India Wage Report

Wage policies for decent work and inclusive growth

International
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ILO DECENT WORK TEAM FOR SOUTH ASIA AND COUNTRY
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Executive summary

Wage trends in India

Over the past two decades, economic reforms have contributed to strong economic growth. The Gross Domestic Product (GDP) in India has increased at an annual average rate of about 7 per cent since 1993. This high rate of economic growth has been accompanied by a substantial decline in India's poverty rate and changes in employment patterns, with a growing proportion of jobs in services and industry and a declining share of employment in agriculture.

The Indian labour market, however, remains characterized by high levels of segmentation and informality. Of the total employed in 2011–12, more than half (51.4 per cent, or 206 million people) were self-employed, and of the 195 million wage earners, 62 per cent (i.e. 121 million) were employed as casual workers. Employment in the organized sector has grown, but even in this sector many jobs have been casual or informal.

The *India Wage Report* shows that low pay and wage inequality remain a serious challenge to India's path to achieving decent working conditions and inclusive growth. Based on the Employment and Unemployment Survey (EUS) of the National Sample Survey Office (NSSO), the report estimates that real average daily wages almost doubled between 1993–94 and 2011–12, increasing somewhat more rapidly in rural than in urban areas and increasing more rapidly for casual than for regular workers. Average wages increased more rapidly for women than for men, and rose faster in the unorganized than in the organized sector. These are all positive achievements. Nonetheless, low pay remains pervasive and wage inequality is still very high. In 2011–12, the average wage in India was about 247 rupees (INR) per day, and the average wage of casual workers was an estimated INR 143 per day.[1] Only a limited number of regular/salaried workers, mostly in urban areas, and highly skilled professionals earn substantially higher average wages. Daily wages in urban areas remain more than twice as high as wages in rural areas.

Although overall wage inequality in India seems to have stabilized or even declined somewhat since 2004–05, wage inequality remains very high: the Gini coefficient for wages is 0.49 and the D9/D1 wage ratio is 6.7. Regional disparities in average wages have increased over time; wages rose more rapidly in high-wage states than in low-wage ones. The gender wage gap also remains very high by international standards, although it declined from 48 per cent in 1993–94 to 34 per cent in 2011–12. This gender wage gap can be observed among all types of

1. On 1 January 2012, US$1 was equivalent to about INR 53.

workers: regular and casual, urban and rural. Of all worker groups, the average daily wages of casual rural female workers is the lowest (INR 104 per day).

Finally, because average labour productivity (as measured by GDP per worker) increased more rapidly than real average wages, India's labour share has declined. Labour share refers to the proportion of national income which goes into labour compensation, as opposed to capital or landowners. According to one estimate, the labour share declined from 38.5 per cent in 1981 to 35.4 per cent in 2013.

Wage policy in India

Wage levels and distribution of wages are, to a large extent, influenced not only by skills and productivity levels, but also by the role of labour market institutions, particularly minimum wages and collective bargaining. Part II of this report describes these institutions and some of their characteristics.

India's industrial relations system transitioned from a structure of centralized bargaining during the first three decades of planned industrialization to decentralized bargaining, following the partial liberalization of the economy in the mid-1980s. As a result, enterprise or plant-level bargaining has become the dominant level of bargaining in the private sector. Nevertheless, in key industries (banking, ports, oil, and steel) where public employment predominates, national industry-wide bargaining continues. Union density, defined broadly in Indian data as the percentage of members of trade unions and associations across the total workforce, stood at a relatively low 10.7 per cent in 2011–12, increasing marginally compared to the 1993–94 level. Union density among female workers was half that of male workers. Among non-agricultural workers, union density was 17.7 per cent in 2011–12. It is difficult to gauge the extent of collective bargaining coverage in India, as no reliable estimates are available; nevertheless, it would be fair to assume that it is lower than trade union density rates and concentrated in large enterprises.

These aggregate numbers hide different trends for different groups. Union density among salaried workers has fallen precipitously since 1993–94, by 17.7 percentage points to 28.8 per cent, while it has increased for casual workers and among self-employed workers. There have been some attempts at unionizing worker in the informal economy, especially among home-based workers either to negotiate for minimum wages or to demand for better conditions (brick workers).

India was one of the first developing countries to introduce a minimum wage policy. The Minimum Wages Act adopted in 1948, is considered to be an important piece of labour legislation. It is one of the few protections afforded to both regular and casual workers, and to workers in both the organized and unorganized sectors. However, the minimum wage system is complex, its rates are set mainly by state governments for employees working in selected "scheduled" employment. This has resulted in an estimated 1,709 different rates across the country, at times set somewhat arbitrarily, without full consultation with social partners, revised only about every five years, and applicable to an estimated 66 per cent of wage workers (those working in "scheduled" employment). In around 40 per cent of states, the legal scope of the application of minimum wages was below 50 per cent of wage workers.

A national minimum wage floor was introduced in 1991 and was progressively increased up to INR 176 per day in 2017, but it is not legally binding. Moreover, there is a lack of consensus with regard to the methodology used to determine the rate, which has resulted in neither the central nor state governments using it as a floor for determining minimum wages.

Despite this wage floor being non-binding, one estimate shows that in 2009–10, about 15 per cent of salaried workers and 41 per cent of casual workers earned less than this indicative national minimum wage. Overall, 33 per cent of wage workers (i.e. 62 million workers) were paid less than the indicative national minimum wage, and the rate of low pay was higher among women than among men.

Wage policies for decent work and inclusive growth

Ensuring decent work and inclusive growth through sustainable wage policies is a widely shared objective across many countries. The Preamble to the ILO Constitution calls for "the provision of an adequate living wage" and the ILO Declaration on Social Justice for a Fair Globalization adopted by the International Labour Conference at its 97th Session in June 2008 calls for wage policies which "ensure a just share of the fruits of progress to all, and a minimum living wage to all in need of such protection". In 2016, the G20 – of which India is a member – also adopted a call for sustainable wage policy principles, specifically minimum wages and collective bargaining, which ensure that wages grow in tandem with labour productivity and contribute to reducing inequality and promoting inclusive growth. The G20 also agreed on the objective of effective wage policies to address gender wage gaps. The objectives of decent work for all, equal pay for work of equal value and reduced inequality through fiscal, wages and other policies are also identified as key objectives of the United Nations 2030 Agenda for Sustainable Development.

Sustainable wage policies that promote decent work and inclusive growth have several advantages. First, they can contribute to a pattern of sustained and balanced economic growth, which relies on the progressive increase of domestic consumption by lower- and middle-income groups as a key factor in overall aggregate demand. Second, they can contribute to more social cohesion and social mobility, making a broad segment of society feel part of the country's economic success. Third, with less inequality in the labour market there may also be less pressure on redistribution through fiscal measures, which can alleviate demands on the state budgets.

Minimum wages

There has been a revival of interest in minimum wages in many countries in recent years. Recent literature on the effects of minimum wages shows that if set in a carefully balanced way, taking into account both the needs of workers and their families as well as economic factors, minimum wages can support the wages of low-paid workers and reduce wage inequality with no significant negative impact on employment.

There are several possible options to improve the current minimum wage system. These recommendations have been based on a vast body of existing literature and the ILO standards (particularly the Minimum Wage Fixing Convention, 1970, No.131) as well as the conclusions of a capacity-building workshop titled "Towards more effective wage policies in India", jointly organized by V.V. Giri National Labour Institute and the ILO, New Delhi in April 2015 (see Appendix).

These are:

- Extending legal coverage to all workers in an employment relationship.
- Ensuring full consultation and, in so far as possible, the direct participation of social partners on a basis of equality in the establishment and operation of minimum wage systems.
- Undertaking more regular and evidence-based adjustments.
- Progressively consolidating and simplifying minimum wage structures.
- Taking stronger measures to ensure a more effective application of minimum wage law.

Collective bargaining

Collective bargaining offers a mechanism for inclusive, coordinated wage setting. Collective agreements on wages can be used to establish minimum standards as well as to set wages above an existing wage floor. It is important to understand how minimum wages and collective bargaining interact. In most countries where a statutory minimum wage exists, minimum wages provide a wage floor for the lowest paid, and collective bargaining can determine higher wage floors or lift wages for those above the minimum. The relationship between statutory minimum wage policies and collective bargaining is thus of particular importance. Minimum wages should not be used as a substitute for collective bargaining. It is thus recommended that the government strengthen the framework for collective bargaining. Tripartite cooperation between government and social partners can play an important role in creating the conditions for effective collective bargaining – at all levels – by ensuring the appropriate framework is in place.

To be more inclusive, the organizational basis for collective labour relations could be strengthened, drawing on new networks and sources of power, including those in the unorganized or informal sector. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act 2014 are interesting initiatives to bring informal sector workers into the realm of legislations. Other efforts could be undertaken to bring the informal economy within the country's legislative framework and into the framework of social dialogue and collective bargaining.

Data collection and analysis

An evidence-based approach to minimum wage fixing, collective bargaining and the development of adequate labour market policies requires regular production of good and reliable national data on employment, wages, productivity and hours worked, based on which policymakers can make informed decisions. In India, such data are not collected on a regular basis; due to this, even in this report the latest data for analysis refers to 2011–12. In this report, we raise for consideration some recommendations on improving coverage and data collection towards a more timely and in-depth empirical analysis, to effectively inform policymakers and social partners. Given the regional variation in levels, disparity and growth in wages there is a need for a more detailed understanding of the working of the labour markets at the state level. This calls for state-specific and comparative studies on wages and for collaborative work between government agencies, academic institutions and expert organizations.

Other measures

Many other publications (including various editions of the ILO *Global Wage Report*) have provided more comprehensive sets of policy orientations, which can be considered to address wage inequality. They include (but are not limited to) the following:

Higher skills and productivity growth for sustainable enterprises: The ILO's *Conclusions concerning the promotion of sustainable enterprises* (2007) emphasizes the importance of an environment that is conducive to the creation and growth or transformation of enterprises on a sustainable basis. In developing countries, structural transformation from low-productivity to high-productivity sectors may play an important role in achieving higher overall labour productivity. This usually requires and fosters an accumulation of skills, and eventually a growing supply of more educated workers. Governments can facilitate these developments through quality public education, skills-training programmes and job-matching services. A growing supply of higher-skilled workers may also push up the wages of low-skilled workers relative to more skilled workers, and thus reduce inequality.

Promoting equal pay for work of equal value: A significant source of wage inequality can be found in exclusion or discrimination against some categories of workers, including women and scheduled castes. To reduce wage gaps, national legislation must provide for the right to equal remuneration for work of equal value[2] and effective access to justice to claim this right. But overcoming unequal pay across groups requires sustained effort at various levels and through a wide range of policy approaches. Equal pay for men and women needs to be promoted through strong policies, including awareness raising, combating gender-based stereotypes about women's roles and aspirations, strengthening polices on maternity leave, and advocacy for better sharing of family responsibilities. Equal pay at the enterprise level also requires job evaluation methods free from gender bias.

2. ILO's Equal Remuneration Convention, 1951 (No. 100), represents a widely agreed standard.

Formalizing the informal economy: The pay gap between workers in the informal and formal economies can be reduced by laws, policies and practices which facilitate transitions from the informal to formal economy. According to the recently adopted ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), countries should progressively extend minimum wage protections, in law and in practice, to workers in the informal economy through the process of formalization. Recommendation No. 204 provides guidance to facilitate the transition of workers and economic units to the formal economy, while ensuring the preservation and improvement of existing livelihoods during the transition. It calls for a combination of incentives, compliance and enforcement measures, including, for example, improving access to business services or finance as a result of transition, and reducing compliance costs for micro and small economic units through simplified tax and contribution regimes, as well as more extensive coverage of labour inspection in the informal economy.

Strengthening social protection: Social protection systems are key in reducing inequality and contributing to more inclusive growth. It is thus essential that minimum income needs are tackled through both wages and social transfer payments to low-income households. Transfers may take many different forms, including direct payments to low income households and the creation of public employment opportunities for low-income households, pensions, or publicly provided or financed health care, among others. The appropriate design and mix of social protection measures will vary from country to country (see ILO, 2017) and is beyond the scope of the present report.[3]

3. The ILO's Social Protection Floors Recommendation, 2012 (No. 202) provides guidance to member States in building comprehensive social security systems and extending social security coverage by prioritizing the establishment of national floors of social protection. To achieve universal coverage of populations, the ILO's extension strategy recommends ensuring at least basic levels of income security and access to health care as a priority through nationally defined social protection floors, while progressively ensuring a wider scope and higher levels of protection.

Abbreviations

AICCTU	All India Central Council of Trade Unions
AIOE	All India Organisation of Employers
AITUC	All India Trade Union Congress
ASI	Annual Survey of Industries
ASSOCHAM	Associated Chambers of Commerce
BMS	Bhartiya Mazdoor Sangh
CAGR	Compound Annual Growth Rate
CIE	Council of Indian Employers
CITU	Centre of Indian Trade Unions
CTUO	Central Trade Union Organization
CPIIW	Consumer Price Index for Industrial Workers
EUS	Employment and Unemployment Survey
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chambers of Commerce and Industry
GDP	Gross Domestic Product
GVA	Gross Value Added
HMS	Hind Mazdoor Sabha
HRM	Human Resource Management
ICFTU	International Confederation of Free Trade Unions
IOE	International Organisation of Employers
IMF	International Monetary Fund
INTUC	Indian National Trade Union Congress
JAC	Joint Action Committee
JWNC	Joint Wage Negotiating Committee
KKNS	Karnataka Kollageri Nivasigela Sangathana
LEARN	Labour Education and Research Network
LMKS	LEARN Mahila Kamgar Sanghatana
LPF	Labour Progressive Federation
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MOSPI	Ministry of Statistics and Programme Implementation
NCEUS	National Commission for Enterprises in the Unorganized Sector
NCR	National Capital Region
NFITUDHN	National Front of Indian Trade Unions, Dhanbad
NFITUKOL	National Front of Indian Trade Unions, Kolkata
NNP	Net National Product

NREGA	National Rural Employment Guarantee Act
NREGS	National Rural Employment Guarantee Scheme
NSSO	National Sample Survey Office
NTUI	New Trade Union Initiative
OECD	Organisation for Economic Cooperation and Development
PSE	Public Sector Enterprises
RMNCH	Reproductive, Maternal, New-born and Child Health
SCOPE	Standing Conference on Public Sector Enterprises
SEWA	Self-Employed Women's Association
SSA	Sarva Shiksha Abhiyan
SEZs	Special Economic Zones
TUCC	Trade Union Coordination Centre
UTUC	United Trade Union Congress
VDA	Variable Dearness Allowance
VRS	Voluntary Retirement Scheme
WWF	Working Women's Forum

PART I Wage trends in India

1 Introduction

Wages are of fundamental importance for the living standard of wage earners and their families. They are also important indicators of economic progress and social justice. In recent years, many countries have witnessed a revival of interest in wage policies and policy tools such as minimum wages, after a period of relative neglect during the 1980s and 1990s (Belser and Rani, 2015). In developed countries, this trend continued after the financial crisis of 2008 and its after effects on the standard of living of a majority of the population. There was a realization among policy-makers and researchers that earlier trends in both employment and wages were such that they contributed to socially and economically unsustainable increases in income inequality. In developing countries, especially those that are referred to as emerging economies, a high growth rate in the economy led to an increase in real wages but at a much slower rate, and it is associated with an increase in income inequality. It is thus critical for policy-makers to better understand the nature of wage policies and strategies for setting wages, to ensure inclusive and sustainable growth and decent work for all.

In India, there has been considerable debate on trends in both real wages and wage policy, especially on the question of setting a national floor-level minimum wage as well as the implementation of a large set of minimum wages in different states. Despite being referred to as an emerging economy and given its status as a member of the G20, India presents a rather different picture in terms of employment and wages. The share of population in the labour force is lower than in other emerging Asian economies, and the percentage of wage labour in the total workforce is also quite low. Wage workers constitute only a little less than half the workforce (49 per cent) of the economy. This, however, does not reduce the importance of wages and wage setting. Of the other half of the workforce, classified as self-employed, an overwhelming majority eke out a living, from their homes or outside their homes, by engaging in activities characterized as Own Account Work. Any change in the wages of wage workers will also have an impact on the demand for goods and services, and hence on the earnings of these workers who get paid for the labour they put in.

Therefore, while the focus of this report is on the wage workers, there is a larger relevance to what happens to wages in the Indian economy. Following subdued growth for some decades, from 2004–05 to 2011–12 real wages in India grew strongly (Rani and Sen, 2018; Rodgers and Soundararajan, 2016); compared to the earlier period from 1993–94 to 2004–05 (Sarkar and Mehta, 2010; Karan and

Sakthivel, 2008). While the trend in wages is an important indicator of the welfare of the wage-dependent population, there are other equally important dimensions to investigate. The dualistic nature of the economy has led to a segmentation of the labour market. Therefore, the trends in wages are also examined in terms of type of employment or labour status, rural–urban location, as well as gender. These are further scrutinized in terms of economic sectors, occupations and regions, given the large size of the country and the variations in economic development. While a number of studies have examined these aspects covering different time periods, it is important to place them in a comprehensive manner within a longer timespan (1993–94 to 2011–12).

The report also investigates the question of wage disparity based on gender, location and social groups (castes), as it is of utmost importance from the point of view of balanced growth and social justice, and also in the larger context of increasing income inequality. The report also examines inequality from a distributional point of view by looking at wage shares in national income so as to find out whether or not wage workers have gained or lost in a relative sense.

Finally, there is a revival of interest in the role of labour market institutions, particularly concerning minimum wages and collective bargaining in how they affect wage levels and the distribution of wages. In India, the main legislative instruments regulating wages are: Minimum Wages Act, 1948; Payment of Wages Act, 1936; Payment of Bonus Act, 1965; and Equal Remuneration Act, 1976. Policy debates have included the question of whether India should enact a national minimum wage floor (it was adopted as a policy previously but does not yet enjoy statutory status) and, more recently, whether to consolidate the above Acts into a single Labour Code on Wages (an on-going process), and the possible extension of minimum wage to cover all wage workers. The national trade unions have also recently mounted a campaign for a statutory national minimum floor wage at a higher threshold than the current non-statutory national minimum wage.

Beyond these steps, there are a range of challenges to implementing effective wage policy, including full consultation of social partners in the minimum wage-fixing machinery, evidence-based adjustments that take into account the needs of workers and their families as well as economic factors, the possible simplification of a minimum wage structure, and measures to improve implementation.

India is not alone in debating its wage policies. In recent years, many countries have turned to or strengthened wage policy mechanisms and specifically minimum wage setting to address working poverty and inequality (ILO, 2015).[1] At the international level, the G20 has agreed on the importance of sustainable wage policies to increase living standards, and the United Nations 2030 Agenda for Sustainable Development has called to focus on decent work for all women and men and on reducing inequality as part of the key objectives within universal policy, which includes fiscal and wage policies. In Asia, the Bali Declaration, adopted at the 16th Asia and the Pacific Regional Meeting,[2] has also set policy priorities to confront extreme poverty, income inequality, and the gender wage gap amongst others (ILO, 2016a).

Against this background, this report makes an attempt to discuss the issues raised in the existing literature on the subject, provides empirical analysis of recent wage trends, and discusses the effectiveness of wage policy and wage-setting institutions in the Indian context. Although the main thrust of this report is country-wide analysis, we are aware of the importance of the regional dimension, which involves state-level assessment and analysis of important issues. The period of analysis is from 1993–94 to 2011–12, and the initial year coincides with the implementation of economic reforms which began in 1991. The report uses the unit-level data of the Employment and Unemployment Survey (EUS) of the National Sample Survey Office (NSSO) for analysis, which is the most comprehensive source for employment, unemployment and wages, and a host of related socioeconomic characteristics (Papola and Kannan, 2017). Five rounds of EUS were available for this period; we selected the time periods 1993–94, 2004–05 and 2011–12 for analysis. We did not take into consideration 1999–2000 as there is a debate on methodological comparability across the different NSS rounds on the choice of the reference period for food and non-food consumption, which would lead to non-comparability of inequality measures. The 2009–10 NSS round was not taken into consideration due to the controversy around underestimation of female workers.

Given the dualistic character of the Indian economy – organized and unorganized, or formal and informal – discussion of a single average wage would be inappropriate. In this report, wages are analysed on the basis of this duality, taking into consideration the type of employment or labour status of the worker who are referred as regular/salaried and casual workers. The organized sector consists largely of regular workers, although there is a growing trend to employ casual and contract workers on short-term or fixed-term contracts.

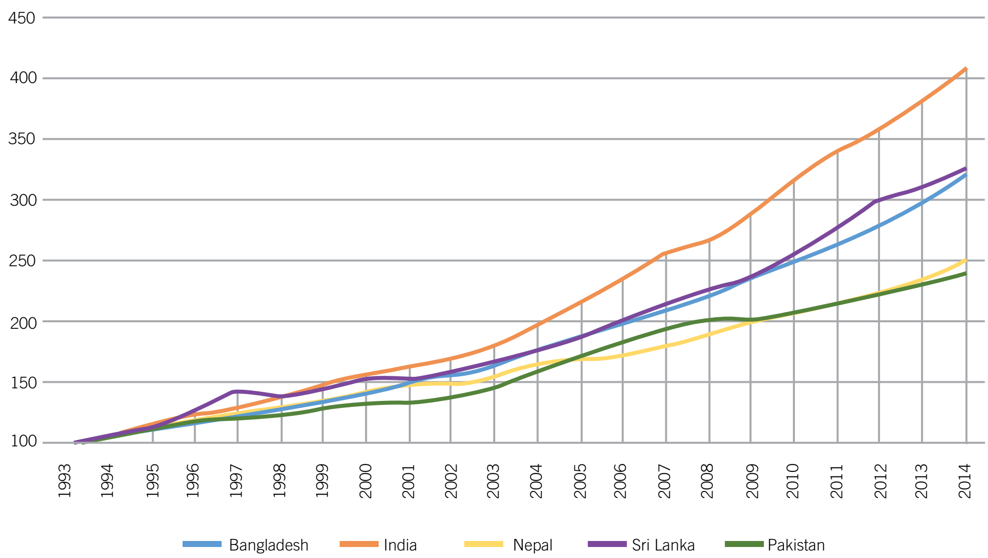
This report follows the general structure of the ILO *Global Wage Report* and is organized as follows. Part I provides an overview of recent trends in wages and employment, by type of employment or labour status, rural-urban location, sector, occupation, education, and social groups as well as gender. It then examines wage gaps between different categories of workers, including gender wage gaps, and differences across states. This part also presents the trends in wage inequality and discusses the issue of wage shares in national income. Part II is devoted to a discussion on wage policies, legislations and their implementation, focusing on minimum wages as well as collective bargaining. Part III provides some policy-oriented conclusions.

