

Minimum wage policy in India

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Structure of employment in India, 1993/94–2011/12 (%)

	1993/94	1999/2000	2004/05	2009/10	2011/12
Employer	1.9	1.1	1.3	1.2	1.4
<i>Self-employed</i>					
Own account workers	29.6	30.3	31.3	31.3	32.8
Unpaid/contributing family helpers	23.2	21.5	24.3	18.5	17.9
<i>Wage workers</i>					
Casual workers	32.0	33.1	28.9	33.4	30.1
<i>Salaried workers</i>					
Regular formal workers	13.2	5.2	7.9	9.1	9.9
Regular informal workers		8.7	6.3	6.5	7.9

Structure and complexity of Minimum Wages in India

- The Minimum Wages Act (1948) – lays down wages for schedules of employment both formal and informal wage workers (unskilled workers)
 - The criterion for inclusion in the list of scheduled employment is that there should be at least 1,000 workers engaged in that activity in that state.
- Original Act, 13 scheduled employments, uncovered by collective bargaining
- Minimum wages for Schedules of employment (2015)
 - 48 different categories set at the Central Government 1,679 job categories set by the State governments
- Stone-breaking industry (2007)
 - 30% employers aware of minimum wages and 27% aware of industry specific minimum wage
 - 8% of workers aware of minimum wage

National Minimum wage (issue)

- Bhoothlingam Committee (1978) proposed the idea of absolute national minimum wage
- National Commission on Rural Labour (1991), which defined a national minimum subsistence wage
 - National floor level minimum wage since 1996 which is non-binding
- Researchers have also argued for a “Daily minimum wage” at the national level (Ghose, 1997)
- Tripartite Central Advisory Board set up in 2007 to amend the minimum wages Act and make it more effective and relevant (NCEUS 2007 Report)
- Labour law reforms “Wage policy” is being revised where “minimum wages” is one of the issues

Proportion of Wage Workers legally covered by Minimum Wage legislations in India

		2004-05	2009-10
Overall		60.8	70.7
Region	Rural	43.7	76.1
	Urban	46.9	58.0
Sex	Male	59.5	65.3
	Female	63.8	85.6
Industry	Agriculture	80.7	93.4
	Mining	58.6	68.7
	Manufacturing	44.0	48.7
	Construction	15.5	30.5
	Low Skill Services	36.3	66.5
	High Skill Services	75.8	68.6
Sector	Formal	57.4	65.7
	Informal	62.4	73.1

Source: Rani, Uma, et al (2013), "Minimum wage coverage and compliance in developing countries", *International Labour Review*. Vol. 152, No. 3-4, pp. 381-410.

Minimum wage fixing mechanism

- Two methods are followed for fixing or revising minimum wages:
 - the Committee method
 - Notification method
- The appropriate government sets up committees and sub-committees to hold enquiries and make recommendations with regard to fixation and revision of minimum wages.
- No specific criteria for fixing minimum wages (arbitrariness) - fixed by both Central and State governments – multiple rates of minimum wages for different employments in each state
- Lack of clarity with regard to concepts, norms and parameters of wage fixation at state level (Central Advisory Board constituted a Working Group in 2007, led to revision of national floor wage to Rs.66)
- Wide range of institutions influence mechanisms for fixing minimum wages in India – Pay Commissions, collective bargaining, Industrial Wage Boards
- Revisions made to state-level minimum wages over time are adjusted to inflation; it is however not clear if the other economic factors are considered

Range of Minimum Wages in Different Sectors across States in India (in Rs)

	Bihar	Gujarat	Kerala	Punjab
Agriculture				
1998	39	40	40	66
2005	66	50	72	94
2011	120	160	150	160
2013	170	120	150	250
Brick Kiln Industry				
1998	51	63	80	63
2005	68	89	154	90
2011	125	160	262	154
2013	176	200	304	240
Construction of Building and Roads				
1998	51	65	75	63
2005	68	90	162	90
2011	125	176	308	154
2013	176	217	368	240
Stone Breaking and Crushing				
1998	51	63	65	63
2005	68	87	162	90
2011	125	173	308	154
2013	176	213	368	240
Oil Mills				
1998	51	66	113	63
2005	68	91	136	90
2011	125	177	212	154
2013	176	217	250	240
Public Motor Transport				
1998	51	69	N.A.	63
2005	68	94	N.A.	90
2011	125	182	N.A.	154
2013	176	222	N.A.	240

