 9 February 2007 the South African President announced the introduction of a wage subsidy for low-wage employees along with an earnings-related contributory social insurance system.

minimum wage to the concept of average productivity as a few high or low productivity figures can affect the 'average' largely as the 'average' is always susceptible to extreme values. It is more rational to consider the median productivity figure as the base for setting the minimum as this will represent a quantity at which the population of workers is equally divided: half produce more and half produce less than the median. In a country where skill dispersions are large, it is more just to use the median than the average as the base for setting the minimum. Further, the dispersion in skills of a particular set of workers is a result of political decisions of the past and present as well as historical inequalities and exclusions and therefore it is unfair to attempt to determine wages on the basis of acquired skills as skill acquisition is not independent of social and political structures.

Therefore we stress on the necessity of a need-based minimum wage as opposed to a wage determined by levels of productivity from the simple macro economic understanding that the implementation of statutory minimum wages will contribute to the stabilisation of domestic demand, particularly since the low-pay sector invariably exhibits higher rates of consumption and low savings rate. Further, statutory minimum wages can provide an important protection against deflationary wage cuts in case of weakened strength of workers. With regard to the implication for income and distributive policy, a statutory minimum wage, by definition, prevents wages from falling below a certain level and creates a floor level of societal wage structure.

Discrimination takes many forms and has multiple outcomes. One of the most evident outcomes is to reduce the rewards for effort and skill paid in the form of wages to those groups who are discriminated in the labour market. Statutory minimum wage can prove to be a suitable instrument for combating wage discrimination against women and workers belonging to backward castes, migrant labour who are usually over-represented at the bottom-end of the wage scale. Ultimately, implementing statutory minimum wages also contributes to the reduction of poverty.

Minimum wage as a 'Relative' concept

The necessity for a need based minimum wage also becomes clearer if we view minimum wages as relative to the per capita income of a nation or to its average productivity or to the profit share that accrues to a very minuscule section of the population. If we take the conclusions of the two ILO reports of 2008 (The Global Wage Report, 2008 and The World of Work Report, 2008), India witnessed a mere 1% hike in wages against a 5% growth in productivity during the last two decades to employees. India ranked 9^{th} (of the 32 countries surveyed by ILO) offering highest disparity in wage and productivity growth between 1990 and 2007. Also the average growth rate of GDP in India between 1990-91 and 2006-07 was around 6.23% which may not be a phenomenal figure taken individually but posed against the average growth of wages, it is almost absurd. Also, if we only take the organised manufacturing sector, the wage share in value added in India has declined from 30% in 1991 to 15% in 2003-04 (Recent Employment Trends in India and China: A Unfortunate Convergence – Jayati Ghosh and C.P. Chandrasekhar).

When growth in wages lags behind overall economic growth, workers receive a declining share of the total economic pie (i.e. of the GDP). On the other hand a declining wage share implies that a larger share of the economic gains is directed into profits. Not only is this unfair, but it also has an adverse impact on future economic growth. As lower spectrum of income groups exhibit higher consumption and lower savings than those earning more, a fall in the wage share leads to lower demand and consequently a deceleration of growth.

Using Minimum Wage as a Tool for Organising the Unorganised

Thus we come back to the notion of an urban minimum wage and a rural minimum wage that incorporates the cost of living at each of these areas. In the case of the former, we assume it will be higher than the rural wage as it has to take into account the cost of housing and transportation that are essential to urban living. To this we can add the cost of education/ skill building that workers may have invested in to enhance their skill set. This is not to create a creamy layer which is more than equal than the average urban or rural workforce but this is a layer that we intend to create in order to give sufficient incentive to the average worker to move to this higher level of skill and hence wage. This can also be viewed as a dividend for the investment made in the previous time period by these workers on skill building. However this will remain a contentious issue as this will open up the possibility of multiple minimum wages for different levels of skill.

We use this stratification of the available pool of workers in order to unite them in a common minimum wage platform that does not discriminate between different sections of the work force. It also incorporates the spirit of equal wage for equal work and therefore acts as a binding force between men and women in the working class, between contract workers and regular workers, between workers from various castes and religious minorities. This therefore opens up the scope for building on the strategy of uniting workers in the formal and informal sectors. In this context we would also flag the issue of demanding an industry level bargained minimum wage higher than this base level of regional minimum wage. However, this bargained wage would necessarily be at a stage when the collective bargaining strength of workers is high and they are in a position to demand a larger share of the economic pie.