2 Labour and the economic context

2.1 Economic growth, employment and poverty

Over the past two decades, economic reforms[3] in India have contributed to strong economic growth, with the country's gross domestic product (GDP) increasing at an annual average of about 7 per cent. Overall, this means that GDP rose more than four fold since 1993 (figure 1). During the same period, GDP rose more than three fold in Sri Lanka and Bangladesh, and multiplies by about two-and-a-half times in Nepal and Pakistan. India's economic growth also proved resilient during the years following the global economic crisis which began in 2008–09. Since 2010, many emerging and developing countries have experienced a decline in growth rate and some have even faced deep economic depression, like Brazil and the Russian Federation (ILO, 2016b). India, however, continued its robust economic growth, albeit slowing down in 2017 (World Bank, 2017).

Figure 1. GDP index for South Asian countries, 1993–2014 (base year 1993 = 100)

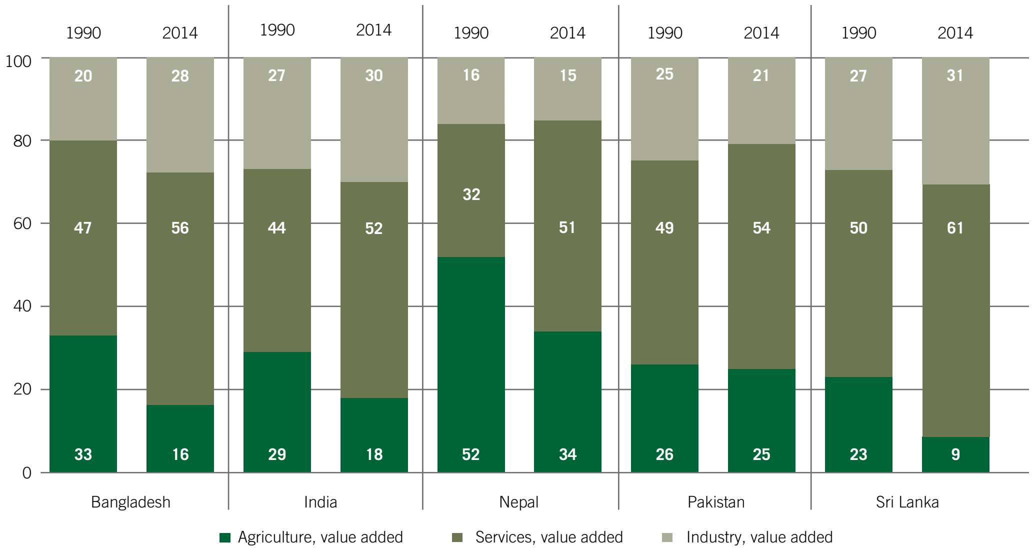


Note: Data adapted from World Economic Outlook Database.

Source: Data retrieved from https://www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx (13 October 2017).

The structural transformation of the Indian economy has been slow, with labour productivity widening between the agricultural and non-agricultural sector – and the agricultural sector is lagging behind. Labour absorption in the expanding manufacturing sector (Lewis, 1954), a result of industrialization, has been quite sluggish. However, India – like the rest of South Asia – has been characterized by service-led growth, as the share of the service sector has expanded more than that of the industrial sector (Ghose, 2014). Ghose argues that the services sector can be a lead sector in the growth process just like the manufacturing sector, because it displays similar characteristics: "learning by doing effect at enterprise level, spillover effects at macroeconomic level and international tradability" (p. 5). Indeed, the dominant pattern in the sub-region is one of a high and increasing share of services in national output. In India, between 1990 and 2014, the share of industry in value added increased by 3 percentage points, and the share of agricultural sector output declined by 11 percentage points (figure 2).

Figure 2. Sectoral distribution of GDP, 1990–2014 (percentages)

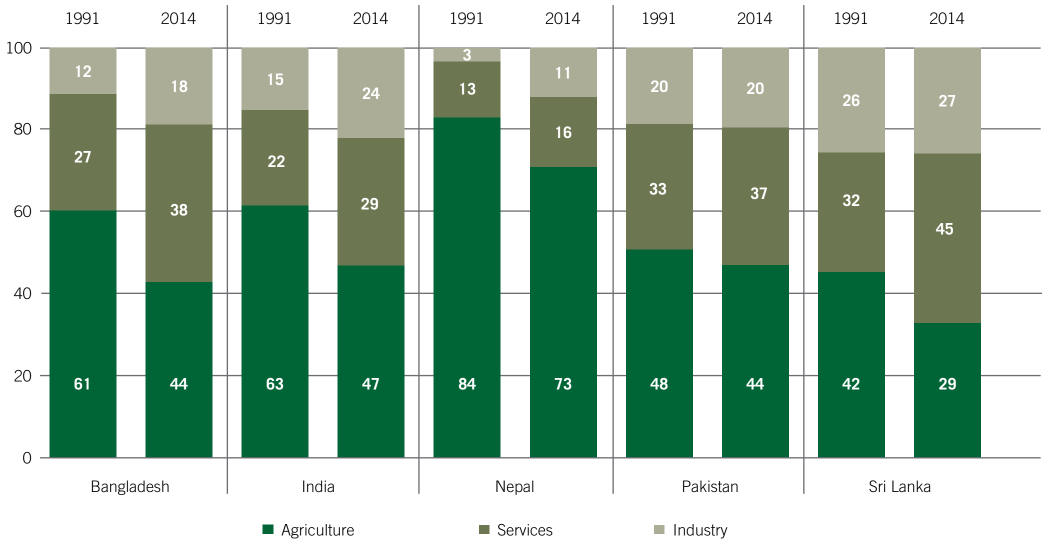


Note: Data adapted from World Economic Outlook Database.

Source: Data retrieved from https://www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx(13 Oct. 2017).

What happened to employment across the different sectors? Figure 3 shows that between 1991 and 2014, the share of agriculture in total employment in India dropped by 16 percentage points. Though the share of agriculture in GDP has declined sharply, the share of employment continues to be high and the agriculture sector remains the country's largest employer (Papola and Sahu, 2012). Yet, somewhat surprisingly, the employment share of services increased by about only 7 percentage points, which is lower than the increase in the employment share of industry, which increased by 9 percentage points (figure 3). The process of structural transformation for most countries in the South Asian region has been a shift in the composition of workforce from agriculture towards the services sector, especially in Bangladesh and Sri Lanka. In India, there has been a shift in employment from agriculture towards manufacturing and services over the past two decades.

Figure 3. Sectoral share of employment, 1991–2014 (percentages)



Note: Data adapted from ILOSTAT.

Source: Data retrieved from http://www.ilo.org/ilostat

The economic reforms of the 1990s were supposed to generate high rates of economic growth, which would in turn create more employment opportunities and better incomes, and eventually reduce poverty. There is much debate in India about poverty rates, which vary widely depending upon the method chosen to estimate poverty and poverty line levels. However, estimates of the Planning Commission show that in the period soon after the implementation of the economic reforms, from 1993–94 to 2004–05, despite high economic growth poverty declined by only 0.74 percentage points per annum. During this period, the government tried to maintain anti-poverty measures while implementing reforms and there was an increase in social sector spending irrespective of the political party in power.

In 2004, the government was encouraged by coalition partners to pursue inclusive growth and reduce poverty. This led to the implementation of some rights-based developmental initiatives as part of the minimum needs programme – such

Table 1. Poverty in India, 1993–94 to 2011–12

	Poverty (Headcount ratio)	
	Rural	Urban
1993–94	50.1	31.8
2004–05	41.8	25.7
2009–10	33.8	20.9
2011–12	25.7	13.7

Source: Figures for poverty based on Government of India Planning Commission estimates.

as the well-known National Rural Employment Guarantee Act (NREGA, later renamed MGNREGA after Mahatma Gandhi in 2005; the Unorganised Workers' Social Security Act 2008; the Rashtriya Swasthya Bima Yojana (RSBY) 2008, which provides minimum health insurance cover; and the National Food Security Act, 2013. As a result, in the latter period, i.e. from 2004–05 to 2011–12, poverty declined by 2.2 percentage points per annum. Overall, rural poverty rates declined from 50.1 per cent in 1993–94 to 25.7 per cent in 2011–12, and urban poverty rates fell during the same period from 31.8 per cent to 13.7 per cent (table 1).

2.2 Wage employment: Casual and regular salaried

Table 2 shows data from the 2011–12 round of the EUS. We see that in 2011–12 there were about 402 million persons employed in India between the ages of 15 and 64, of which 290 million were men and 112 million were women. These estimates are slightly different from what is often reported in official sources or other studies in the relevant literature. The reason for this difference is because we control for age group 15 to 64 years. However, if all workers were to be accounted for, the employment estimates would be 420.4 million for 2011–12 as published in official sources.

What was the proportion of wage earners, as opposed to self-employed workers, in total employment? Of all employed persons, 206 million (or 51.4 per cent) were self-employed and 195 million (or 48.6 per cent) were wage employees (figure 4). The proportion of self-employment was higher among women than men. Self-employment is composed of employers, unpaid family workers, and the

Table 2. Structure of employment, 2011–12 (percentages)

		Male	Female	Total
Rural	Self-employed	53.3	59.0	55.0
	Regular/salaried	10.5	5.8	9.0
	Casual	36.2	35.2	35.9
	Total (in thousands)	203 588	90 181	293 769
Urban	Self-employed	41.0	42.5	41.3
	Regular/salaried	44.2	43.6	44.0
	Casual	14.8	13.9	14.6
	Total (in thousands)	86 466	21 503	107 970
Total	Self-employed	49.6	55.8	51.4
	Regular/salaried	20.5	13.1	18.5
	Casual	29.8	31.1	30.2
	Total (in thousands)	290 054	111 684	401 739

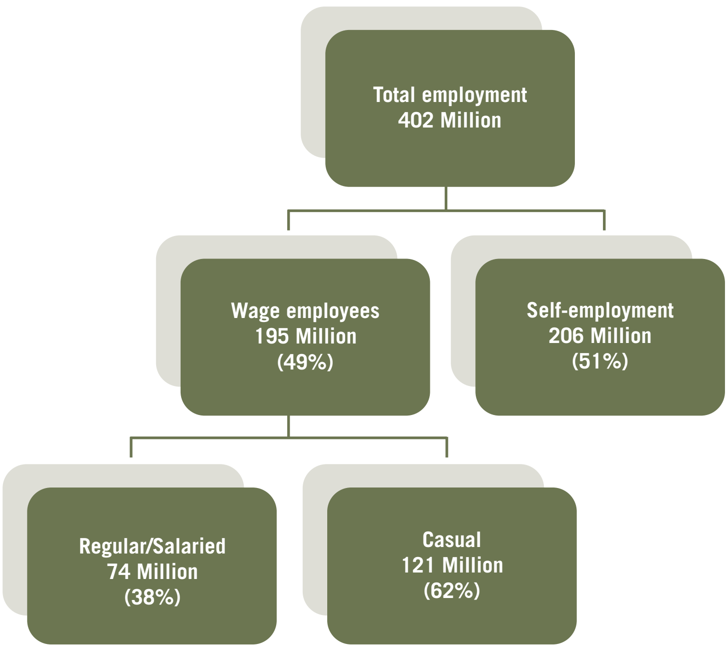
Source: ILO estimates based on NSSO data.

biggest group, identified as Own Account Workers (table 2). This last group is generally engaged in earning activities that are strongly dependent on local markets and domestic consumption. Therefore, any changes in wage employment will also affect the earnings of those in self-employment because these two sectors are linked through the labour and goods markets (Fiszbein, 1992).

Wage employment can be sub-divided into regular/salaried[4] and casual wage employment.[5] The casual labour market consists mainly of people from economically poorer households,[6] engaged in irregular work, compensated on a daily basis and with low levels of education and skills. The incidence of such labour is high among socially disadvantaged groups. Casual workers are usually underemployed as working cycles are irregular and they are compensated only for days worked, unlike regular/salaried workers who have continuous employment and whose wages are compensated on a monthly basis.

The most recent data (2011–12) show that out of the 195 million wage employees, 74 million (or 38 per cent) are regular/salaried employees and 121 million (or 62 per cent) are casual wage workers (figure 4). Male workers are distributed as follows: 41 per cent in regular/salaried employment and 59 per cent in casual employment; whereas women are less prevalent than men in regular/salaried employment. The distribution of women workers is as follows: 30 per cent in regular/salaried employment and 70 per cent in casual work (figure 2). In the non-agricultural sector of the economy, wage employment constitutes around 62 per cent of total employment.

Figure 4. Structure of employment in the Indian economy, 2011–12



Source: ILO estimates based on NSSO data.

Over time, the proportion of wage earners has increased only slightly, from about 46 per cent in 1993–94 to 49 per cent in 2011–12. However, within wage employment, there has been an increase of regular/salaried workers, from 30 per cent to almost 38 per cent, and the share of casual wage employment has dropped by 8 percentage points over the past two decades (table 3).[7] However, much of the increase that has taken place in regular/salaried employment involves work arrangements of a contractual nature, i.e. short-term or fixed-term contracts (Rani and Sen, 2018).

Table 3. Trends in the employment structure, 1993–94 to 2011–12 (percentages)

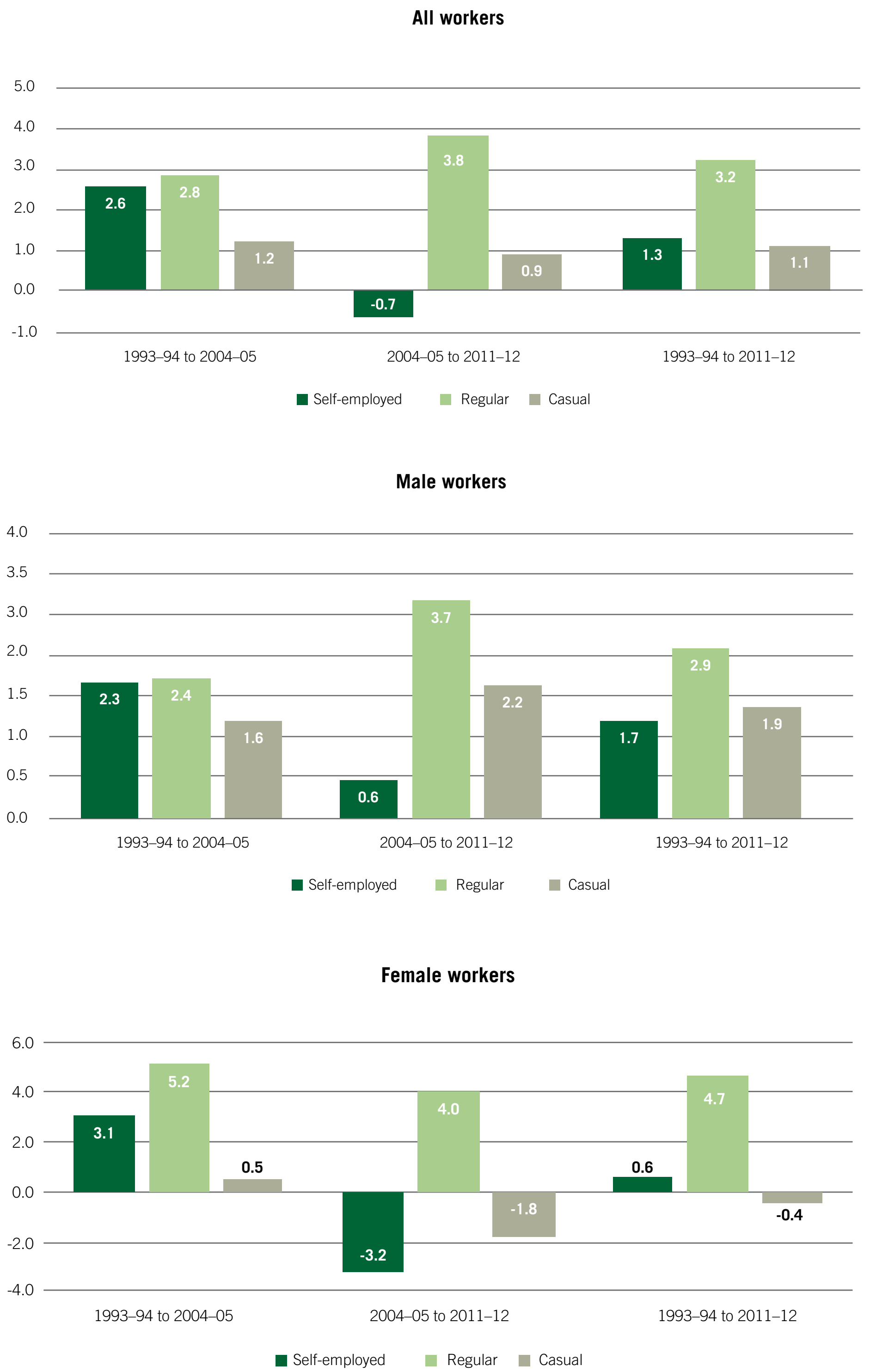
		1993–94	2004–05	2011–12
Total employment	Self-employed	53.6	55.9	51.4
	Regular/salaried	13.8	14.8	18.5
	Casual	32.6	29.3	30.2
	Total (in thousands)	**304 516**	**386 995**	**401 739**
Wage employment	Regular/salaried	29.8	33.5	37.9
	Casual	70.2	66.5	62.1
	Total (in thousands)	**141 256**	**170 727**	**195 421**

Source: ILO estimates based on NSSO data.

Regular/salaried employment increased at an average annual rate of 2.8 per cent during the first period (from 1993–94 to 2004–05) and 3.8 per cent during the second period (from 2004–05 to 2011–12) (figure 5). The participation of women in regular/salaried employment has increased at a higher annual rate (4.7 per cent) compared to men (2.9 per cent) from 1993–94 to 2011–12. However, the overall decline in women's participation during the period 2004–05 to 2011–12 was mainly because of the decline in unpaid contributing family workers who are categorized under self-employment (–3.2 per cent annually) and casual employment (–1.8 per cent annually).

Some have attributed this decline mainly to their increased enrolment in higher education (Papola and Sahu, 2012); however, others argue that women have opted for unremunerated work in the household sphere. In addition, there is also the hypothesis that improvement in economic conditions within the household may have influenced the withdrawal of women from labour market participation (Raveendran and Kannan, 2009). Another explanation for the decline in female participation has been the changes in methodology across survey rounds, which has made it difficult to distinguish domestic duties from contributing family work (Kapsos, Silberman and Bourmpoula, 2014).

Figure 5. Annual employment growth rates for all, male and female workers, 1993–94 to 2011–12 (percentages)



Source: ILO estimates based on NSSO data.

A disaggregation of sectoral distribution shows that a large proportion of regular/salaried workers are engaged in the service sector. The share of all regular/salaried workers working in the service sector increased by 12 percentage points between 1983 and 2011–12, while in the manufacturing sector, the share of workers rose by only 2 percentage points, and agriculture's share fell sharply by 14 percentage points over the same period (Srivastava, 2016). As a result, the share of regular/salaried workers was 68 per cent in services, 25 per cent in manufacturing and 2 per cent in the agricultural sector. The overall structure of employment in the manufacturing sector is quite similar to that of the entire economy, with self-employed workers comprising 49 per cent and wage employed 51 per cent. However, within wage employment, 35 per cent are regular/salaried employees and 16 per cent are casual workers, which is contrary to the proportions for the overall economy as a whole.

2.3 Dualism and informality

The Indian economy is dualistic in nature, both in terms of employment and enterprises. The dualistic nature of the economy has led to the segmentation of the labour market: into regular/salaried employees (mostly formal, when they are covered by social security), and self-employed and casual workers (informal).[8] The duality is also observed in the organization of enterprises in the manufacturing sector, commonly referred to as the organized and unorganized sectors of the economy. In the Indian context, the organized sector comprises all public establishments and all non-agricultural establishments in the private sector with ten or more workers, while the unorganized sector refers mainly to unincorporated enterprises with less than ten workers. In the past decade, employment in the organized sector has grown at a faster rate than overall employment, increasing its share from 11 per cent in 2004–05 to 16 per cent in 2011–12. The organized sector has often been used synonymously with formal regular/salaried work. However, since the economic reforms in 1991, wage employment in the organized sector has increasingly become casual or contractual in nature, without access to social security and other benefits to the workers. As a result, the organized sector comprises both regular/salaried and casual wage employment.

Though regular/salaried employment has increased over time, much of the increase that has taken place involves work arrangements of a contractual nature, that is short-term or fixed-term contracts. There has been a sharp and sustained rise in the share of contractual workers in the organized manufacturing sector, from 14 per cent in 1990–91 to 35 per cent in 2011–12[9] (Rani and Sen, 2018). From 2004–05 to 2011–12, regular/salaried employment without social security and other non-wage benefits grew in this sector at an astonishing 9.2 per cent, higher than regular formal employment that increased at 3.2 per cent for the same period.[10] Hence, there is a fragmentation within the organized economy, where a growing proportion of regular/salaried workers seem to be informal, without access to social security. The organized sector also continues to rely on the use of casual and contract labourers in high proportions, in some sectors. For example, in registered mining and quarrying, the proportion of contract labour has been estimated to be about two-thirds of the total workforce (Chandrasekhar and Ghosh, 2015).

Most of the regular/salaried workers (75 per cent) are found in the urban labour market, whereas the rural labour market is largely composed of casual workers (80 per cent). It is important to recognize these characteristics of the segmented labour markets as we analyse wage trends. Additionally, regular/salaried workers, especially in the organized sector, have qualification barriers; in contrast to casual workers, who are more likely to oscillate between wage employment and self-employment depending on job availability in rural and urban areas (Karan and Sakthivel, 2008).

3 Average wages in India

3.1 Wage statistics

How have these far-reaching changes affected wages? Wage statistics in India are available from several official sources, and can broadly be divided into two categories: surveys and returns[11] under various labour laws. However, scope, coverage, details and periodicity vary from one source to another. As mentioned earlier, the analysis in this report relies on the quinquennial EUS carried out by the NSSO, which is the most comprehensive database on employment and unemployment, including wages. We selected three points in time – 1993–94, 2004–05 and 2011–12 – to cover two intervals as well as the entire period.

The EUS collects information from all the states and Union Territories (UTs) in India. Data are collected on the daily wage and salary earnings of casual labourers and regular wage/salaried employees for the work carried out on each of the seven days of the reference week. The wage data from this source have been widely used for research purposes to assess the changes in wages of different categories of workers in different sectors and economic activities, particularly because it is the only set of data on the subject which covers all categories of workers in the economy and is amenable to disaggregation by rural/urban locations, gender, social groups and states.

The first quinquennial survey was carried out by NSSO from October 1972 to September 1973 (27th round), and the most recent survey refers to the NSSO 68th round (July 2011 to June 2012). Nine such comprehensive surveys on the employment and unemployment situation in India have been conducted by NSSO so far. The 68th round survey covered some 102,000 households (59,700 in rural areas and 42,024 in urban areas) consisting of 457,000 persons (280,763 in rural areas and 176,236 in urban areas). More information on EUS data and a comprehensive discussion on different sources of wage data in India may be found in Papola and Kannan (2017).