- Source: Report of Working of Minimum wages, Various years

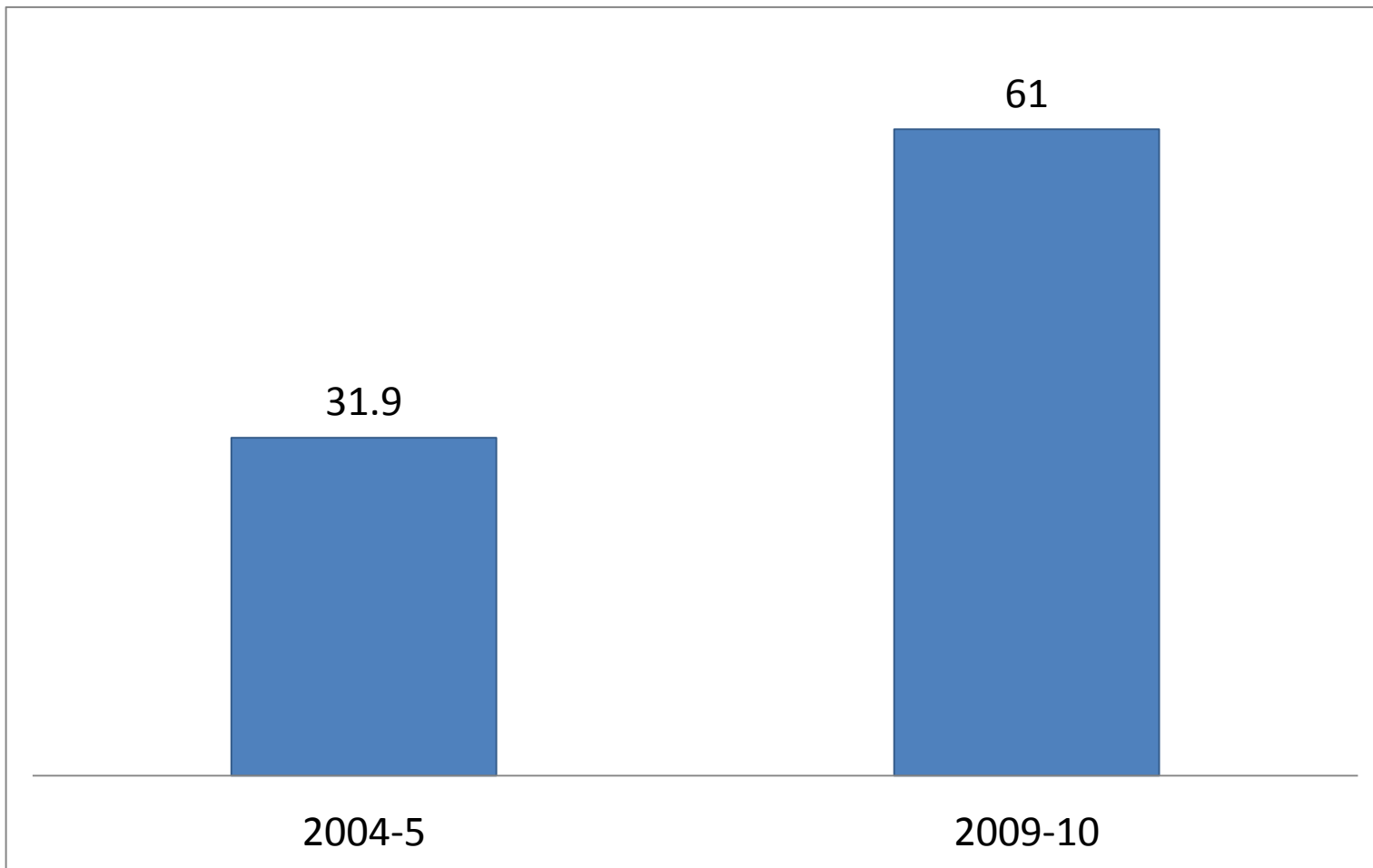
Fixation of minimum wages in India

Comparing Minimum Wages with Actual Wages

Steve level Averages of Minimum Wages			Actual (Mean) Wages Paid		
Year	Minimum	Maximum	Year	Casual Rural Wages	Regular Urban Wages
1991	21	33	1993	21	76
1999	44	75	1999-00	40	165
2004	69	112	2004-05	49	194
2011	129	221	2011-12	139	450