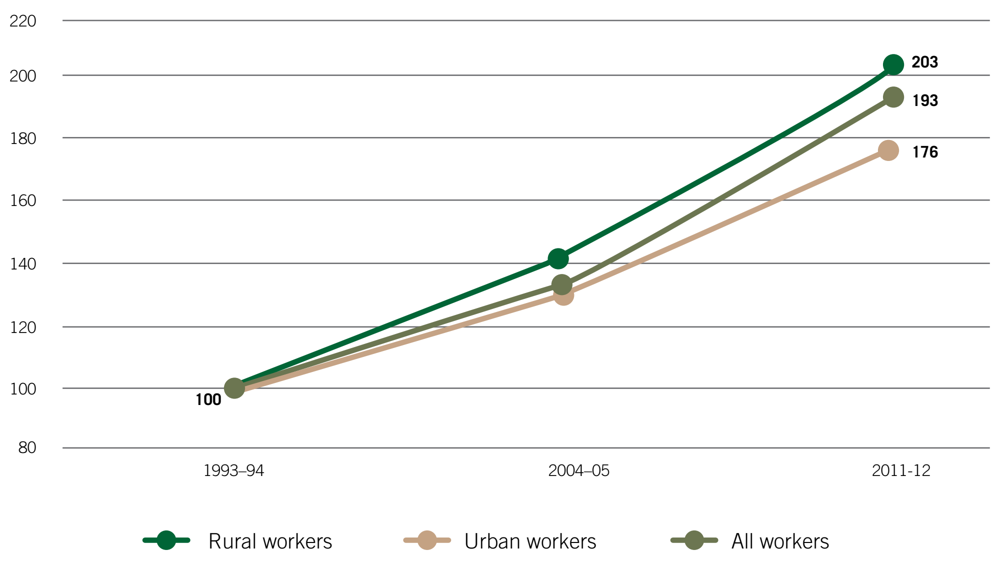
3.2 Average daily wages

There is a long tradition of studying wage trends in India. The evidence of wage growth for regular and casual workers in rural and urban areas has shown a positive trend at the aggregate level (Karan and Sakthivel, 2008; Sarkar and Mehta, 2010), but the documented wage growth has been slower in the post-reform period (1993–94 to 2004–05) than in the pre-reform period (1983 to 1993–94) (Karan and Sakthivel, 2008). From 2004–05 to 2011–12, there appears to be a rise in real wages which is higher than the rise of the previous period, which is as a result of (a) agricultural growth along with periodic revision of support prices, (b) the implementation of MGNREGA, which stipulated minimum wages as part of social spending (Jose, 2016), and (c) the employment dynamics in the construction sector (Chandrasekhar and Ghosh, 2015).

We find that real average daily wages expressed by the arithmetic mean (nominal wages adjusted for changes in consumer prices[12]) almost doubled from 1993–94 to 2011–12. They more than doubled in rural areas, while in urban areas the increase was considerably smaller (figure 6). For the entire period (1993–94 to 2011–12), the average annual growth rate in real wages for all workers was 3.7 per cent per year (table 4). In general terms, real wage growth has been considerably higher in the recent period (2004–05 to 2011–12) compared to the earlier one (1993–94 to 2004–05), increasing from 2.6 per cent per year to 5.6 per cent per year.[13]

The growth rate of daily wages increased for both urban and rural areas. Overall, rural wages have performed better in both periods, with a significant growth in wages for rural workers (5.3 per cent) between 2004–05 and 2011–12 compared to the growth in wages for urban workers (4.5 per cent). In spite of this, daily wages remain more than twice as high in urban areas (INR 384) as those in rural areas (INR 175) (table 4). For the entire country, the national average daily wage in 2011–12 was estimated at INR 247 (figure 7). These findings are consistent with other studies, which show that there is an overall narrowing of wage gap between rural and urban areas even though the disparities remain substantial (Hnatkovska and Lahiri, 2012; IHD, 2014).

Figure 6. Evolution of daily wages, urban and rural, 1993–94 to 2011–12 (base year 1993–94 = 100)



Source: ILO estimates based on NSSO data.

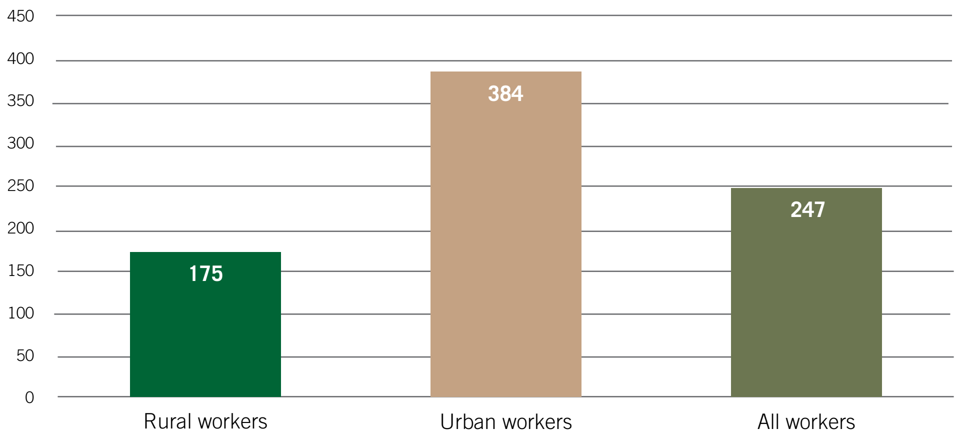
Table 4. Real average daily wages and average annual wage growth of rural and urban workers

	Real daily wages (INR) Base year 2011–12			Compound average annual growth (percentages)		
	1993–94	2004–05	2011–12	1993–94 to 2004–05	2004–05 to 2011–12	1993–94 to 2011–12
Rural workers	86	122	175	3.2	5.3	4.0
Urban workers	218	282	384	2.4	4.5	3.2
All workers	128	169	247	2.6	5.6	3.7

Note: It is possible that the growth rate of wages of all workers may exceed the growth rates of wages for rural workers and urban workers in some years, due to changes in the composition of employment.

Source: ILO estimates based on NSSO data.

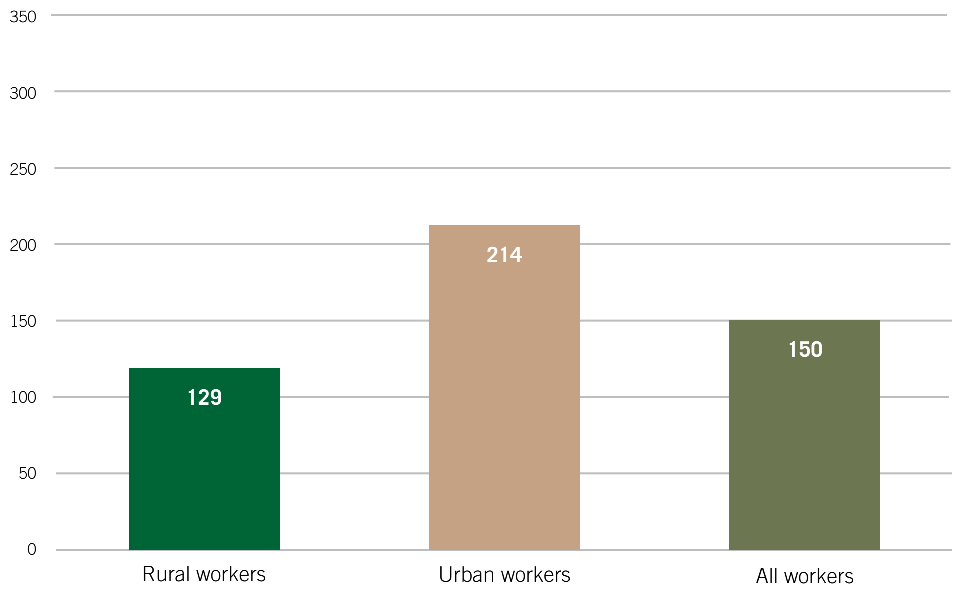
Figure 7. Urban and rural average daily wages, 2011–12 (INR in nominal terms)



Source: ILO estimates based on NSSO data.

While the mean wage gives us an idea of how average workers are compensated, the median wage can also be a useful indicator as it divides wage earners into two equal groups. It identifies the wage paid to the worker in the middle of the wage distribution, if all workers were to be placed in order according to their wage values. This indicator becomes more relevant in countries where extreme values or outliers affect the result when the mean is used. As expected, the median average wage shows a lower value with respect to the mean (figure 8). For rural areas the difference is 26 per cent lower, and for urban areas the median wage is 44 per cent lower than the mean wage, indicating that extreme values are more prevalent in the latter. While the average worker was being paid INR 247 per day in 2011–12, the median wage shows that only half of the wage earners in the Indian labour market earned INR 150 or less per day. The fact that the mean is relatively far from the median in both rural and urban areas implies that the distribution of wages is highly skewed, with the vast majority of workers earning low wages. It is important to consider this aspect when setting the minimum wage for the workers.

Figure 8. Urban and rural median daily wages, 2011–12 (INR in nominal terms)



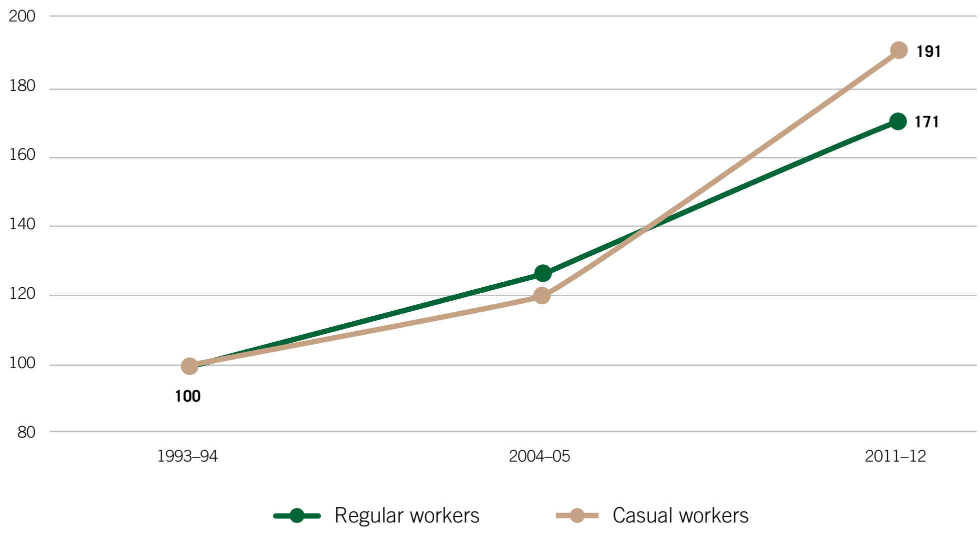
Source: ILO estimates based on NSSO data.

3.3 Regular and casual workers

The earlier section discussed the average wages for the entire country. However, in reality, there is no single integrated labour market and it is highly segmented. Though many studies have distinguished between regular/salaried and casual workers (Papola and Kannan, 2017) as proxies for formal and informal employment, this could be misleading in the real world. While all casual workers are informal workers, not all regular/salaried workers are formal workers, as many do not receive social security benefits, pensions or paid leave – the classic case being that of domestic workers. If we disaggregate the regular/salaried workers into formal and informal employment based on their contracts and benefits, then we observe that regular/salaried workers with formal contracts earn more than double the daily wage earnings of regular/salaried workers with informal contracts.

Figure 9 and table 5 show that between 1993–94 and 2011–12 the growth in daily wages was higher for casual workers (3.7 per cent) than for regular/salaried workers (3 per cent), and that casual workers experienced an increase in wages during a more recent period (2004–05 to 2011–12). The wages of regular/salaried workers grew by 2.3 per cent between 1993–94 and 2004–05 annually, as a result of the implementation of the fifth pay commission, which increased wages for civil servants and the growth of wages in other sectors such as information technology, banking and finance. A higher real wage growth rate for both regular/salaried workers (4.2 per cent) and casual workers (6.8 per cent) was registered during the period 2004–05 to 2011–12, as well as a reduction of the wage differential between the two categories of workers.

Figure 9. Evolution of regular and casual average daily wages, 1993–94 to 2011–12 (base year 1993–94 = 100)



Source: ILO estimates based on NSSO data.

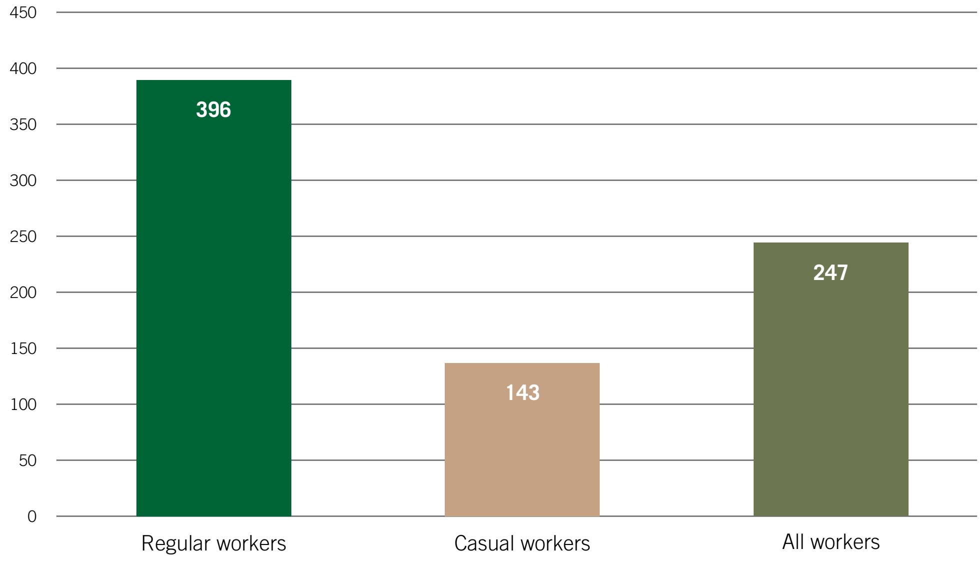
Despite the increase in casual wages over the past decade, Figure 10 shows that there is still a large gap between the wages of casual and regular workers. In 2011–12, the overall average wage paid for casual work was still only 36 per cent of the compensation received by regular/salaried workers. The median wage for regular/salaried and casual workers in 2011–12 was INR 232 and INR 120 respectively; 41 per cent and 17 per cent lower than that of the mean average.

Table 5. Real average daily wages and average annual wage growth of regular and casual workers

	Real average daily wages (INR) Base year 2011–12			Compound average annual growth (percentages)		
	1993–94	2004–05	2011–12	1993–94 to 2004–05	2004–05 to 2011–12	1993–94 to 2011–12
Regular workers	231	297	396	2.3	4.2	3.0
Casual workers	75	90	143	1.8	6.8	3.7
All workers	128	169	247	2.6	5.6	3.7

Source: ILO estimates based on NSSO data.

Figure 10. Average daily wages of regular and casual workers, 2011–12 (INR in nominal terms)



Source: ILO estimates based on NSSO data.

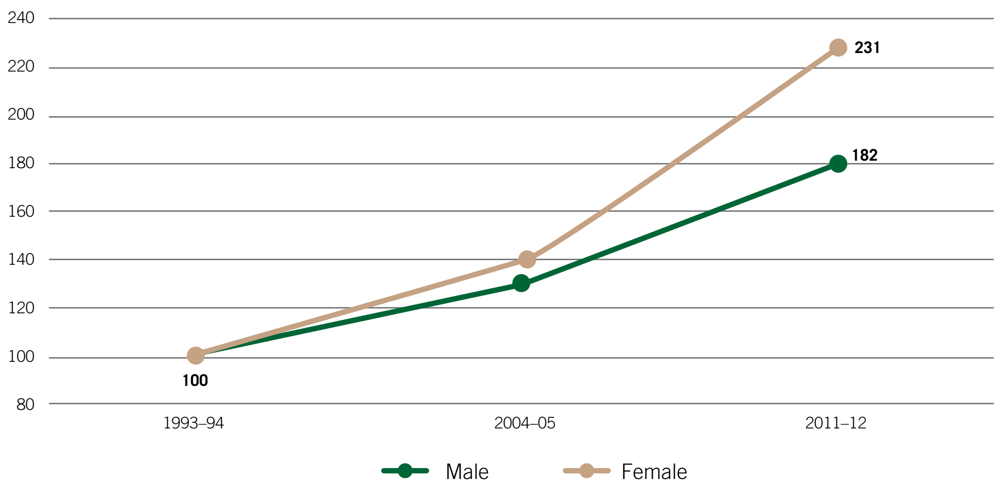
4 The gender wage gap

4.1 Daily wages of men and women

Labour markets in India are characterized by gender-based disparities. The NSSO data show that the daily wages of women have increased more rapidly than those of men, particularly more recently (2004–05 to 2011–12) (figure 11). The rapid rise in wages during this period was partly due to the implementation of MGNREGA, which ensured employment and minimum wages for all workers in the programme and also pushed up the wages in the agricultural sector, getting them slowly closer to the minimum wages specified in MGNREGA (Rani and Belser, 2012a; Sudarshan, Bhattacharya and Fernandez, 2010; Nair, Sreedharan and Anoopkumar, 2009). As a consequence, the raw gender wage gap (the difference in average pay between men and women, as a proportion of men's wages) has declined over time, falling from 48 per cent in 1993–94 to 34 per cent in 2011–12 (figure 12). The gap remains high by international standards (see box 1).

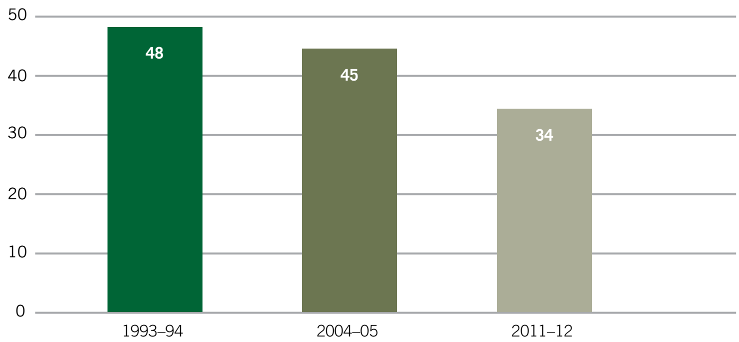
Figure 13 shows that female workers are paid a lower wage rate than their male counterparts in each employment category (casual and regular/salaried) and location (urban and rural), although the differences are smaller – on average – for regular urban workers. In 2011–12, the gender wage gap oscillated between 22 and 39 per cent across different categories by location and status of employment, and was lowest among regular urban employees (22 per cent). Over time, the gender wage gap narrowed for all sub-groups, the most recent period (2004–05 to 2011–12), contrasting with a rather mixed picture in the earlier period (1993–94 to 2004–05) (figure 14).

Figure 11. Evolution of daily real wages of male and female workers in India, 1993–94 to 2011–12 (base year 1993–94 = 100)



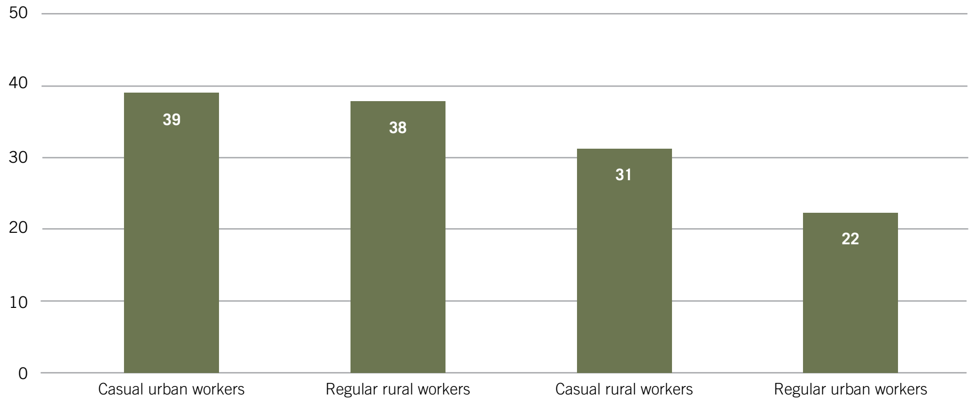
Source: ILO estimates based on NSSO data.

Figure 12. Gender wage gap in India, 1993–94 to 2011–12 (percentages)



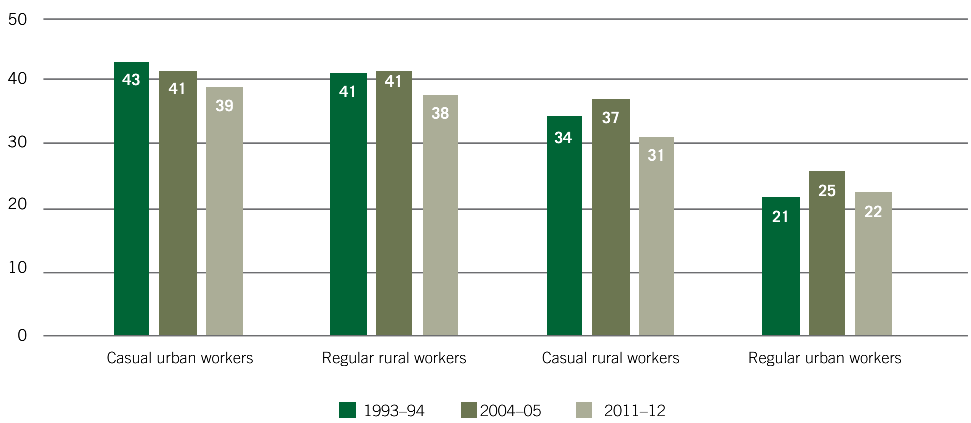
Source: ILO estimates based on NSSO data.

Figure 13. Gender wage gap, by sub-group, 2011–12 (percentages)



Source: ILO estimates based on NSSO data.

Figure 14. Evolution of gender wage gap, by sub-group, 1993–94 to 2011–12 (percentages)



Source: ILO estimates based on NSSO data.

Box 1 Gender pay gap: A global perspective

Gender inequality has a direct impact on decent work and human development. Whether in the form of unequal labour force participation rates, differences in pay or unequal opportunities for women, it is a burden on society and a barrier to social justice. Equality of opportunity and treatment is addressed in the ILO Equal Remuneration Convention, 1951 (No. 100), and discrimination with regard to employment and occupation in the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), which have been ratified by 90 per cent of ILO member States. These Conventions are two of the eight fundamental ILO Conventions which provide a legal framework for countries to work towards their own legislation.

Globally, the gender wage gap has narrowed significantly in the last two decades. In 2015 it was estimated to be about 23 per cent, with women earning 77 per cent of what men receive, on average (ILO, 2016c). This gap can be estimated on a monthly or an hourly basis, and the latter removes the effect on the pay gap of the fact that women are engaged more often in part-time work than men. This gender wage gap is also referred to as the raw or unadjusted wage gap, because it is a simple measure which does not take into account the differences between men and women in their skills, endowments and labour market characteristics that directly affect the level of pay.

Various studies have shown that across most countries for which data are available, the gap has generally narrowed over time, but has not been closed in most countries. Blau and Kahn's observation remains valid: "Virtually every industrialized country has passed laws mandating equal treatment of women in the labour market. Yet the gender wage gap, while on the decline in many countries, is a persistent feature of virtually every nation's labour market" (Blau and Kahn, 2003, p. 107).

At the same time, "raw" gender pay gaps – like all other such pay gaps which emerge when comparing different groups of workers – are sometimes difficult to interpret. This is because the male and female individuals who are employees may differ widely in terms of their personal characteristics (such as age or level of education) and in terms of their labour market characteristics. Occupational segregation, for example, means that women will tend to be overrepresented in particular occupations. Taking all of these factors into consideration, there is a need to understand what lies behind "raw" gender pay gaps through more sophisticated analysis, comparing wages of men and women with comparable profiles and jobs.

Much research has attempted to interpret the gender wage gap; the factors that have been advanced by researchers include: (i) an undervaluation of women's work and discrimination in pay; (ii) workplace characteristics (e.g. how substitutable workers are for each other, the value of face time, etc.); (iii) gender segregation channelling women into low value added jobs; (iv) the overall wage structure in a country – which may be shaped by wage-setting mechanisms that may have been designed with a focus on workers in male-dominated sectors); (v) the view of women as economic dependants; and (vi) the likelihood that women are in unorganized sectors or not represented in unions (Chen et al., 2013; Goldin, 2014; Grimshaw, 2011; Heinze and Wolf, 2010; Rubery, 2003; Rubery, Grimshaw and Figueiredo, 2005); and (vii) family behavioural patterns where motherhood can play a major role.

A number of studies[14] in India have observed that the gender wage gap has generally narrowed over time, not only at the overall average level but also across states, industries and occupations, as well as across the different quantiles of the wage distribution. Bhattacharjee, Hnatkovska and Lahiri (2015) examine the gender wage gaps between 1983 and 2010 and show that they have declined across most percentiles, and that they have narrowed the most for the youngest cohorts in the workforce. However, some studies do find substantial wage disparity across levels of education, types of unemployment? industries, and locations that place women workers in a disadvantaged position (Rustagi, 2005). Some researchers[15] have also estimated earning functions of male and female workers, in order to decompose earning differentials into two parts – one component reflecting difference in productive characteristics or "endowment effect" and the other unexplained component often attributed as "discrimination effect". A significant proportion of the wage gap is not explained by endowment effect and hence remains unexplained, which is often attributed to discrimination against female workers in the Indian labour markets.

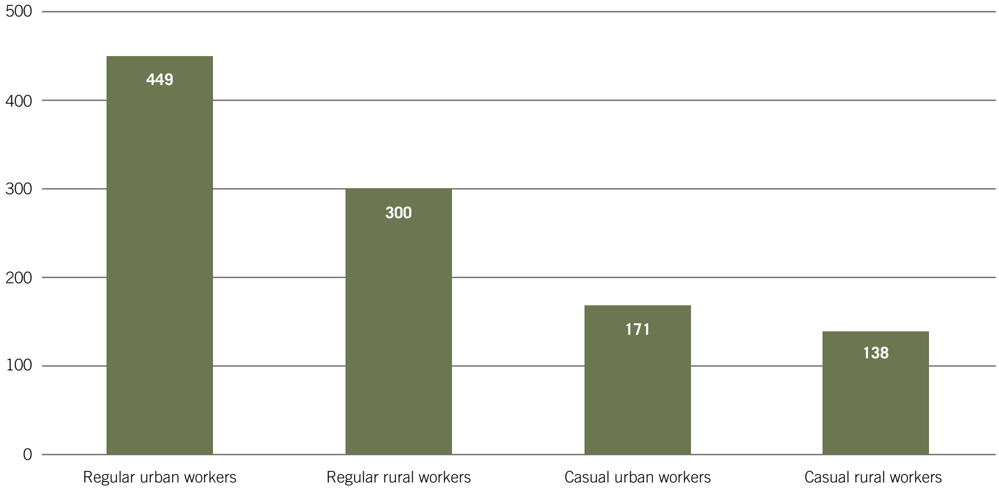
Nevertheless, even when endowment difference to the wage differential is reduced, the extent of discrimination was found to be widening especially for regular/salaried workers (Madheswaran and Khasnabis, 2008). There is also evidence of occupational segregation increasing over time, and a considerable variation across states and types of employment (Duraiswamy and Duraiswamy, 2014). These authors estimate that a large part of the wage disparity stems from discrimination, and some of this may be due to differences in the choice of industry and occupation.

In India, in addition to the glass ceiling observed in the developed world, there is the existence of a "sticky floor", where gender wage gaps are greater among lower-earning workers and steadily decline towards the higher end of the distribution (Deshpande et al., 2015). The authors show that the gap is highest at the first decile at 105 per cent and falls to about 10 per cent at the ninth decile. Women working at the high end of the distribution in managerial or other professional positions are more likely to be aware of their rights and are in a better position to take action against perceived discrimination compared to those at the lower end of the distribution. These results are also consistent with findings by Belser and Rani (2011) who find that women are over-represented at the lower end of wage distribution, and that enforcement on minimum wages could drastically reduce the gender wage gap.

4.2 Wages by gender, location and employment status

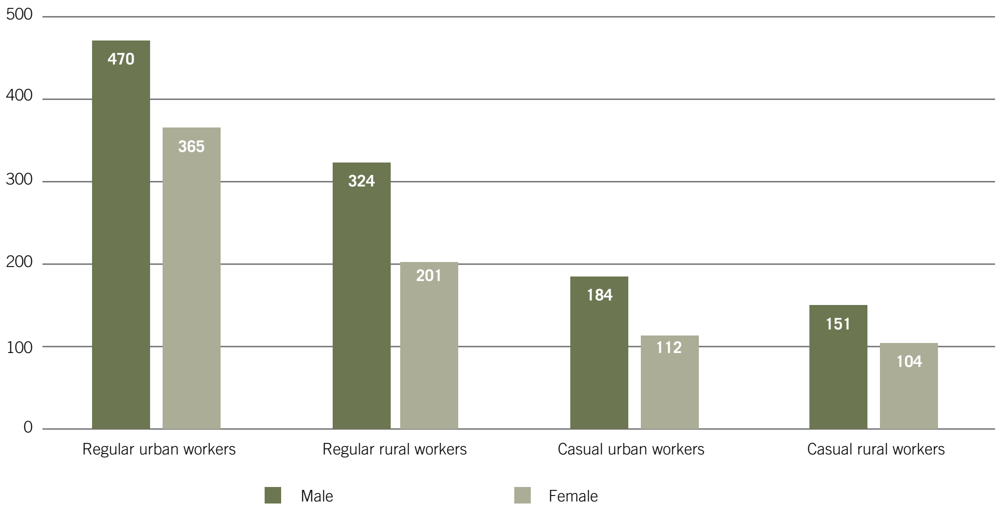
The classification of workers into four sub-categories, on the basis of employment status (regular or casual) and location (urban or rural), reveals relatively large pay gaps in terms of average daily wages, where regular urban workers are the best paid, followed by regular rural workers, then casual urban workers, the lowest paid being casual rural workers (figure 15). In rural areas, the difference between regular and casual wages appears to be somewhat narrower than in urban areas. If we add the gender dimension, we obtain eight different categories, which reveal the existence of gender inequality in the fragmented segments of the workforce (figure 16). The highest wages are found for regular urban male workers, while casual female workers in both rural and urban areas are worse off.

Figure 15. Average daily wages, by sub-group, 2011–12 (INR in nominal terms)



Source: ILO estimates based on NSSO data.

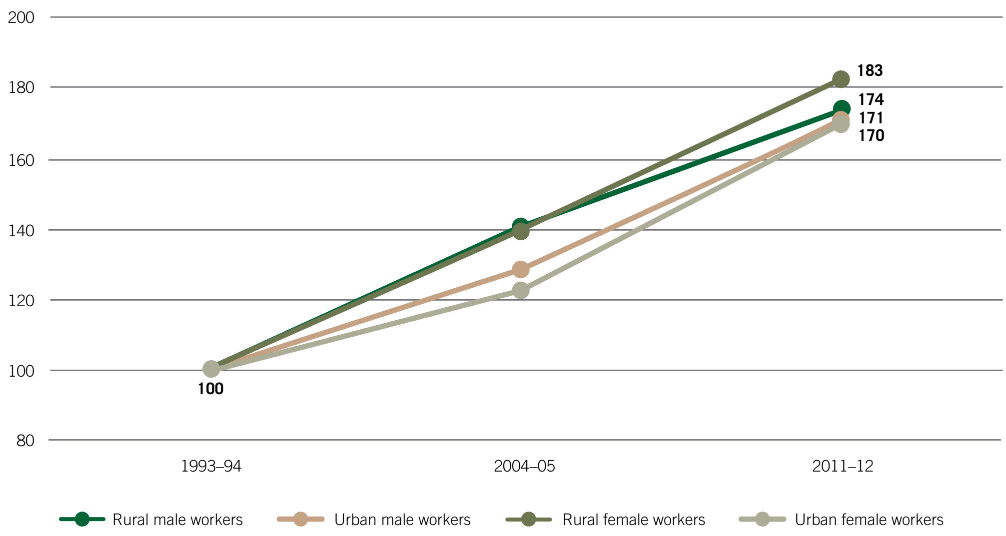
Figure 16. Average daily wages, by sub-group and gender, 2011–12 (INR in nominal terms)



Source: ILO estimates based on NSSO data.

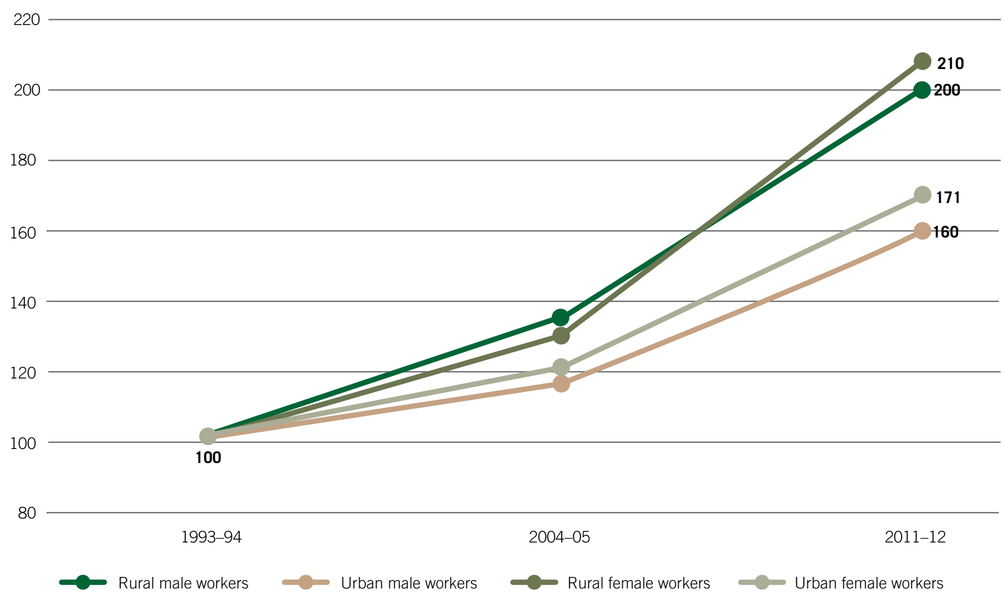
How did the average daily wages of all these groups change over time? Figures 17 and 18 show the evolution of real wages for the eight sub-categories of workers, separating regular and casual workers. Looking at regular workers, it can be observed that real wages increased somewhat more rapidly for rural female workers than for the other groups. Among casual workers, wages of both men and women increased significantly faster in rural than in urban areas, with wages in rural areas doubling for men and increasing even more for women.

Figure 17. Evolution of daily real wages of regular workers, 1993–94 to 2011–12 (base year 1993–94 = 100)



Source: ILO estimates based on NSSO data.

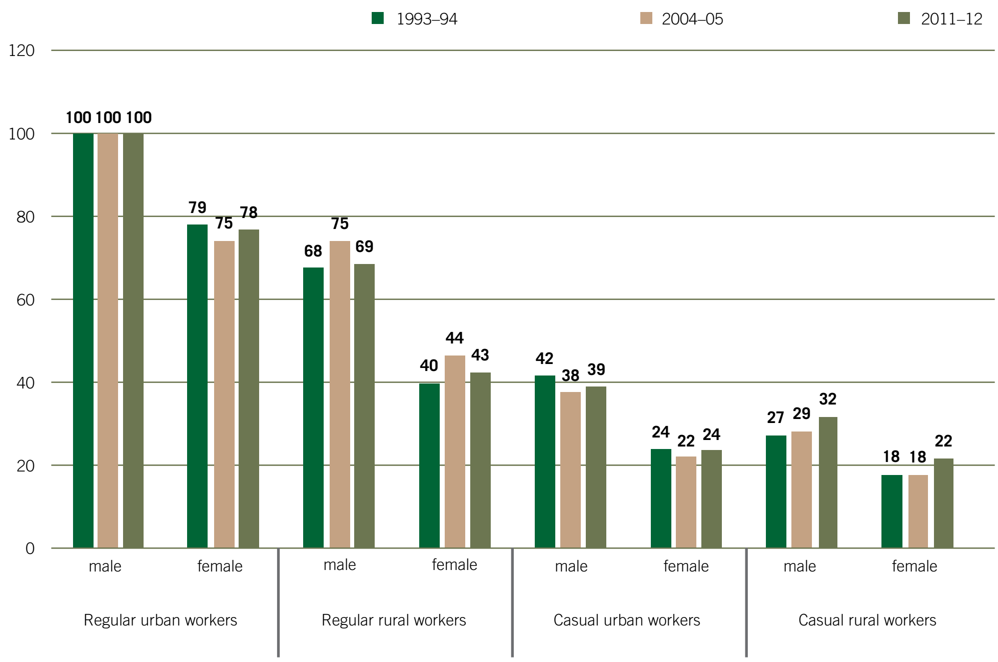
Figure 18. Evolution of daily real wages of casual workers, 1993–94 to 2011–12 (base year 1993–94 = 100)



Source: ILO estimates based on NSSO data.

These wage trends, however, have not substantially altered the hierarchy of wages between the different subgroups. Figure 19 shows how the wage gaps between sub-groups have changed over time and are shown in descending order for 1993–94, 2004–05 and 2011–12. The highest average wage of all categories, namely that of male urban regular workers, is taken as a benchmark and then compared to the other seven categories. Wages of urban regular male workers are nearly five times higher than those received by rural casual female workers. While wage differences between male urban regular workers and other regular workers have not declined significantly, the difference between wages of rural casual workers and the highest wage category narrowed to some extent by about 4 percentage points.

Figure 19. Wage gaps between sub-groups and gender, 1993–94 to 2011–12 (percentages)



Note: Reference group: regular urban male workers.

Source: ILO estimates based on NSSO data.

5 Wages by sector

5.1 Wages in agriculture

The study of trends in wages of agricultural labourers has assumed particular significance in India since the green revolution in 1960s. This was because this strategy created employment and brought about an increase in wages of agricultural workers in certain regions of the country, improving their standard of living. In addition, structural transformation in employment in the Indian economy – i.e. a shift of labour from agricultural and related primary activities to industry and service sector activities – was so slow that an overwhelming majority continued to be engaged in the primary sector of the economy. Since 2004, employment has transitioned at a slightly faster pace, reducing the share of employment in agriculture to about half the labour force in 2011–12. Rural casual labourers, in particular, still constitute the single largest segment of the country's workforce. It is therefore important to focus on agricultural wage workers, as wages constitute an important part of their income. As most agricultural workers are asset-less or asset-poor, employment and wages assume added significance. Table 6 shows that since 1993–94, casual workers in agriculture experienced higher wage growth compared to non-agricultural casual workers, the rate rising from 2.2 per cent during the period 1993–94 to 2004–05 to 6.6 per cent during the period 2004–05 to 2011–12.

Table 6. Growth rate of agricultural and non-agricultural casual workers' wages (percentages)

	1993–94 to 2004–05	2004–05 to 2011–12	1993–94 to 2011–12
Agricultural	2.2	6.6	3.9
Non-agricultural	1.4	4.9	2.7

Source: ILO estimates based on NSSO data.

This finding is consistent with other empirical evidence which shows a reduction in the wage gap between casual workers in non-agricultural and agricultural sectors: from 1.5 per cent in 1983 to 1.3 per cent in 2011–12 (IHD, 2014). It is argued that the high growth in the construction sector GDP (Gulati, Jain and Satija, 2013) has resulted in demand for construction workers, which has in turn led to a scarcity of workers in rural areas; and a resultant rise in agricultural wages. On the other hand, analysing the trends in wages over the past three decades (1984–85 to 2011–12) Jose (2016) argues that the rise in nominal wages are due to increase in area, production and yield of principal crops and periodic revisions of support prices. He puts forth three factors to explain the growth of real wages: demographic transition and net impact of migration; impact of MGNREGA; and overall effect of social spending in rural areas.[16]

The performance of casual rural wages, especially for female workers, has been partly influenced by the fact that the MGNREGA was implemented in 2005, with the objective of "enhancing livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year, to every household whose adult members volunteer to do unskilled manual work". The Act also seeks women's participation, and one of its provisions states that one-third of all employment is to be reserved for women. Additionally, MGNREGA establishes equal wages for both men and women, and facilitates childcare at the worksite, which allows for more women to participate in the schemes developed under the Act. With more low-paid workers joining MGNREGA, there has been a shortage of labour in agricultural work in some places, thereby creating an opportunity for workers to demand better wages in the agricultural sector and to improve their incomes (Rani and Belser, 2012a).

5.2 Wages in different sectors of the economy

Wage differentials between sectors are important drivers of inter-sectoral movement of workers; away from agriculture and towards non-agricultural sectors. There is ample evidence which shows that higher wages in non-agricultural activities will draw excess labour from agriculture (Chand and Srivastava, 2014). This process benefits not only those who withdraw and shift to other industries but also workers who remain in agriculture, where productivity and wages can increase due to a lower labour-to-land ratio (Eswaran et al., 2009). As discussed in earlier sections, economic growth in India was mostly driven by an expansion of the service sector and, to a lesser extent, by industry.

Looking at table 7 and comparing the two periods, one striking finding is that wage growth has accelerated in all three sectors of the economy – primary, secondary and tertiary – for both regular and casual wage workers. Wages have increased most rapidly in the primary sector during the period 2004–05 to 2011–12. Within the secondary sector, there is a strong acceleration of wage growth in mining, manufacturing and construction, while in the tertiary sector, wages have increased substantially in trade, and to a lesser extent in hotels and restaurants, education, and health and social work. By contrast, wage growth slowed down in banking and finance, and in real estate and business services between 2004–05 and 2011–12. It is worth noting that casual workers in some industries of the tertiary sector have had higher increases in wages than regular workers.

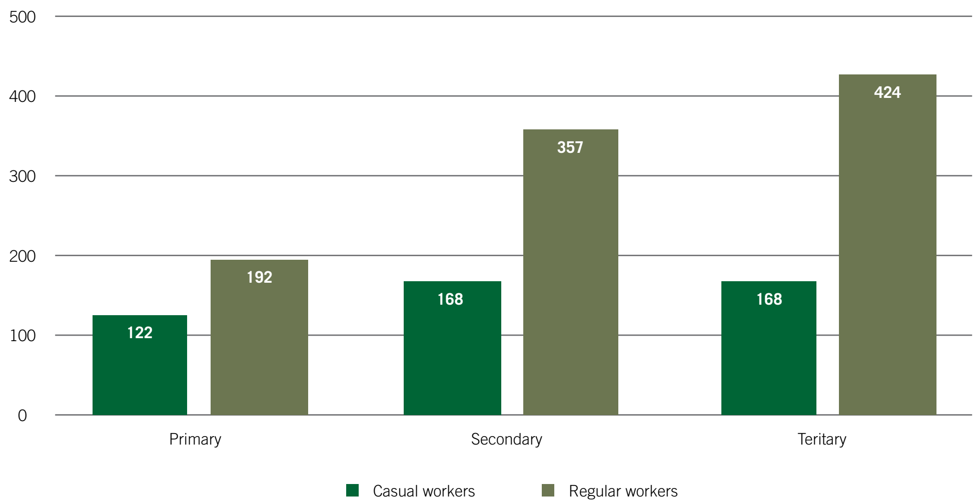
Notwithstanding these trends, wage levels remain lowest in the primary sector, and also remain much lower for casual than for regular workers within the secondary and tertiary sectors (see figure 20). Figure 21 shows that there is little variation in casual wages across sectors, and much more variation in the wages of regular workers. While regular workers' average wages range from about INR 144 per day in services for private households to INR 852 per day in mining and quarrying, casual workers' wages range from INR 122 per day in agriculture to INR 200 per day in hotels and restaurants.