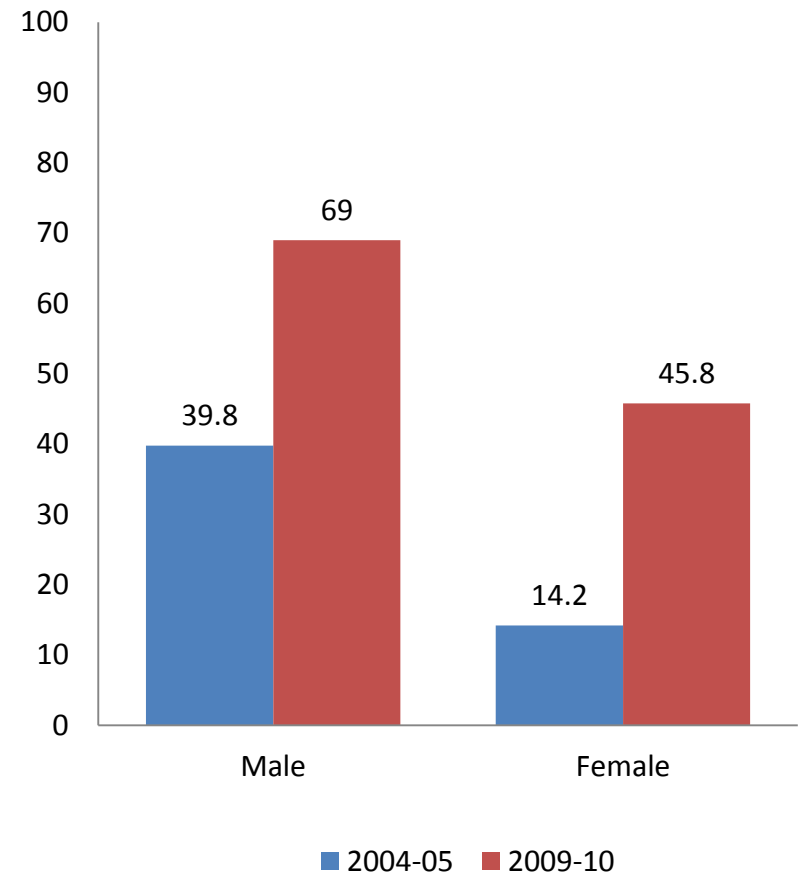
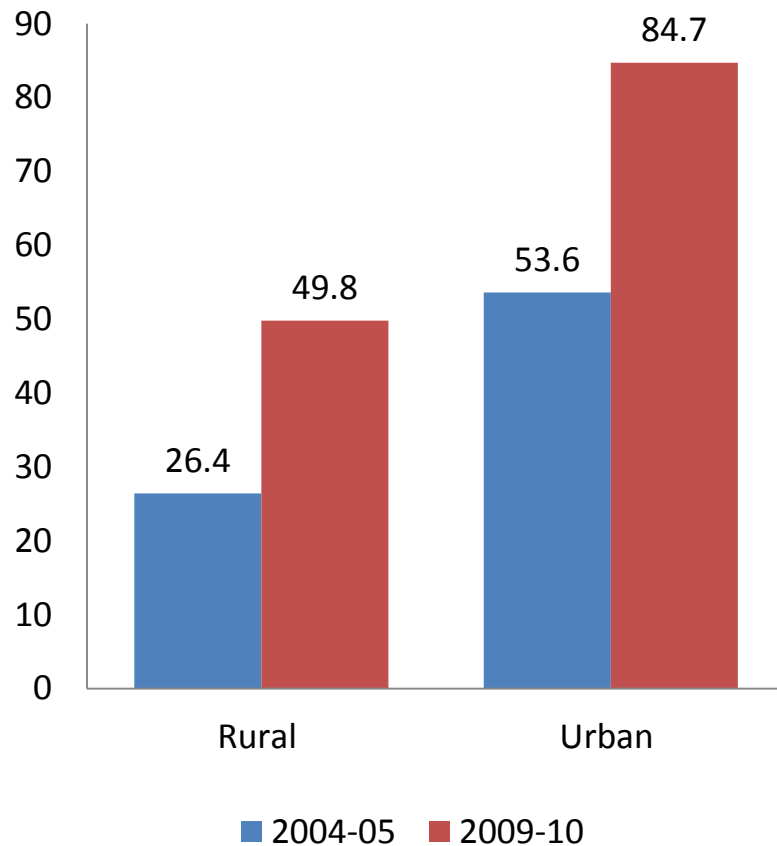
- For regular urban wages, the minimum wages fixed are often less than the average wages prevalent in the market
- The rise in real wages for casual workers was initially slower than the rise in minimum wages; but since 2004-05 however, the rise in real wages was significantly higher than the minimum wages making it also meaningless for these workers