Table 7. Real wage growth rates of regular and casual workers, by economic sector (percentages)

Sector	1993–94 to 2004–05		2004–05 to 2011–12		1993–94 to 2011–12	
	Regular	Casual	Regular	Casual	Regular	Casual
Primary	3.4	2.2	6.6	6.5	4.6	3.9
Agriculture and allied activities	3.4	2.2	6.6	6.5	4.6	3.9
Secondary	1.4	1.5	4.4	4.6	2.6	2.7
Mining and quarrying	5.7	1.6	6.1	3.9	5.9	2.5
Manufacturing	0.8	1.5	4.9	4.8	2.4	2.8
Electricity, gas and water	4.4	– 0.2	– 0.4	1.3	2.5	0.4
Construction	0.5	0.9	5.2	4.3	2.3	2.2
Tertiary	2.3	1.5	4.0	5.6	3.0	3.1
Trade	1.3	1.0	5.2	6.7	2.8	3.2
Hotels and restaurants	2.9	2.4	3.8	7.5	3.3	4.3
Transport, storage and communication	2.4	1.0	2.0	4.9	2.2	2.5
Banking and finance	3.7	6.7	1.4	– 3.8	2.8	2.5
Real estate and business services	7.2	5.9	4.7	– 0.3	6.2	3.4
Public administration and defence	3.7	– 1.3	4.3	2.9	3.9	0.3
Education	2.2	0.4	4.0	3.8	2.9	1.7
Health and social work	2.8	0.5	3.9	3.9	3.3	1.8
Other social and personal services and private households	1.1	1.2	3.3	5.5	1.9	2.9

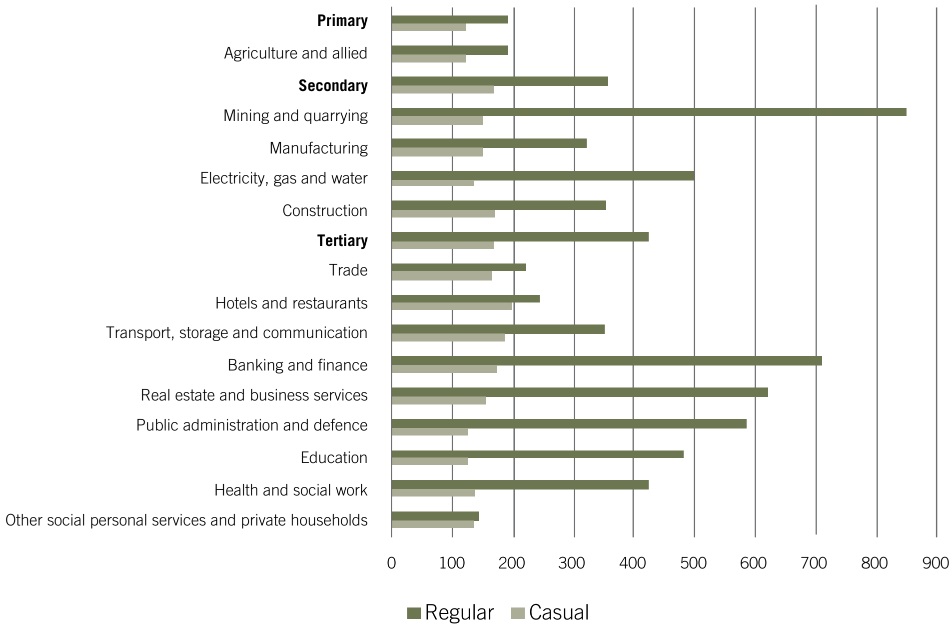
Source: ILO estimates based on NSSO data.

Figure 20. Daily wages by broad economic sector and employment status, 2011–12 (INR in nominal terms)



Source: ILO estimates based on NSSO data.

Figure 21. Daily wages by detailed economic activity and employment status, 2011–12 (INR in nominal terms)



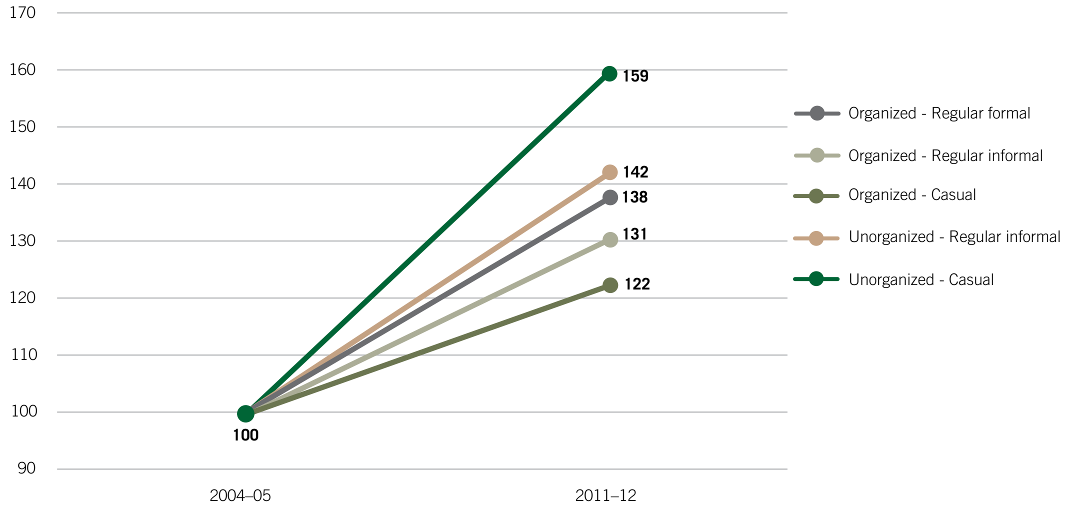
Source: ILO estimates based on NSSO data

5.3 Wages in the organized and unorganized sectors

If we look at the wage trends in both organized and unorganized sectors, we observe that the growth of regular formal jobs has not been substantial in the post-reform period. Nevertheless, the organized sector has been able to absorb more jobs in the form of casual or contractual work. There is some debate as to whether this means an improvement or a decline in terms of working conditions, as there is a rise in employment in the organized sector without any social protection and other benefits, that is, a casualization of the workforce. However, the increase in the share of organized work could also mean a movement of workers from the unorganized to the organized sector; some argue that this may not indicate a deterioration in employment conditions, since wages rose and underemployment declined for those workers who moved from the unorganized to the organized sector (Ghose, 2016).

Looking at figure 22, we can deduce that real wages increased for all categories of workers between 2004–05 and 2011–12. Workers in the unorganized sector registered higher real wage growth in this period than workers in the organized sector. The highest growth was for casual workers in the unorganized sector (59 per cent), followed by regular informal[17] workers in the unorganized sector (42 per cent). Within the organized sector, the highest wage growth was for regular formal workers (38 per cent), followed by regular informal workers (31 per cent) and, finally, casual workers (22 per cent).

Figure 22. Evolution of daily real wages, organized and unorganized workers (base year 2004–05 = 100)

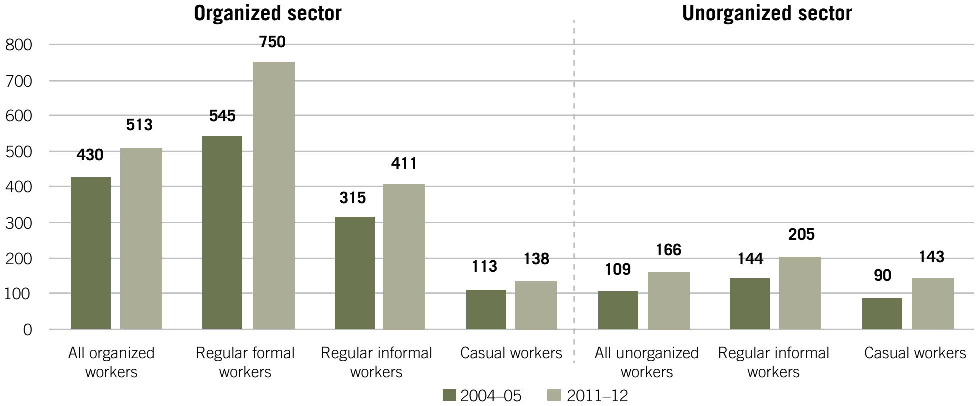


Source: ILO estimates based on NSSO data.

As a result of these trends, casual wages in the unorganized sector (INR 143) have caught up with the casual wages in the organized sector (INR 138), though the average wages for casual workers remain generally low (see figure 23). These results are quite similar to those noted by Unni (2005), who also observed that the wage earnings of casual workers in the informal sector are higher than those of casual workers in the formal sector. Overall, however, despite high wage growth in the unorganized sector, figure 23 shows that the highest wages in the Indian labour market are found in the organized sector. In particular, regular formal workers (average daily wage INR 750) and regular informal workers (average daily wage INR 411) in the organized sector are the best-paid categories.[18] The wages of workers in the unorganized sector are marginally higher than those of casual workers in the organized sector, but substantially lower than those of other workers (figure 23).

Table 8 shows that wage differences for regular workers between organized and unorganized sectors have reduced in the secondary and tertiary sectors, but increased marginally in the primary sector. However, on average, in 2011–12, the wage difference of regular workers in the organized sector was 3.1 times higher in the primary sector, 2.6 times higher in the tertiary sector and 2.3 times higher in the secondary sector (table 8). Wages of casual workers in the organized sector reduced in the primary sector compared to other sectors, and the ratios are quite similar across sectors. In short, remunerations are better in the organized sector, but only for regular workers. For the large majority of workers who are casual, wages remain low. All of this demonstrates that a large majority of workers in the Indian labour market still have low wages, and lack job security as well as social protection (IHD, 2014; Papola, 2008).

Figure 23. Real average daily wages, organized and unorganized sectors (INR, base year 2011–12)



Source: ILO estimates based on NSSO data.

Table 8. Wage ratios between organized and unorganized workers, by economic sectors

		2004–05	2011–12
Primary sector	Regular workers	3.0	3.1
	Casual workers	1.8	0.9
Secondary sector	Regular workers	2.5	2.3
	Casual workers	0.9	0.8
Tertiary sector	Regular workers	2.8	2.6
	Casual workers	1.1	0.9

Source: ILO estimates based on NSSO data.

While we observe that there has been an increase in the wages between 2004–05 and 2011–12 across different groups of workers in various sectors, how does this increase impact on the incomes of the self-employed workers? A large proportion of casual workers and a significant proportion of regular/salaried workers are dependent on self-employment for various goods and services. To understand the impact, we look at the trends in self-employment incomes over the past decade using the special informal sector survey conducted by the NSSO for the periods 1999–2000 and 2009–10.

The self-employed comprise almost 50 per cent of the workforce in 2009–10 and they are to a large extent dependent on local markets and domestic consumption. Their incomes are to that extent dependent on wage earners, as mentioned before. Over the past decade, we observed that their incomes overall have grown, most strongly in transport, storage and communications, and in low-skilled services (table 9), though self-employed workers in high-skilled services have seen their incomes fall marginally. The increase in incomes for the self-employed in the manufacturing sector is largely due to outsourcing and subcontracting arrangements with the formal sector, which also gave a boost to the transport, storage and communications sector. The increase in income among the salaried and managerial class led to increased demand for personal services, which are low-skilled in nature, thus leading to a rise in the incomes of those providing them.

Table 9. Incomes of self-employed in the overall economy, 1999–2000 and 2009–10 (INR in real terms, base year 1999–2000)

	1999–2000	2009–10	Growth rate (percentages)
All industries	24 035	27 424	1.3
Manufacturing	16 700	18 804	1.2
Transport, storage and communications	24 584	31 044	2.3
Wholesale and retail trade, repair	29 929	34 185	1.3
Low-skilled services	19 689	24 919	2.4
High-skilled services	30 303	29 050	–0.4

Source: ILO estimates based on NSSO data.

6 Wages by occupation

The salaries in urban India rose steadily during the period of high economic growth (1993–94 to 2004–05) (Mehrotra et al., 2014), and this was especially so for those engaged in professional and administrative categories. The Pay Commissions[19] were a contributing factor, which also had an impact on the wages of the private sector, particularly in the upper quintile of the wage distribution. Table 10 presents the occupational classification and the real average daily wages for the three periods. The ratio between the best-paid occupation (Division 1) and the lowest ranked (Division 9) was 7.2 in 1993–94, increased to 10.7 in 2004–05 and declined to 7.6 in 2011–12.

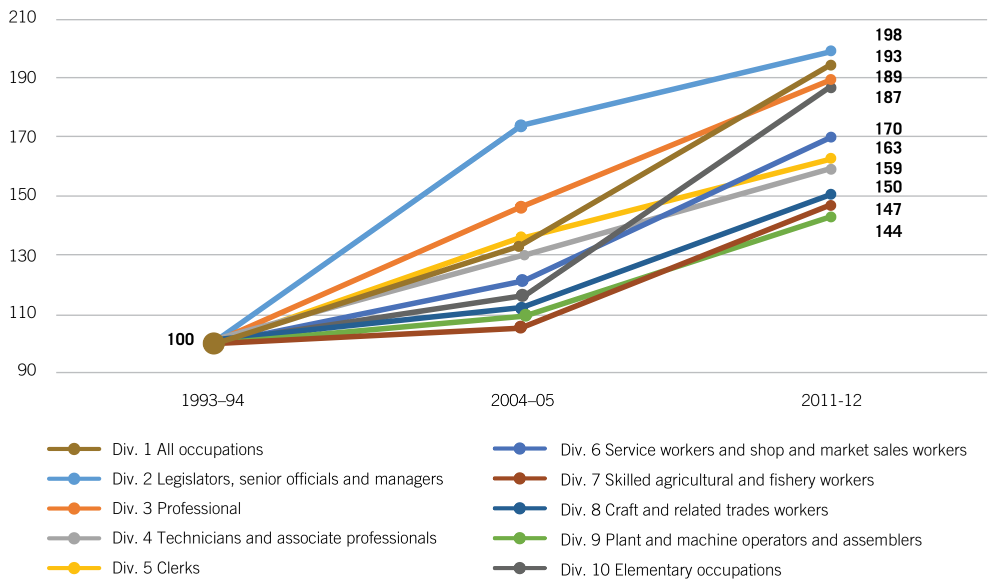
Table 10. Workers' real average daily wages, by occupation, 1993–94 to 2011–12 (INR, base year 2011–12)

	1993–94	2004–05	2011–12
Div. 1: Legislators, senior officials and managers	530	918	1 052
Div. 2: Professionals	392	574	743
Div. 3: Technicians and associate professionals	301	393	479
Div. 4: Clerks	274	372	446
Div. 5: Service workers and shop and market sales workers	148	179	251
Div. 6: Skilled agricultural and fishery workers	120	128	177
Div. 7: Craft and related trades workers	141	158	212
Div. 8: Plant and machine operators and assemblers	176	195	254
Div. 9: Elementary occupations	74	86	138
All occupations	128	169	247
Ratio Division 1 / Division 9	7.2	10.7	7.6

Source: ILO estimates based on NSSO data.

If we classify the occupations, based on their skills, into three categories,[20] we find that the lowest-skilled occupation receives a salary which is only 60 per cent of the average earnings, while medium-skilled occupations receive wages varying from 0.7 to 1.8 times of average earnings, and high-skilled occupations receive wages which are 1.9 to 4.3 times higher than average earnings (table 10). The daily wages for low-skilled occupations grew at 3.7 per cent between 2004–05 and 2011–12, which partially accounted for the decline in wage differentials. Figure 24 shows that real average daily wages increased in two of the 'high-skilled' occupations (Div. 1 and Div. 2) by 98 and 89 per cent respectively from 1993–94 to 2011–12, compared to other occupational categories.

Figure 24. Evolution of daily real wages, by occupation, 1993–94 to 2011–12 (base year 1993–94 = 100)



Source: ILO estimates based on NSSO data.

Table 11. Gender wage ratio, by occupation, 1993–94 to 2011–12

	Gender wage ratio		
	1993–94	2004–05	2011–12
Div. 1: Legislators, senior officials and managers	0.77	0.80	0.92
Div. 2: Professionals	0.84	0.76	0.75
Div. 3: Technicians and associate professionals	0.73	0.64	0.62
Div. 4: Clerks	0.97	0.95	0.88
Div. 5: Service workers and shop and market sales workers	0.64	0.57	0.52
Div. 8: Plant and machine operators and assemblers	0.37	0.41	0.48
Div. 7: Craft and related trades workers	0.43	0.49	0.53
Div. 6: Skilled agricultural and fishery workers	0.56	0.54	0.60
Div. 9: Elementary occupations	0.64	0.65	0.69
All occupations	0.52	0.55	0.66

Source: ILO estimates based on NSSO data.

All other occupational categories have also observed an increase in average daily wages, between 44 per cent and 70 per cent from 1993–94 to 2011–12. The question is: Has this been the same for both men and women?

The premise "equal pay for work of equal value" should broadly reflect similar values of wages for the same occupation categories for both male and female workers. Unfortunately, this is not the case for India, and the gender wage gap for all occupations or divisions connotes gender inequality; expressed as unadjusted gaps that vary from 8 to 52 per cent in 2011–12 (table 11).

It is in the highest ranks of labour (legislators, senior officials and managers) that the gap is lowest: women in this category earned 92 per cent of men's wages in 2011–12. Nevertheless, only 1 per cent of total female workers participate in this category. Among professional workers, women earned only 75 per cent of men's wages in 2011–12.

Women are over represented in the low-skilled occupations, where they comprise 67 per cent of the female workforce in 2011–12, and women receive only 69 per cent of men's average daily wages. This occupational segregation seems to have intensified during the period 1983 to 2011–12 (Duraisamy and Duraisamy, 2014). Further, there is a higher propensity for scheduled castes, to be stuck in lower jobs or occupations with lower wages (Das and Dutta, 2007).

Despite the reduction of the gender wage gap in most occupational categories over time, the difference between men's and women's average daily wage is still quite large. Srivastava (2016) also emphasizes that apart from the wage gap, the probability of receiving any form of social security is lower for workers who are engaged in semi-skilled or lower-skilled occupations compared to those engaged in highly-skilled occupations. Also, women workers have a lower probability of getting social security benefits than their male counterparts, as most of them are concentrated in low-skilled occupations.

7 Wages by level of education

Education is expected to play a crucial role in determining wages of workers in the labour markets. A number of studies across various countries as well as in India[21] demonstrate that workers with higher levels of education and skills earn higher wages.

For our analysis, we break down education levels into four categories: below primary, primary, secondary and higher degree. Despite rapidly declining illiteracy levels, low levels of education remain, we have therefore created a below primary category instead of an additional "illiterate" category, as some studies do.

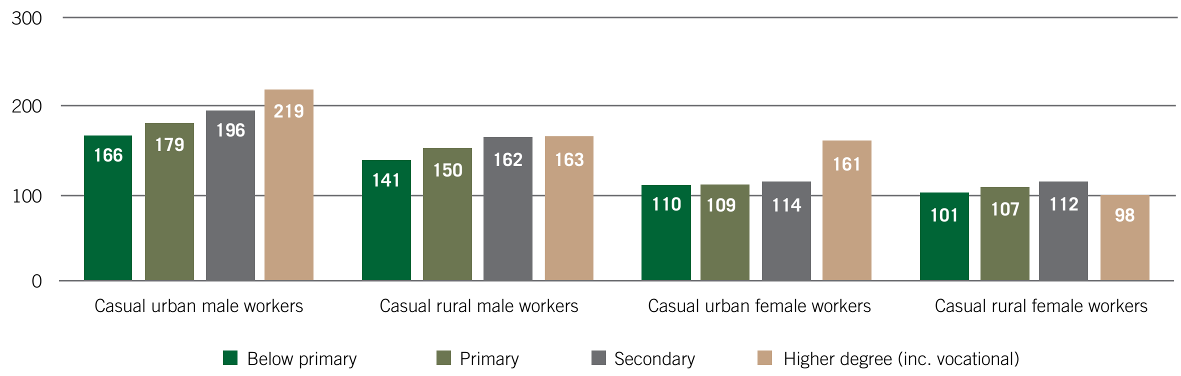
Below primary refers to those who have not had more than five years of schooling; primary and secondary levels refer to those workers who have completed six and 12 years of schooling respectively; and higher degree refers to those with more than 12 years of schooling (with certificates, diplomas, etc.), as well as workers who are graduates and above.

The general assumption is that wages rise with higher levels of education. This applies more to regular workers, where educational endowments play a more important role in wage determination than for casual workers. In India, those with the highest level of education earn five times more than those with the lowest level of education (Papola and Kannan, 2017). This pattern of disparity is prevalent amongst all categories of workers, male, female, rural, urban and regular/salaried workers, except for certain categories of casual workers.

Figure 25 shows the difference in average daily wages according to education level; the difference is least among casual workers, as they are often engaged in unskilled work. Among regular workers, there is a wage premium for those with a higher degree of education (figure 26); while the premium is much less for casual workers (figure 25). Abraham (2007) indicates that for regular workers, the wage rate of the highest educated (graduates and above) compared to illiterates has been around 3.5 times higher since 1983. Roy (2012) also shows that the ratio of the daily earnings of skilled workers to unskilled workers,[22] which can be taken as the skill premium, declined between 1993–94 and 2009–10.

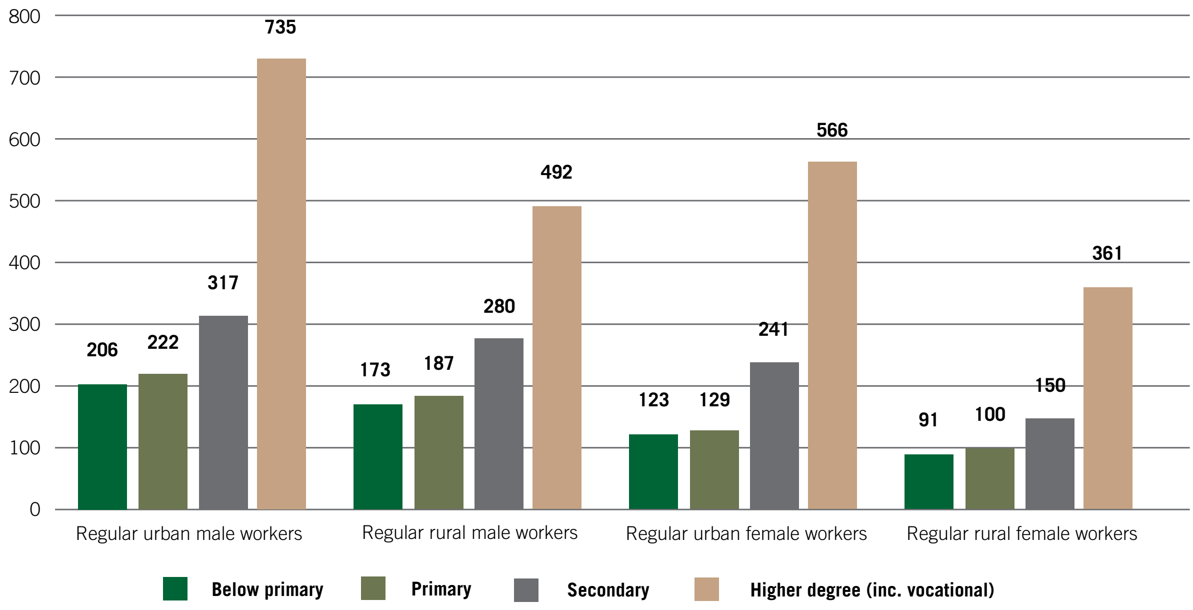
Rani, Krishnakumar and Bigotta (2017) also show that differences in the level of education are more important for salaried workers compared to casual workers, for whom regional factors are more important. However, our analysis shows that casual urban females with higher education have a slightly better premium (figure 25), and that these women are largely engaged in the manufacturing and high-skilled service sector.

Figure 25. Nominal average daily wages for casual workers, by level of education, 2011–12 (INR)



Source: ILO estimates based on NSSO data

Figure 26. Nominal average daily wages for regular workers, by level of education, 2011–12 (INR)

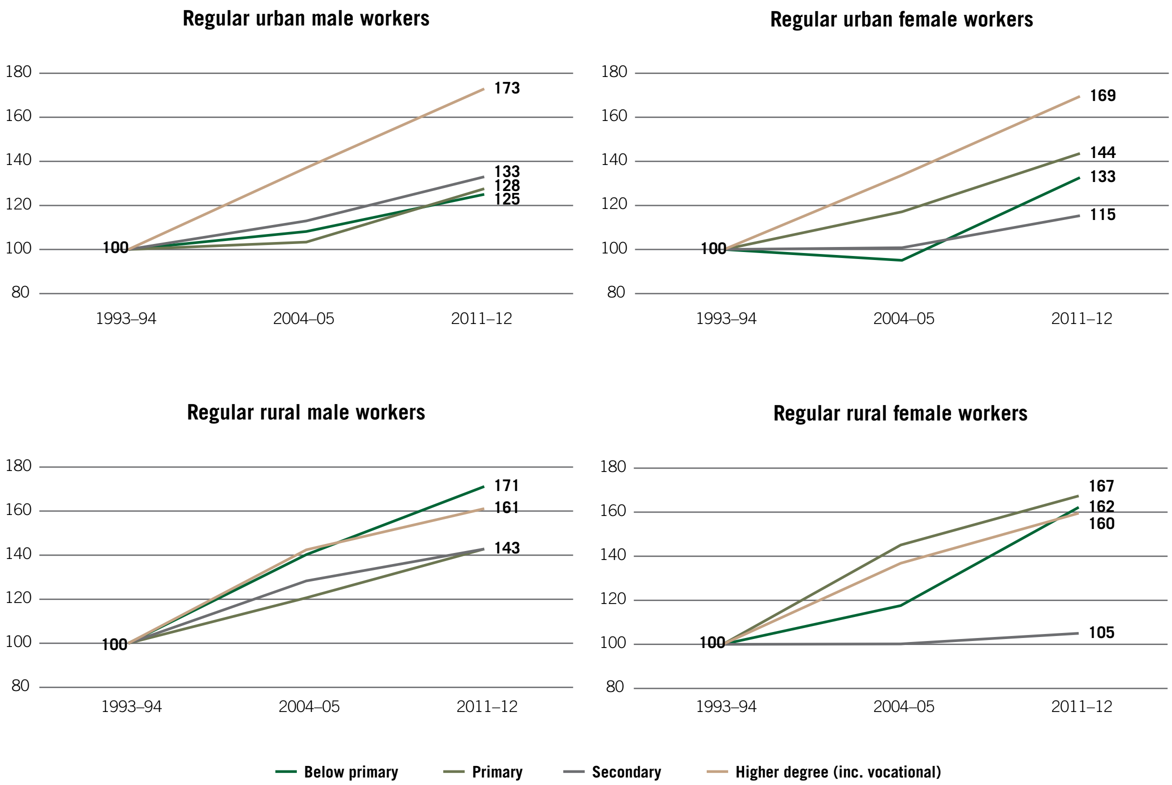


Source: ILO estimates based on NSSO data.

For urban regular workers – both male and female – the advantage of being more educated has also meant higher wage growth in the period 1993–94 to 2011–12 (figure 27). The wages for urban male and female regular workers with highest levels of education increased by 73 per cent and 69 per cent, respectively, from 1993–94 to 2011–12.

The disparity has increased among urban regular women workers, which could perhaps be due to the higher absorption of educated women into the labour market than in the past – in occupations such as education, health, information technology, banking, and other sectors. For urban regular workers with lower educational levels, the real average daily wages have also increased but at lower rates – between 15 per cent and 44 per cent. The increase in wage inequality for regular urban workers can be associated with a sharp rise in wages of skilled workers relative to unskilled ones. It has been observed that while the economy experienced a rapid growth during this period, skill shortages also emerge across the board (NCEUS, 2009a), which leads to an increase in skill premium.

Figure 27. Evolution of daily real wages for regular workers, by gender and location, 1993–94 to 2011–12 (base year 1993–94 = 100)



Source: ILO estimates based on NSSO data.

In 2011–12, the wage ratio between regular male and female workers in rural and urban areas with the highest and the lowest levels of education ranged between 2.9 and 4.6 (figure 26). The analysis indicates a clear increase in skill premium over the years for both female and male urban regular workers with more than secondary education. But for rural regular workers, although the skill premium exists, it has not increased over time because workers with low levels of education recorded higher wage growth between 1993–94 and 2011–12 (figure 27). Therefore, the growing wage inequality with regard to education levels has not had a straightforward result for all categories of regular workers, as Roy (2012) has also pointed out.

For regular female workers, higher educational attainment implies higher real average daily wages, and narrowing of the gender wage gap (see table 12). For regular rural female workers who do not have higher educational attainment this implies receiving approximately 53 per cent of men's wages, while women with higher educational degrees earn about 73 per cent of men's wages. A similar situation is registered for regular urban female workers. Women with primary education or below earn between 58 and 60 per cent of their male counterparts', while women with a secondary or higher education earn about 77 per cent of men's wages. These results are similar to those presented in *India Labour and Employment Report 2014,* which concludes that education helps to narrow the wage gap between men and women in regular jobs (IHD, 2014).

Table 12. Gender wage ratio, regular urban and rural workers, by educational level, 2011–12

	Gender wage ratio
Regular urban workers	
Below primary	0.60
Primary	0.58
Secondary	0.76
Higher degree (incl. vocational)	0.77
Regular rural workers	
Below primary	0.53
Primary	0.54
Secondary	0.53
Higher degree (incl. vocational)	0.73

Source: ILO estimates based on NSSO data.

8 Wages by social background

The Indian labour market is segregated on the basis of social background, that is, caste. Some disadvantaged groups, like scheduled castes and scheduled tribes, have been historically marginalized with regard to unequal access to education, employment opportunities, and opportunities to develop skills in certain sectors, thereby widening income inequality.

Since independence, the Indian Government has aimed at affirmative action by reserving access to seats in legislatures, government jobs and higher education for the marginalized and hitherto disadvantaged sections of society. The state recognizes Scheduled Castes (SCs), Scheduled Tribes (STs), and Other Backward Classes (OBCs) as the beneficiaries of this reservation. SCs are spread across the country, and about 80 per cent of them live in rural areas, while STs are mainly concentrated in some states and live largely in rural areas (IHD, 2014).

Discrimination faced by the socially and economically backward sections of society has been one of the areas of focus among researchers studying Indian labour markets. We look at wage trends and disparities between workers classified as STs, SCs, OBCs, and Others (forward castes), which consists of forward castes and other castes which are not classified elsewhere. Since the data on OBCs are not available for the 50th NSS round (1993–94), the comparison here is confined to the latest two NSS rounds 61st (2004–05) and 68th (2011–12).

Tables 13 and 14 show sharp differences between wages of regular and casual workers, amongst social groups in urban and rural areas. The difference is more visible in urban areas compared to rural areas. For urban areas in 2011–12, the OBCs and SCs regular workers were paid between 2 and 2.4 times more than casual workers, for both male and female. But for the STs the difference is even higher, ranging from 2.8 to 3.2 times more for male and female workers. One can conclude that access to regular work can really improve wage conditions for these disadvantaged groups, though STs and SCs have a much lower share of regular workers in comparison to their share in the total workforce (IHD, 2014). Das and Dutta (2007), based on the NSSO data for 2004–05, also observed that the chances of securing a regular job was 21.5 per cent for higher caste Hindus, while it was only 12.4 per cent and 6.7 per cent in the case of SCs and STs, respectively. Madeshwaran and Attwell (2007) estimate that SCs and STs workers received, on average, 15 per cent lower wages than other workers in both public and private sectors. They also find occupational discrimination (lack of access to high paying occupations) to be more pronounced than discrimination within a given occupation. They also attribute a major part of the wage gap to differences in human capital endowments.

Table 13. Real average daily urban wages by type of worker, 2004–05 and 2011–12 (INR, base year 2011–12)

	2004–05		2011–12	
	Regular	Casual	Regular	Casual
Urban male Others	420	133	579	173
Urban male OBC	288	138	383	193
Urban male SC	262	127	362	180
Urban male ST	369	112	445	160
Urban female Others	348	83	504	104
Urban female OBC	194	76	276	115
Urban female SC	165	78	225	116
Urban female ST	220	77	340	105

Source: ILO estimates based on NSSO data.

Table 14. Real average daily rural wages by type of worker, 2004–05 and 2011–12 (INR, base year 2011–12)

	2004–05		2011–12	
	Regular	Casual	Regular	Casual
Rural male Others	330	103	375	152
Rural male OBC	234	107	297	158
Rural male SC	221	100	284	150
Rural male ST	238	83	337	122
Rural female Others	209	64	251	100
Rural female OBC	142	63	194	105
Rural female SC	109	65	148	106
Rural female ST	144	60	197	97

Source: ILO estimates based on NSSO data.

Tables 15 and 16 show there is a hierarchy in wages for each category when we compare them to the highest wage group, which is men who belong to social group "Others" and are engaged in regular/salaried employment. In both rural and urban areas, males belonging to STs and having a regular employment had higher average wages compared to SCs. This could be partly due to affirmative action which allowed them to gain entry into low-wage regular employment (Papola and Kannan, 2017).

Nevertheless, wage differentials between social groups clearly show that SCs and STs are well behind Others (forward castes) in both rural and urban areas. Wage differences between castes are more pronounced for both male and female workers, more in regular work than in casual work, in both rural and urban areas. Singhari and Madheswaran (2016) find that between 1993–94 and 2011–12, the endowments of SCs contributes more towards explaining the existing raw wage gap compared to forward castes (Others) than pure discrimination. Therefore, it is suggested that enhancing educational opportunities for SCs can help to reduce discrimination towards them.

Table 15. Urban wage disparity index by type of worker, 2004–05 and 2011–12 (urban male Others = 100)

	2004–05		2011–12	
	Regular	Casual	Regular	Casual
Urban male Others	100	100	100	100
Urban male OBC	68	104	66	112
Urban male SC	62	95	62	104
Urban male ST	88	84	77	92
Urban female Others	83	62	87	60
Urban female OBC	46	57	48	67
Urban female SC	39	59	39	67
Urban female ST	52	58	59	60

Source: ILO estimates based on NSSO data.

Table 16. Rural wage disparity index by type of worker, 2004–05 and 2011–12 (rural male Others = 100)

	2004–05		2011–12	
	Regular	Casual	Regular	Casual
Rural male Others	100	100	100	100
Rural male OBC	71	104	79	104
Rural male SC	67	97	76	99
Rural male ST	72	80	90	80
Rural female Others	63	62	67	65
Rural female OBC	43	61	52	69
Rural female SC	33	63	40	70
Rural female ST	44	58	53	64

Source: ILO estimates based on NSSO data.

Casual work does not present significant wage differentials except in the case of STs, in both rural and urban areas. Women casual workers are at the bottom of the wage disparity pyramid, irrespective of social group and location. All categories of workers have observed an increase in wages over time. However, wage disparities continues to persist across social groups, and this calls for strengthening inclusive strategies to provide equal opportunities for access to education, employment and skill development for disadvantaged social groups.

9 Wages by state

India is a huge and diverse country comprising 29 states and seven Union Territories (UTs), and there are regional variations in economic development, demographic characteristics and levels of welfare, which makes it important to look at the trends in wages at the state level along with other economic indicators.

The disparity between the highest and lowest average daily wages across states is widening over time. The ratio of highest state wages to lowest state wages for regular workers increased from 1.5 in 1993–94 to 2.1 in 2011–12 (table 17), while the ratio for casual workers increased from 2.7 in 1993–94 to 3.4 in 2011–12. The coefficient of variation (CV)[23] went up from 0.11 in 1993–94 to 0.19 in 2011–12 for regular workers showing widening wage inequality. The regional disparity was much higher for casual workers (0.33), which seems to imply that their position has worsened in the labour market, as local labour market conditions play a more significant role in the determination of wages. Papola and Kannan (2017) show that high economic growth over the past two decades has been characterized by increasing disparity between wages for men and women. Also, the relative position of women has worsened during this period in the labour market.

Table 17. Indicators of nominal average daily wages between states, 1993–94 to 2011–12 (INR)

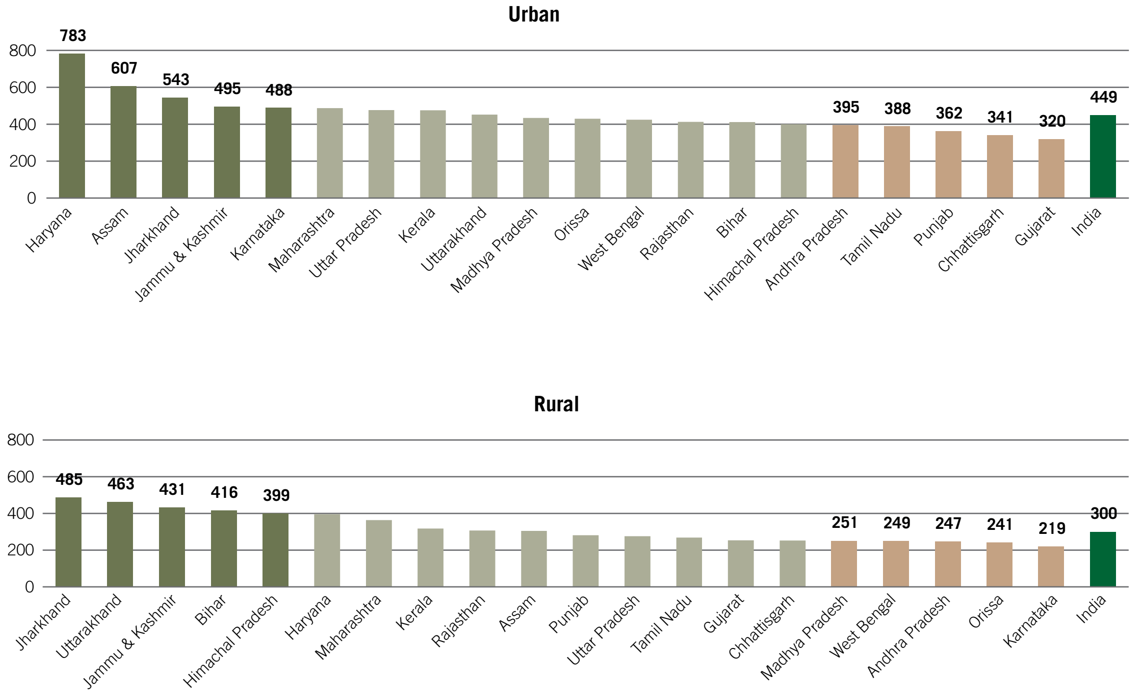
	Regular workers			Casual workers		
	1993–94	2004–05	2011–12	1993–94	2004–05	2011–12
Highest state wage	86	222	621	43	121	308
Lowest state wage	56	137	302	16	35	91
Average national wage	68	171	396	22	52	143
Ratio, highest to lowest wage	1.5	1.6	2.1	2.7	3.5	3.4
Coefficient of variation	0.11	0.15	0.19	0.33	0.36	0.30

Source: ILO estimates based on NSSO data.

An examination of different states with high and low average wages of regular workers in urban and rural areas in 2011–12 shows a diverse picture (figure 28). In urban areas, regular wages are highest in Haryana, followed by Assam, Jharkhand, Jammu and Kashmir, and Karnataka, and the lowest regular wages across states are found in Andhra Pradesh, Tamil Nadu, Punjab, Chhattisgarh, and Gujarat. In rural areas, the states with highest and lowest wages for regular workers are quite different. Jharkhand, Jammu and Kashmir, Uttarakhand, Bihar and Himachal Pradesh are amongst the states with high wages. The lowest-wage states include Andhra Pradesh, Madhya Pradesh, West Bengal, Odisha and Karnataka. Figure 29 shows state-level average wages of casual workers in urban and rural areas in

2011–12. The states with the highest casual wages in both rural and urban areas are consistently Kerala, Jammu and Kashmir, Punjab and Haryana; the states with the lowest wages for casual workers in urban areas are Uttar Pradesh, Assam, Madhya Pradesh, West Bengal and Chhattisgarh, and in rural areas Odisha, Maharashtra, Gujarat, Madhya Pradesh and Chhattisgarh.

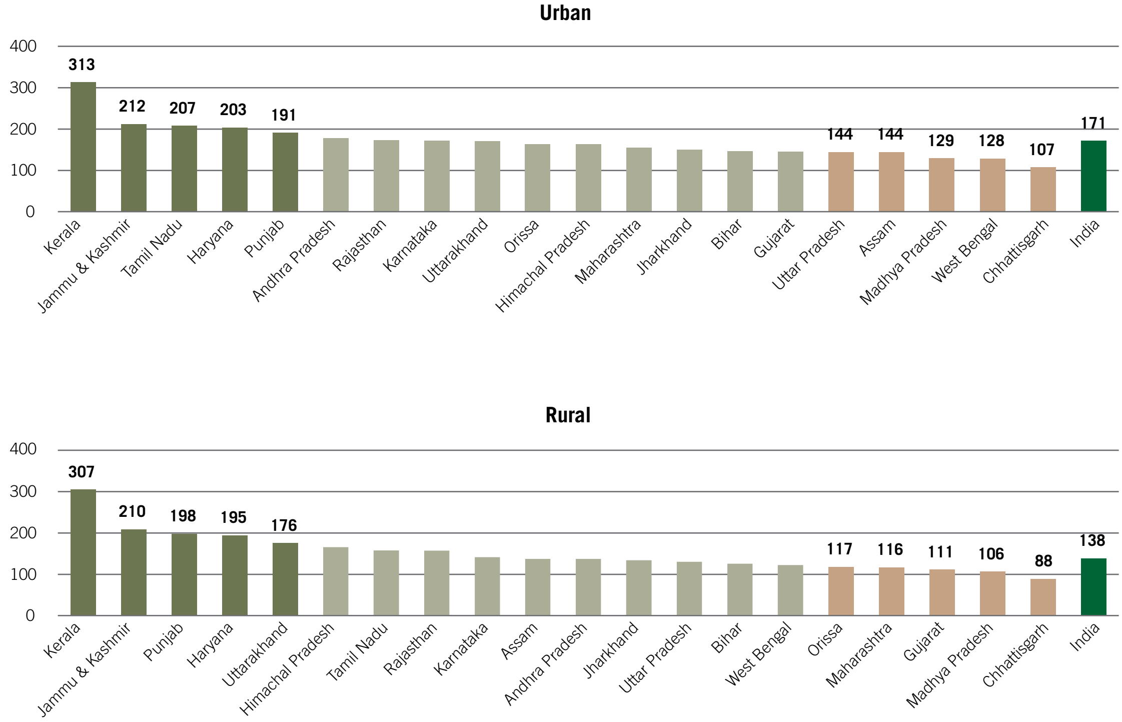
Figure 28. Nominal regular wages, urban and rural, by state, 2011–12 (INR)



Source: ILO estimate based on NSSO data

There is a general perception that developed states with better economic indicators will have higher wages than less developed states. To analyse whether there is an association between economic development and wages across states, we correlate state per capita income with the wages of regular workers in urban and rural areas (figures 30a and 30b). It appears that there is little association between the wages of regular workers (urban or rural) and the economic performance of a state. This is somewhat puzzling and requires further investigation.

Figure 29. Nominal casual wages, urban and rural, by state, 2011–12 (INR)



Source: ILO estimates based on NSSO data.

In fact, for regular urban wages, only Haryana stands out as a high average wage paying state with a high per capita income. The next best wage performing states – Assam, Jharkhand, and Jammu & Kashmir are considered States with a lower economic development compared to states such as Tamil Nadu, Punjab, Himachal Pradesh and Gujarat, which present relatively low average wage levels for regular urban workers.

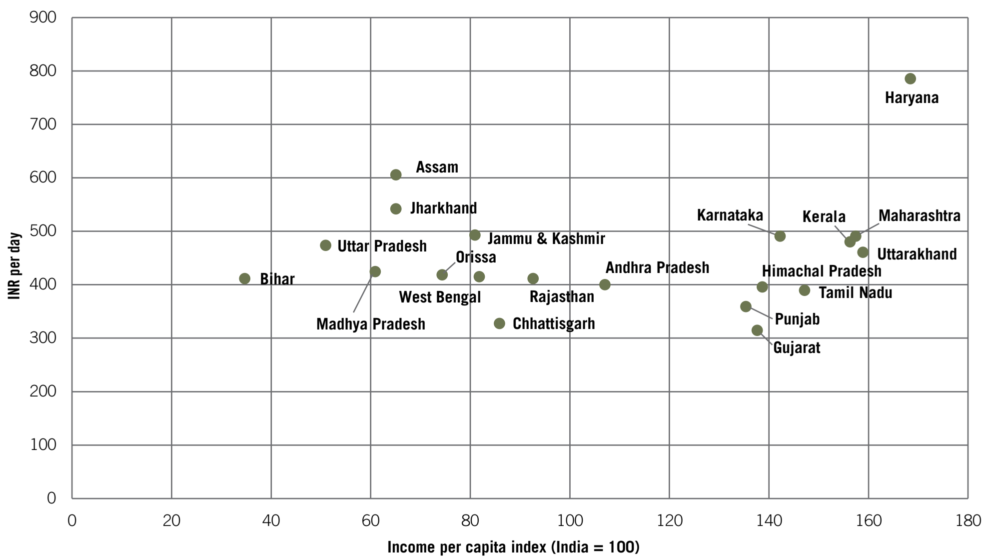
Regular rural wages across states follow a similar pattern. Bihar, Jharkhand, and Jammu & Kashmir, for example, have much higher average wages compared to economically better off states such as Punjab, Tamil Nadu, Gujarat and Karnataka.

This association, which is contrary to the common perception that better developed states do not, in general, pay higher wages and vice versa, has also been observed by others (IHD, 2014). It is argued that a large part of the differences in the wages of regular workers across states is due to the presence of several public and private sector industries; and institutional factors such as minimum wage and collective bargaining institutions, which also play an important role in determining regular or casual wages (ibid.).

Figures 31a and 31b present the correlation between income per capita and wages of casual workers in rural and urban areas across states. There is a moderate correlation between states for casual workers, and states with higher economic development pay higher wages for casual workers in both urban and rural areas. States with a low level of economic development also tend to pay low wages, though there are some variations even among them. Kerala stands out, with a high level of economic development and high wages for casual workers in both rural and urban areas, probably also a reflection of institutional factors,[24] which, surprisingly, one does not observe for regular wages.