Compliance with these low levels of Minimum Wages



Source: Rani, Uma, et al (2013), "Minimum wage coverage and compliance in developing countries", *International Labour Review*, Vol. 152, No. 3-4, pp. 381-410.

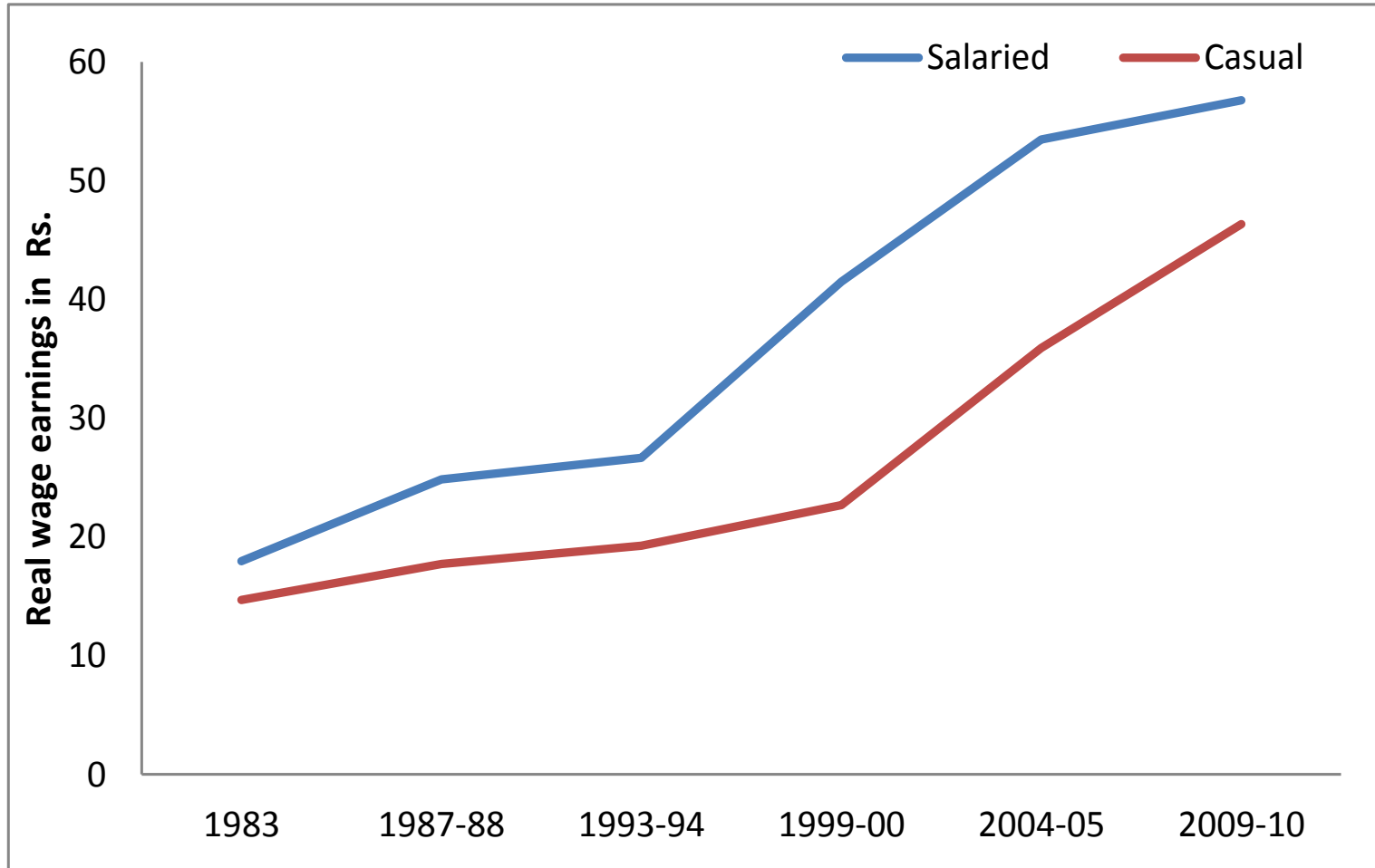
Minimum wage compliance by region and gender