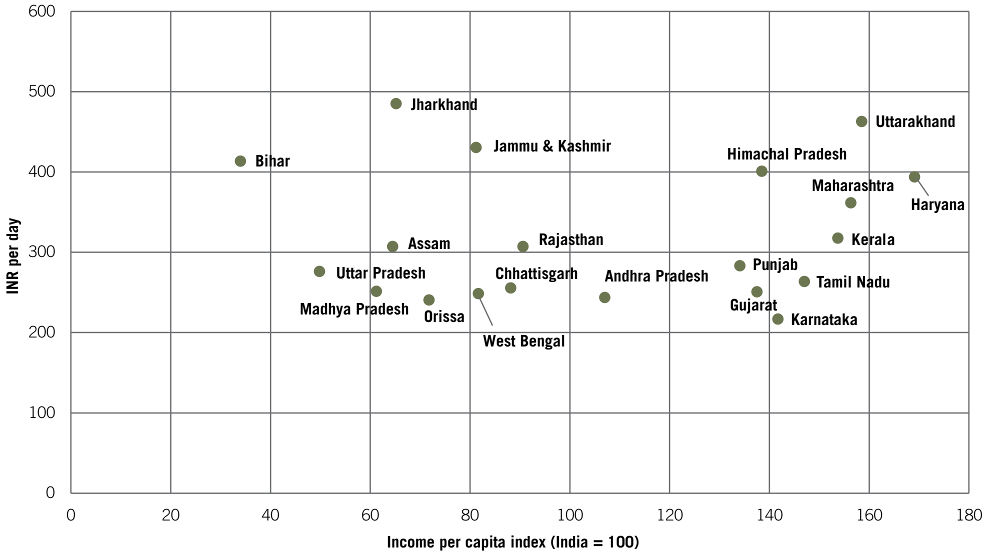
Thus, the findings show a considerable variation in wage levels and growth rate of both regular/salaried and casual workers across the states. This is not merely due to differences in economic growth performance, but also to institutional factors such as minimum wage policies and human development levels. It also shows that, despite low growth, some states have witnessed growth in wages.

Figure 30a. Per capita income vs. regular urban nominal daily wages, 2011–12



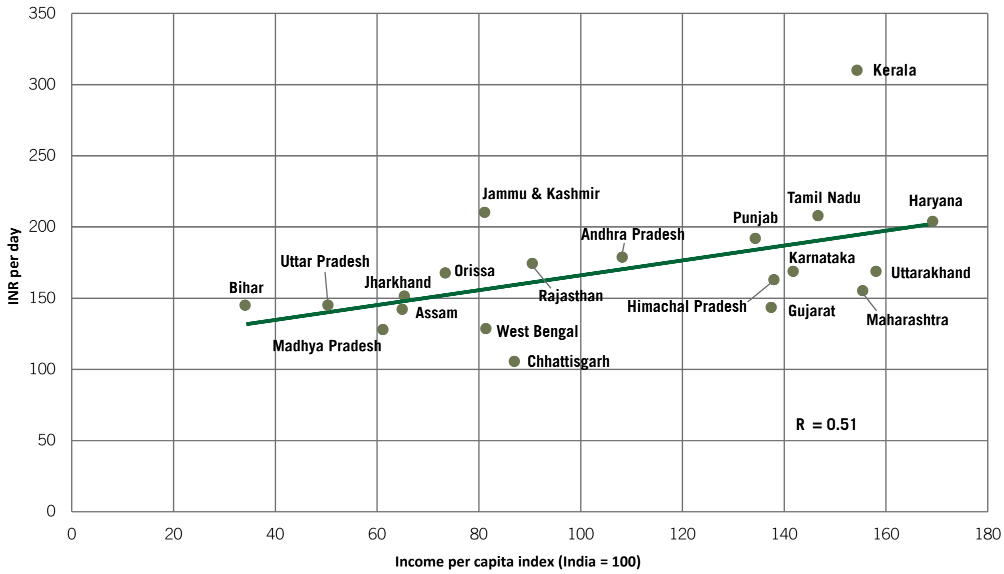
Source: ILO estimates based on NSSO data.

Figure 30b. Per capita income vs. regular rural nominal daily wages, 2011–12



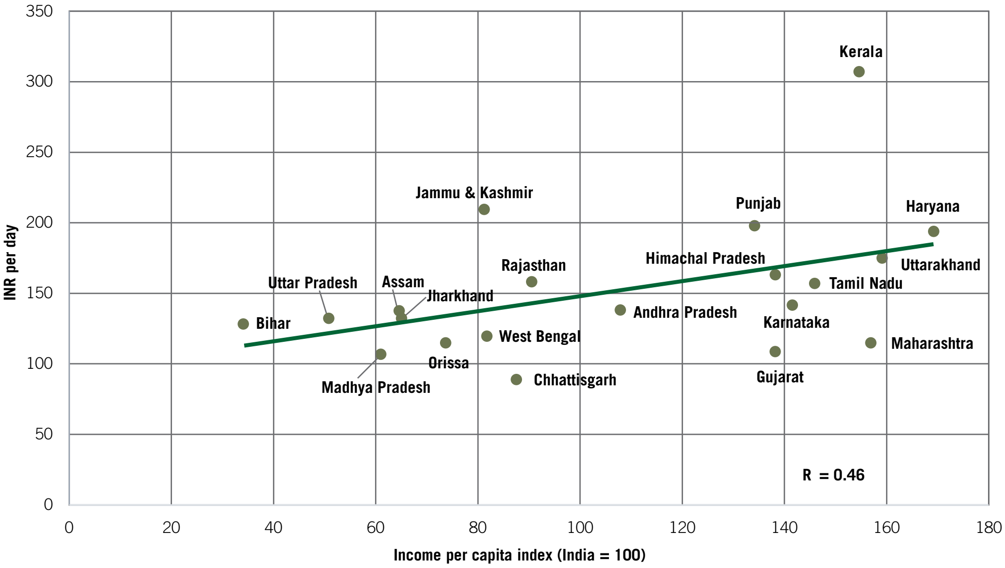
Source: ILO estimates based on NSSO data and data from the Central Statistics Office (CSO)

Figure 31a. Per capita income vs. casual urban nominal daily wages, 2011–12



Source: ILO estimates based on NSSO data and data from the Central Statistics Office (CSO).

Figure 31b. Per capita income vs. casual rural nominal daily wages, 2011–12



Source: ILO estimates based on NSSO data and data from the Central Statistics Office (CSO).

10 Wage inequality

Since the 1990s, the Indian economy has witnessed a sharp rise in its GDP. An important question is whether or not this has led to widening wage inequality. Growing inequality, where income is concentrated in rich households rather than poor ones, can create downward pressures on aggregate demand as richer households have lower propensity to consume compared to poorer households (ILO, 2015).

Inequality is not only a concern in terms of national income but also at the personal income level. A higher concentration of wages in the hands of the top earners creates inequality that can affect economic stability. In addition, it can challenge the notion of social justice and undermine social cohesion (ILO, 2012). Studies show that higher social and economic inclusion is strongly associated with longer periods of sustained economic growth (OECD, 2014). A research study conducted by the International Monetary Fund (IMF) corroborates the argument that more inequality reduces the pace and durability of growth (Ostry, Berg and Tsangarides, 2014).

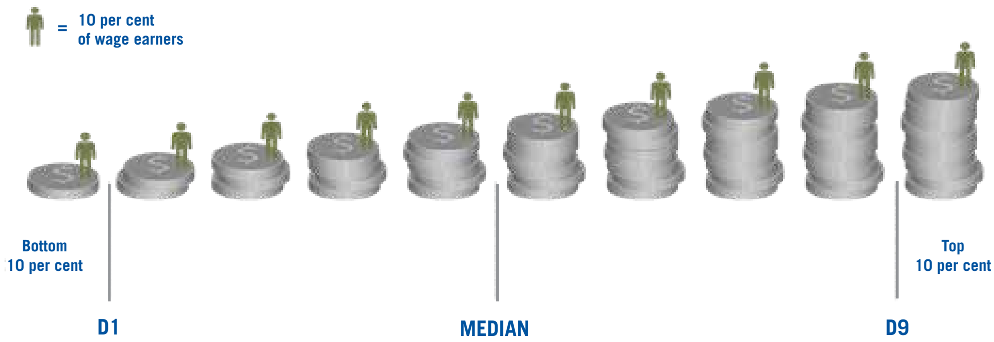
It is noteworthy that there are several ways to measure inequality, and there are supporters as well as critics debating these various methods. However, in this particular report we focus on one such method. We attempt to capture Indian wage inequality through wage dispersion ratios, between the top, middle and bottom levels, throughout the wage distribution as well as the Gini coefficient.

Previous studies have documented an increase in overall wage inequality in India, particularly between 1993–94 and 2004–05. Nevertheless, there is no uniform wage inequality for all workers, and it can differ for different types of employment. On the one hand, wage inequality among casual workers, both in rural and urban areas, has consistently decreased between 1983 and 2004–05 (Abraham, 2007; Sarkar and Mehta, 2010). On the other hand, wage inequality among regular workers, both in rural and urban areas, has increased between 1983 and 2004–05 (Dutta 2005; Sarkar and Mehta, 2010). Using EUS data of the NSS 68th round, we extend our analysis to 2011–12, and identify the changes that occurred for regular and casual workers in both urban and rural locations.

10.1 Top, bottom and middle wage inequality

A measurement used to address inequality and highlight the differences in wage distribution is the ratio of the two extremes – the highest and lowest wages. For instance, the *ILO Global Wage Report* (ILO, 2016b) has used this indicator to compare low- and high-wage earners (P90/P10), as well as comparing the two extremes with the middle-wage earners (P50/P10 and P90/P50) (figure 32).

Figure 32. Measuring wage inequality D9/D1 (threshold values): An illustration



Note: Disparities in wages can be measured using deciles. D1 is the maximum wage received by the 10 per cent of employees earning the least. D9 is the minimum wage received by the 10 per cent of employees earning the most.

Source: ILO, 2016b.

Figure 33. Wage inequality: Percentile ratios, 1993–94 to 2011–12

Source: ILO estimates based on NSSO data.

Figure 33 shows that there is a clear reduction in inequality between the top and bottom wage earners, as the P90/P10 inter-quantile indicator has decreased from 8.6 in 1993–94 to 6.7 in 2011–12, although in 2004–05 there was a slight increase. The wage differences between middle and high wage earners (P90/P50) increased between 1993–94 and 2004–05, and then decreased in 2011–12, returning to the original value of 1993–94. The only ratio that has been decreasing constantly from 1993–94 to 2011–12 is the relationship between bottom and middle wage earners, where inequality was reduced due to a catching up process. The latter can be explained due to the higher wage increase registered by the casual workers, who correspond to the bottom part of wage distribution in the Indian economy.

Table 18. Urban and rural wage inequality dispersion ratios, 1993–94 to 2011–12

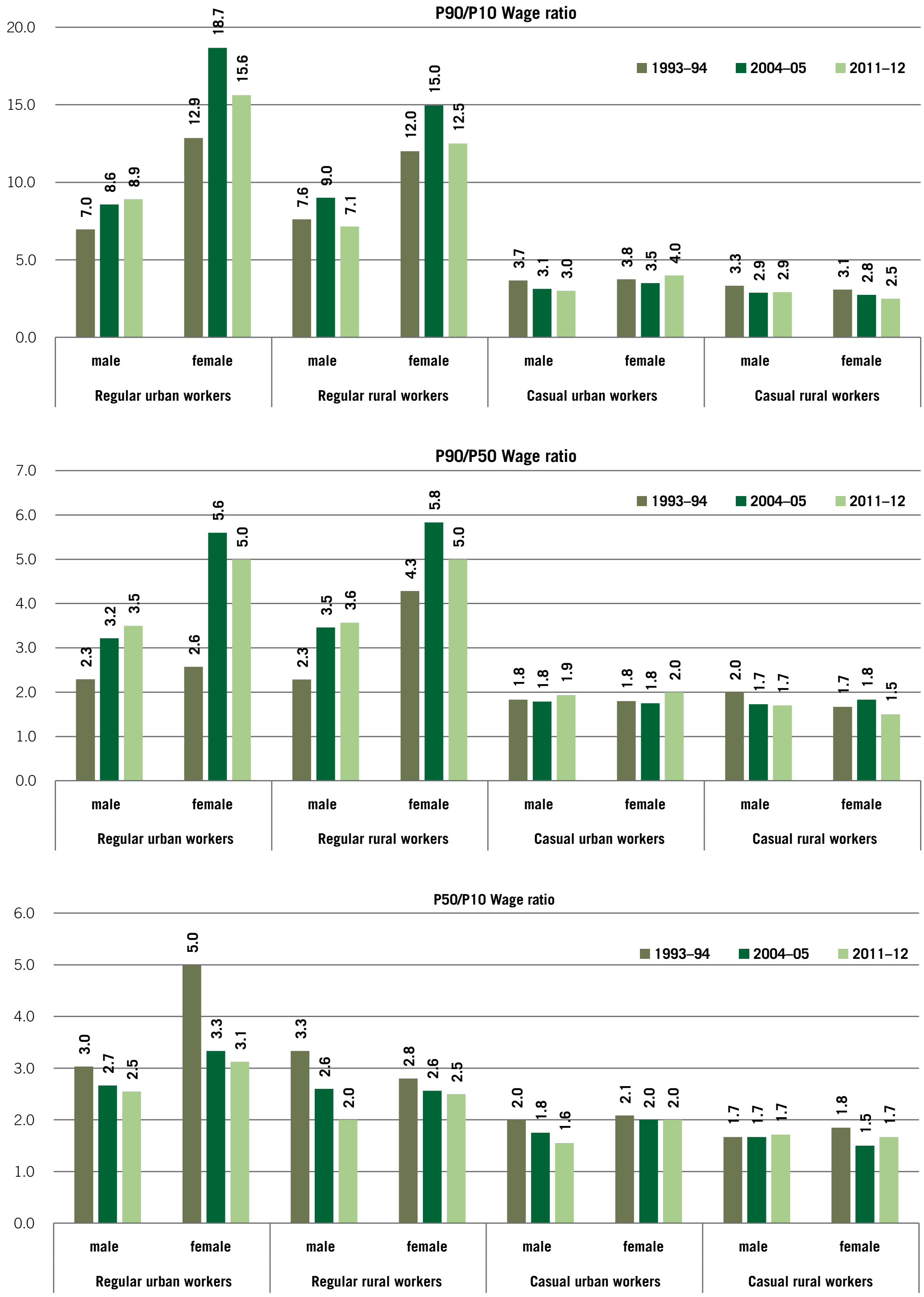
Rural wage inequality dispersion ratios, 1993–94 to 2011–12										
		1993–94			2004–05			2011–12		
		(P90/ P10)	(P90/ P50)	(P50/ P10)	(P90/ P10)	(P90/ P50)	(P50/ P10)	(P90/ P10)	(P90/ P50)	(P50/ P10)
Regular	Male	7.6	2.3	3.3	9.0	3.5	2.6	7.1	3.6	2.0
	Female	12.0	4.3	2.8	15.0	5.8	2.6	12.5	5.0	2.5
Casual	Male	3.3	2.0	1.7	2.9	1.7	1.7	2.9	1.7	1.7
	Female	3.1	1.7	1.8	2.8	1.8	1.5	2.5	1.5	1.7

Urban wage inequality dispersion ratios, 1993—94 to 2011—12										
		1993–94			2004–05			2011–12		
		(P90/ P10)	(P90/ P50)	(P50/ P10)	(P90/ P10)	(P90/ P50)	(P50/ P10)	(P90/ P10)	(P90/ P50)	(P50/ P10)
Regular	Male	7.0	2.3	3.0	8.6	3.2	2.7	8.9	3.5	2.5
	Female	12.9	2.6	5.0	18.7	5.6	3.3	15.6	5.0	3.1
Casual	Male	3.7	1.8	2.0	3.1	1.8	1.8	3.0	1.9	1.6
	Female	3.8	1.8	2.1	3.5	1.8	2.0	4.0	2.0	2.0

Source: ILO estimates based on NSSO data.

In order to understand the overall trend of wage inequality, we analyze the inequality outcomes of various employment categories. Before examining what has happened over time, we must take note of the fact that wage ratio dispersions are higher for regular workers than for casual workers (table 18). The larger difference in education and skill attainment in regular workers can partly explain the greater levels of dispersion when compared to casual workers, who are mainly low-skilled workers.

Figure 34. Wage dispersion ratios (P90/P10, P90/P50, P50/P10) by worker category, 1993–94 to 2011–12



Source: ILO estimates based on NSSO data.

The trends of the P90/P10 ratio for casual workers indicate that wage inequality has declined in three out of the four categories. However, comparing the ratio between their top and bottom wages, indicate that female casual workers observed an increase in wage inequality from 3.8 times in 1993–94 to four times in 2011–12 (figure 34). Meanwhile, wage inequality increased for regular workers in three out of four categories, between 1993–94 and 2011–12; within this segment, only urban male workers experienced a steady increase in inequality throughout the entire period. The P90/P50 wage ratio indicator follows a similar pattern. On the other hand, the P50/P10 ratio that corresponds to the bottom half of the wage distribution presents a decline in wage inequality in almost all categories of workers for the entire period of analysis except in the case of casual rural female workers.

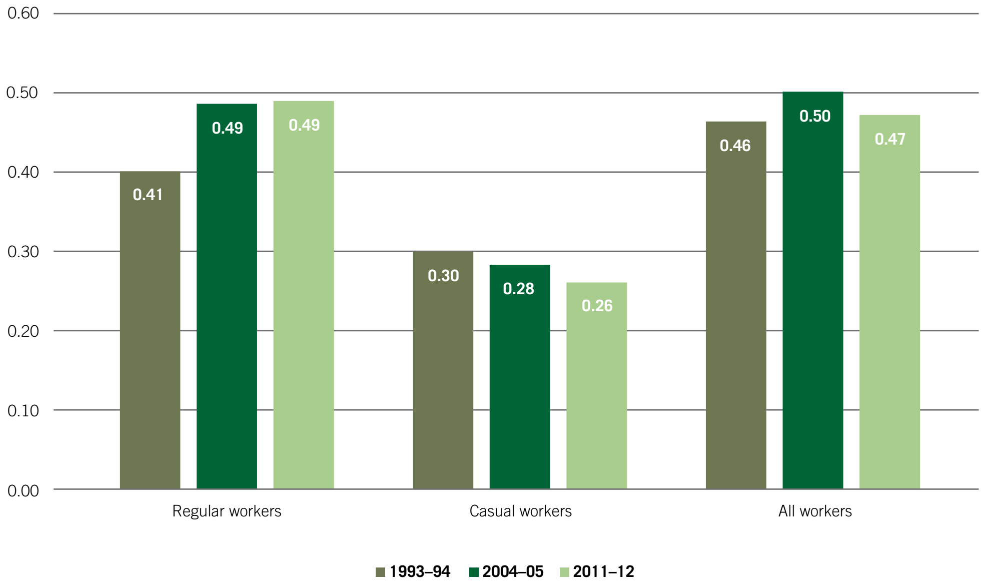
The results suggest that wage inequality in India is mainly prevalent amongst regular workers with higher education, rather than among casual workers, in the upper half of the wage distribution. Sadhukhan (2012) shows similar results, pointing out that the contractualization of industrial labour has been responsible for the increase in the wage gap between skilled and unskilled labour. However, this has had a negative effect on the 50-10 wage ratio and the 90-10 wage ratio. Sadhukhan argues that skill-biased technological change reduces the wages for unskilled labour (around the median wage earners), and that there is a possibility of a downward wage rigidity of the 10th percentile wage, which causes the negative effect of skill-biased technological change on the 50-10 wage ratio. This is also evident from other empirical studies which attribute the increase in inequality in the 1990s to higher returns to observed skills, especially in higher education (Kijima, 2006), and show that changes in inequality occurred at the upper half of the wage distribution (Azam, 2012).

Inequality in wage distribution for the lower half in the scale has declined. Furthermore, there is scope for closing the gap between the lowest and the middle wage groups through adequate enforcement of minimum wages (Belser and Rani, 2011). In fact, empirical evidence suggests that the assurance of a minimum income at the bottom of the pay scale can help reduce poverty and also counter inequality (Belser and Rani, 2015). There is also empirical evidence which suggests that minimum wages have a positive impact on wages at the lower end of distribution and can also increase along the higher cohorts of the wage distribution (Rani and Ranjbar, 2015).

10.2 Gini coefficient

In contrast to the wage dispersion ratio, the Gini coefficient does not measure inequality between two points; rather, it takes into account the entire range of the distribution. An equal distribution means that the Gini coefficient is 0, while unequal distribution would change the Gini coefficient to 1. The Gini coefficient can be used to indicate how the wage distribution has changed within a country over a period of time, making it possible to see whether inequality is increasing or decreasing. And as we measure Gini coefficients for each employment category, we can also determine how the wages are distributed within each category.

Figure 35. Gini coefficients, regular and casual workers, 1993–94 to 2011–12



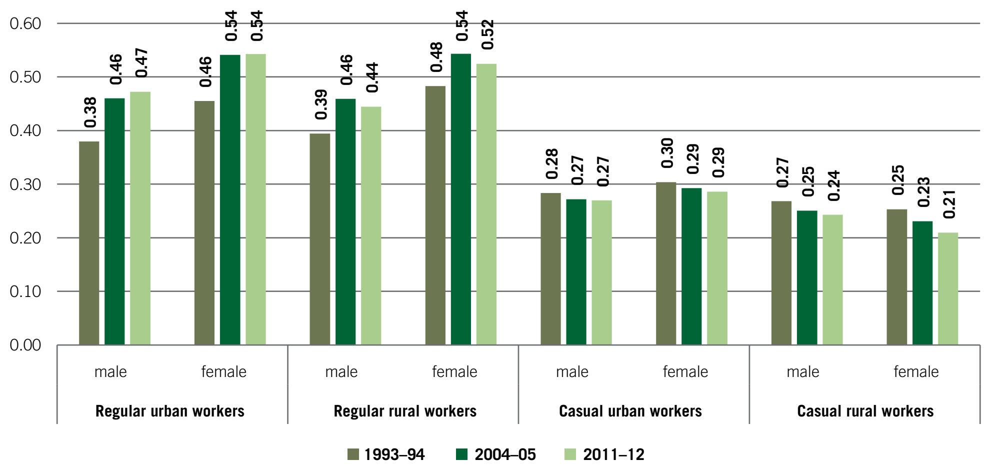
Source: ILO estimates based on NSSO data.

Figure 35 shows that wage inequality is higher for regular workers than for casual workers, an observation we previously explained by the fact that regular workers' skills and education are often compensated with different wage premiums. The sharp rise in the Gini coefficient of wage inequality among regular workers – from 0.41 in 1993–94 to 0.49 in 2004–05 – is attributable to changes in government policy, including the dismantling of trade protection and derived differences in the wages between skilled and unskilled workers (Unni and Rani, 2008). This is also corroborated using industry-level data for the period 1998–99 to 2004–05, on the basis of which trade openness raises the wages of skilled labour more than those of unskilled labour (Hashim and Banga, 2009).

An in-depth analysis of the effect of trade and service liberalization on wage inequality in India shows that labour relocations and wage shifts attributable to liberalization account for one-third of the increase in wage inequality from 1993–94 to 2004–05 (Mehta and Hasan, 2012). The remainder is due to changes in industry wages and skill premiums that are not empirically attributed to liberalization.[25] However, others have argued that liberalization induces wage increases in sectors through lowering tariff rates and improving productivity, and can reduce wage inequality (Kumar and Mishra, 2008; Mishra and Das, 2013).

It should be noted that the informalization of the organized sector, through replacement of regular employees with contract labour, has also contributed to the widening of the wage gap in the regular labour market. Some authors have shown that the level of inequality between 1983 and 2004–05 was higher than in earlier decades, and increasing at a fast pace for the higher-income groups with greater disparity in urban areas (Rani, 2008; Sarkar and Mehta, 2010).