National Rural Employment Guarantee Act, 2005

- Right to work, equal remuneration at minimum wages, social audits and right to information
- New possibilities to unionize the workers and collective bargaining around the issue of
 - proper implementation of the programme
 - ensuring minimum wages
 - employment guarantee
- Awareness among workers and a space to fight for their rights
- Empowering workers to collectively organize and fight for better wages

Convergence of rural real wage earnings, Agriculture



Poverty and inequality in India, 1993/94–2011/12

	Poverty		Inequality	
	Rural	Urban	Rural	Urban
1993/94	50.1	31.8	28.6	34.4
2004/05	41.8	25.7	29.7	37.3
2009/10	33.8	20.9	27.0	38.1

Potential of a binding minimum wage to reduce inequality, India: Simulation exercise for 2004-5

Wage inequality by sector		
Sector	Actual wage	Adjusting for minimum wage
Rural	0.480	0.332
Urban	0.495	0.431
All	0.506	0.397

Wage inequality by Industry groups		
Industry groups	Actual wage	Adjusting for minimum wage
Agriculture	0.330	0.120
Manufacturing	0.456	0.359
Construction	0.299	0.221
Low productive services sector	0.413	0.248
High productive service sector	0.397	0.377

Potential of a binding minimum wage to reduce poverty, India: Simulation exercise for 2004-5

The Probit model with P (Below Poverty line = 1)

- For salaried workers not receiving minimum wages, and controlling for other variables, increases the probability of being poor by 9 - 10%
- For casual workers not receiving minimum wages, and controlling for other variables, increases the probability of being poor by 7 - 8%

Challenges

- Does India's minimum wage system need change – and in which direction?
 - How to make the 'national' minimum wage floor compulsory? or (Level)
 - Should we extend the coverage of existing state level minimum wage to all workers?
- Minimum wage setting mechanism
 - Method of Fixation
 - Level at which it is set, in consultation with social partners which offers real benefits to low-paid workers, while avoiding unnecessary risks to enterprises and jobs
- Level of enforcement and inspection is quite ineffective, what kind of enforcement strategy could it adopt?