Figure 36. Gini coefficients, by sub-group and gender, 1993–94 to 2011–12



Source: ILO estimates based on NSSO data.

Figure 36 presents the evolution of the Gini coefficients across different categories of workers between 1993–94 and 2011–12. For regular rural workers, both female and male, wage inequality increased sharply in 2004–05 and slightly declined in 2011–12, but to a level higher than seen in 1993–94. For regular urban workers, both female and male, wage inequality has continuously increased throughout the entire period. All casual workers (especially women in rural areas) have witnessed reduced levels of inequality over the entire period of the study. This is chiefly attributable to government public policy through MGNREGA (ensuring minimum wages).

However, the results show that overall inequality, measured through the Gini coefficient, increased between 1993–94 and 2004–05, and declined between 2004–05 and 2011–12, which are also corroborated by Rodgers and Soundararajan (2016). Rural wage inequality has been declining since 1983; in contrast, urban wage inequality has been rising.

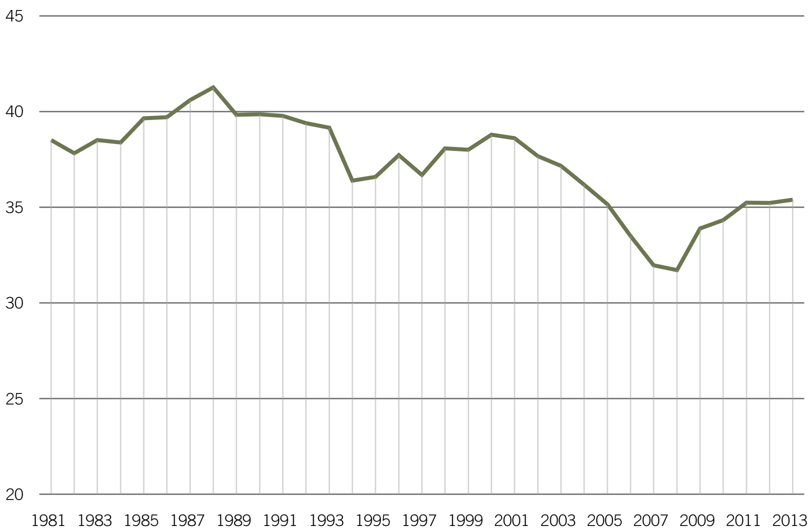
10.3 Labour income shares

Various studies show that the decline in labour income share is a global trend. In fact, the ILO *Global Wage Report 2016/17* reveals that among 133 countries, 91 have experienced a decline in labour income share from 1995 to 2014 (ILO, 2016b). In 2012, the Organisation for Economic Cooperation and Development (OECD) also determined that in 26 of 30 developed countries, the trend indicates a decline in labour share from 1990 to 2009 (ILO and OECD, 2015), which is also documented by other international institutions (BIS, 2006; European Commission, 2007; ILO, 2012; IMF, 2007).

The functional income distribution, which shows how income is distributed between factors of production, indicates a global decline in labour income share since the 1980s, mainly attributed to globalization and the shift in employment from labour-intensive to capital-intensive industries. The trend since the 1990s has been explained by changes within industries in medium and high-technology manufacturing (ILO, 2015), as well as in real estate and financial services where profits increased. Other contributing factors include internationalization of financial markets (Stockhammer, 2013), globalization of international trade, and erosion of labour market institutions such as unionization (ILO, 2012) and collective bargaining.

India has also experienced a decline in labour income share. In fact, since the economic reforms of 1990 until 2007, the wage share index was 17.6 per cent lower compared to 1980 (Onaran and Galanis, 2012). The labour share has also declined in South Africa, from 50 to 45 per cent over the past decade, and in China, by 4 percentage points between 2004 and 2008. In Argentina and Brazil, the labour share has actually increased since 2003 and 2004, respectively.

Figure 37. Labour income share (unadjusted), 1981–2013 (percentages)



Source: ILO estimates based on CSO's national income data for various years

As shown in figure 37, the wage or labour income share (unadjusted) in India declined from 38.5 per cent in 1981 to 35.4 per cent in 2013. The steepest drop was in 2008, when wage share fell to 31.7 per cent suggesting that returns to capital grew faster than returns to labour (Rani and Belser, 2012b), albeit slowly recovering in the following years.

The general outcome indicates that profits, rent and other income from capital are increasing at a faster pace than compensation towards labour. This implies income is concentrated in richer households, which in turn increases inequality among individuals (ILO, 2014). Although under some circumstances wage moderation with respect to productivity can boost profits, investments and job creation, it can also result in a contraction of aggregate demand and employment as it constrains household consumption; which accounts for the largest share of the GDP in most countries (ILO, 2016b).

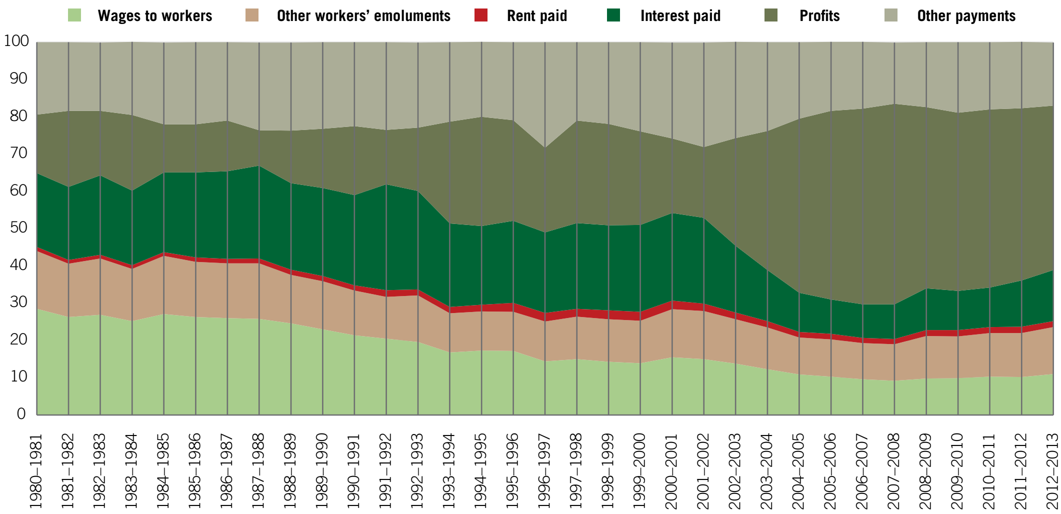
In India, GDP per worker (including the self-employed) in 2011–12 was estimated at INR 175,539 per year, while the average income per year of wage workers was calculated at INR 81,819, or approximately 46.6 per cent of GDP per worker. From 1983 to 2011, average wages rose at a rate of 3.1 per cent per year, and value added per worker at 4.8 per cent per year. This gives us an idea of the non-wage components in national income, and how this difference has been increasing over the years (IHD, 2014).

More work in the future towards measuring labour income share in India and understanding its determinants would be very useful – particularly since the evolution of labour share has been identified as one indicator (indicator 10.4.1) under Goal 10 of the Sustainable Development Goals which seeks to reduce inequality within and among countries.

10.4 Value added share in the manufacturing sector

In India, a persistent decline of wage share is also evidenced in gross value added (GVA) of the organized manufacturing sector. A widening gap between real wages per worker and labour productivity has been noted at least since the early 1980s (Guha, 2009; Kumar and Felipe, 2011; Raveendran and Kannan, 2009). Abraham and Sasikumar (2017) show that the share of wages in GVA declined from 28.5 per cent in 1980–81 to 11 per cent in 2012–13 based on Annual Survey

Figure 38. Share of factor payments in GVA of the organized manufacturing sector, 1980–2013



Source: ILO estimates based on CSO's national income data for various years of Industries (ASI) data, both unit-level and aggregate data. The share of all emoluments other than wages also declined from 15.5 to 12.6 per cent during the same period, and total emoluments to workers declined from 44 to 23.6 per cent. The share of other factor payments, including rent and interest, declined as well, while the share of profits in GVA increased from 15.7 to 44.1 per cent during this period (figure 38).

Between 1980–81 and 2011–12, the share of emoluments declined in firms of all sizes. Large-sized establishments with more than 500 employees and firms with above 5,000 employees observed the largest decline. A decomposition analysis on the basis of region and industry shows that the total decline in share of emoluments between 2000–01 and 2011–12 was concentrated in labour-intensive industries within the industrially developed states (ibid.).

A shift-share analysis of the change in wage share shows that much of the change is explained by the shift-component while the share-component has only a minor role, implying that an overwhelmingly large component of the decline was due to changes in intra-industry variations in wage share in GVA. Looking at the factors that affect wage share within an industry, it is argued that increasing flexibility in the labour market is the key factor contributing to this decline in wage share. The flexibility has occurred not only through substitution of other factors but also by changing the composition of labour. These measures include substitution of permanent employees with contract workers, increasing working hours, substitution of women for men as permanent workers, substitution of capital for labour, and substitution of technology for less skilled labour (ibid.).

Thus, the declining share of wages and emoluments in the organized sector may be viewed as an indication of rising forms of flexibility in the labour market, in terms of different types of employment. This rising flexibility is precipitated by changes in capital availability and its composition. The increase in capital intensity and changing composition of capital need to be viewed in light of the global rise in capital mobility and falling cost of capital, making labour further vulnerable and amenable to flexibility, control and disciplining (ibid.).

Table 19. Factor incomes in the unorganized (informal) sector, 1999–2000 and 2009–10

	Total emoluments	Rent paid	Interest paid	Profits	Net value added
1999–2000					
Manufacturing	42.1	51.5	3.4	3.0	100
Transport, storage and communications	31.9	58.1	3.8	6.2	100
Wholesale and retail trade, repair services	22.8	66.9	4.8	5.6	100
Low-skilled services	38.9	53.5	5.7	1.9	100
High-skilled services	36.7	56.0	5.4	1.9	100
All sectors	32.6	59.0	4.3	4.1	100
2009–10					
Manufacturing	45.5	48.1	3.9	2.5	100
Transport, storage and communications	37.4	54.4	2.1	6.1	100
Wholesale and retail trade, repair services	24.8	66.6	5.6	3.0	100
Low-skilled services	39.8	51.7	6.9	1.6	100
High-skilled services	44.1	49.2	4.1	2.6	100
All sectors	37.6	55.0	4.7	2.8	100

Source: ILO estimates based on NSSO data.

The picture in the unorganized (informal) sector is somewhat different. Across all sectors, the share of wages to workers has actually increased by 5 percentage points over the past decade (table 19); however, the highest gains were in high-skilled services (7 percentage points) and transport (5 percentage points). This is consistent with what has happened in the overall economy, where wages of casual workers have increased in both rural and urban areas (figure 3). While overall the share of profits has fallen by 1.3 percentage points, it has increased in the high-skilled services sector alone.

PART II Wage policy in India

11 Introduction

Wage levels and distribution of wages are influenced by a host of factors, including labour market institutions, particularly minimum wages and collective bargaining. In India, the main legislative instruments regulating wages are: Minimum Wages Act, 1948; Payment of Wages Act, 1936; Payment of Bonus Act, 1965; Equal Remuneration Act, 1976. The main objective of these laws has been to ensure that labour was not employed in precarious conditions.

Policy debates over the past decades have included the question of whether India should enact a statutory national or regional minimum wage floor(s). The national trade unions have launched a campaign for a statutory national minimum wage floor at a higher threshold than the currently non-statutory national minimum wage. And, more recently, there are on-going discussions about the consolidation of the above acts into a single labour code on wages. Beyond these legislative steps, there are challenges to implementing an effective wage policy, including some level of consensus on the need to ensure broader coverage of minimum wages, social dialogue, simplification of the minimum wage structure, and measures to improve implementation. This part of the report discusses wage policies, legislations and their implementation, focusing on minimum wages as well as collective bargaining and wage-setting institutions (wage boards and unions).

Historically, a growing consciousness of the importance and rights of labour since independence led to the recognition of the need for a wage structure with rising real wages. During the First Five Year Plan (1950–55), the workers' right to association, organization and collective bargaining was to be accepted without reservation as the fundamental basis of mutually satisfactory relationships. The Minimum Wages Act, 1948 fixed the minimum statutory wages for certain schedules of employment including agriculture. The Second Five Year Plan (1956–61) recognized that economic growth depended on industrial peace and the creation of industrial democracy; labour was considered to be a partner in the common task of development and a strong trade union movement was seen as a prerequisite for establishing a socialist society.

Towards this end, three important aspects of wage policy were laid down: (a) to aim at a structure involving rising real wages via increasing productivity through better layout of plants, improvement in working conditions and training while assuring the minimum wage and protection to all workers; (b) to bring wages into conformity with the expectations of the working class; and (c) to institute wage boards (consisting of an equal number of representatives of employers and workers and an independent chairman) in individual industries in different areas for the settlement of wage disputes. A Code of Discipline in Industry was adopted in 1958 by the Indian Labour Conference, which affirmed the principle to settle all future differences, disputes and grievances by mutual negotiation, conciliation and voluntary arbitration. The Code helped to facilitate the process of collective bargaining by placing a moral obligation on employers, forcing them to recognize trade unions[26] as bargaining agents.

The Third Five Year Plan (1961–66) took due cognizance of the existing gender-based discrimination in employment and wages. It recognized the need to implement the principle of equal pay for equal work and ensuring other benefits and employment generation policies. The need to consider price stability and to link wages to productivity and good industrial relations was emphasized in the Fourth Five Year Plan (1969–74). While some of the policies in the earlier plans focused mostly on the organized sector, the Sixth Five Year Plan (1980–85) extended its coverage to the unorganized sector as well, including, among others, agricultural labourers, fishermen, handloom weavers and artisans.

The plan laid down criteria for fixing and revision of minimum wages and to evolve a wage structure without impinging on the freedom of parties to negotiate wage agreements. It included both the social factors (minimum basic needs, adjusting real wages for rise in cost of living, allowances for occupational hazards, bonus, social security benefits, among others) and also economic factors (capacity to pay, profitability and productivity, consumption pattern, cost of living and regional disparities, among others). While it recognized the primacy of collective bargaining, it also acknowledged the necessity of prescribing guidelines for fixing minimum wage for the low-paid workers to ensure a minimum standard of living and industrial harmony; these were considered indispensable for economic progress, particularly in the core sectors.

The Eighth (1992–97) and Ninth (1997–2002) Five Year Plans also stressed safe and humane working conditions, social security benefits, improvement in the productivity of labour and reducing malpractices in wage payment. Subsequent plans did not focus much on wage policy, as by then the concern had shifted towards issues of labour flexibility, labour law reforms and skill formation. It is with regard to the labour flexibility debate, especially wage flexibility, that the issue of minimum wages was raised.

12 Wage-setting institutions and practices[27]

In this section, we focus on two wage-setting institutions – wage boards and collective bargaining – in the formal and informal sectors which have emerged as a result of the organization of workers.

12.1 Wage boards

The Committee on Fair Wages, 1948 recommended the setting up of wage boards[28] with the idea of providing for wage-fixing machinery and to work out a wage structure for organized labour, which was at a very early stage of development and did not have adequate bargaining power during the 1950s and 1960s. The wage boards were a tripartite body formed at the state level by the government, comprising representatives of employers, representatives of workers and independent members representing the public. They were entrusted with the task of recommending wages, compensation, gratuity, number of hours of work, and revisions in wages from time to time for a particular industry.

The first wage board was set up in 1957 by the government in the cotton textile and sugar industries.[29] Subsequently, wage boards were set up for a number of other industries[30] as a result of demands and pressures on the part of workers' associations and trade unions. The only wage boards that were statutory in nature were for journalists and non-journalist newspaper and news agency employees, while the recommendations of all other wage boards were non-statutory. Recognizing regional variations in conditions of industry and cost of living, most wage boards adopted a region-cum-industry approach in determining wage levels and structures. However, since liberalization in the 1990s, there has been a weakening of the wage boards and in some of the sectors there are very few functioning boards.

12.2 Collective bargaining

The development of India's industrial relations system shows a transition from centralized bargaining during the first three decades of planned industrialization to decentralized bargaining when the economy was partially liberalized in the mid-1980s, opening it up to greater domestic and international competition. In terms of collective agreements, three different forms were observed at the early stage: collective agreements at the firm or plant level, sectoral agreements between the employers' association and trade union, and ad hoc agreements on disputed issues before the tribunals (Punekar, 1966).

From 1970 onwards, collective bargaining took a more general form. It widened its scope from plant or enterprise level to the industry or the national level. With the constitution of a Joint Wage Negotiating Committee (JWNC) for the steel industry at the national level, collective bargaining became centralized. A bipartite, national apex body was set up in 1975 by the Government of India to address the general problems of industrial relations in the private sector. On the recommendation of the national apex body, the National Industries Committees were set up.

The industrial relations system in India since 1991

The opening up of the economy in 1991 led to the dismantling of the old structure of licences, controls and regulations, and a number of industry and trade policy reforms were introduced (Chandrasekhar and Ghosh, 2002; Ghosh, 2008). The private sector entered industries previously reserved for the public sector; import quotas were reduced and tariff barriers were lowered (Das, 2003; Nouroz, 2001). Foreign direct investment (FDI) was allowed up to 51 per cent of equity in 34 priority industries, subject to certain guidelines. Other fiscal measures included easier credit policies and reduced taxation with the aim of promoting economic growth (Unni and Rani, 2008).

This period also witnessed labour market reforms such as disinvestment in public sector enterprises (PSEs), privatization of public sector industries and restructuring or closure of unviable units; the introduction of programmes for redeployment, retraining and appropriate compensation of laid-off workers, for which a National Renewal Fund was created, and voluntary retirement schemes (VRS); and there was a halt on recruitment at lower levels in the public sector (Bhattacherjee, 2001; Ghosh, 2008; Mathur, 1993). This apart, the establishment of Special Economic Zones (SEZs), the state government's policies to attract capital by relaxing labour law, and the emergence of informal employment in the formal sector emerged as key challenges to the collective bargaining process for securing fair wages and working conditions in an otherwise growing economy (Reddy, 2016).

These reforms brought about a change in the Industrial Relations (IR) system. In the PSEs, there was a shift in IR practice from "management versus worker" to a more "participatory and consensus oriented management-worker relationship" as enterprises tried to rationalize labour (Roy Chowdhury, 2003a). The companies set up joint committees, with representatives from both the management and trade unions, "to enact, coordinate and implement critical restructuring decisions" (ibid., p. 38). If the unions opposed a decision, a solution was arrived at through a collaborative problem solving approach – in other words, concession bargaining. It was further pointed out that although unions were critical of the VRS as it displaced workers, they accepted it on pragmatic grounds that the alternative was often closure or privatization, both of which were potentially more threatening than labour reduction (ibid.).

In the public sector enterprises (PSEs), the centralized wage bargaining process was frozen for a number of years after the reforms (ibid.; Bhattacherjee, 2001) and wage bargaining took place at the enterprise level, as the central government was not willing to take on the burden of additional wage increases (Bhattacherjee, 2001). However, at the company level, during negotiations the unions were encouraged to suggest "ways and means of funding any pay hike" (Roy Chowdhury, 2003a, p. 41). The Fifth Central Pay Commission (1997), which reviewed civil service pay in the mid1990s, recommended that the civil service personnel be reduced by 30 per cent (Venkata Ratnam, 2001). In public sector units in Andhra Pradesh,[31] wage determination is based on a combination of “pay revision committee” for executive employees and collective bargaining for permanent workers in the non-executive category (Reddy, 2016).

In the private sector, the reforms led to restructuring through mergers and acquisitions, subcontracting and outsourcing, technological modernization, more use of casual and contract workers, and the reduction of permanent employment through voluntary and compulsory retirement (Deshpande et al., 2004; Ghosh, 2008; Sundar, 2008). An analysis of 215 collective agreements in both private and public sectors in the 1990s showed increased decentralization of bargaining, with a shift towards productivity-linked cooperative bargaining and long-term agreements extending for up to ten years (Venkata Ratnam, 2003).

Technological advances along with productivity bargaining also led to the introduction of new human resource management (HRM) and quality control practices such as total quality management (Krishnan, 2010), which entered India through the Japanese joint ventures in the automobile industry and spread across a number of other sectors, as well as small and medium-sized enterprises. In enterprises of all sizes, in both traditional (unionized) manufacturing and (nonunionized) information technology, there was a shift from tripartite to HRM or “joint team-based” patterns of employer-employee relations (Das, 2010). The shift in IR strategy, including the HRM practices that were widely prevalent in these companies, was argued to be due to competitive pressures forcing employers and workers to cooperate.

The new IR structures appear to be inclusive, as workers take part in the decision-making process, but in reality they are actually strategic; these structures are largely “controlled and defined by management’s broad interests” (Roy Chowdhury, 2003a, p. 44). At the state level, IR practices vary across firms and also within firms based on the nature of contracts. In private enterprises in Andhra Pradesh, wages of the permanent employees are fixed through collective bargaining, and for the contract workers there was no recognition of unions; the wages were linked to statutory minimum wages fixed by the state (Reddy, 2016). In Maharashtra,[32] the small and medium firms generally avoided collective bargaining and paid differentiated wages on the basis of actual work effort or productivity or on the basis of skills, experience and qualifications. The payment of higher wages to skilled and experienced workers may also have been used as a strategy to weaken the solidarity among workers (Jagannathan, 2015). A consequence of this is that actual wages for low and medium-skilled workers remain at minimum wages, which leads to labour market inequality and lowers the share of wages in value added.

As a result, collective bargaining at enterprise or plant level has become more common in the private sector. In these plants there is no uniform bargaining procedure; the process depends on the management and trade unions in the plant. This kind of decentralized bargaining may reduce the bargaining power of the trade union, especially in the case of a managerial crisis. However, this could also help in faster resolution of issues and a higher wage rate depending on the establishment's capacity to pay. Collective bargaining upholds the interest of both workers and enterprises. But often it is noted that the management seeks to avoid collective bargaining by weakening the trade unions or by opposing the presence of trade unions. This tactic in fact is detrimental to the interest of the workers.

12.2.1 Collective bargaining in the formal sector

Trade unions

The industrial relations system in India today represents a mix of different bargaining levels and a variety of union structures (Bhattacherjee, 2001). Most of the enterprise-based, industry-wide unions are organized into confederations at the state or national level, and are affiliated to political parties. These include the following: Bhartiya Mazdoor Sangh (BMS), Indian National Trade Union Congress (INTUC), All India Trade Union Congress[33] (AITUC), Hind Mazdoor Sabha (HMS), Centre of Indian Trade Unions (CITU), All India United Trade Union Centre[34], Trade Union Coordination Centre (TUCC), All India Central Council of Trade Unions (AICCTU), Labour Progressive Federation (LPF), United Trade Union Congress (UTUC), and National Front of Indian Trade Unions (NFITU).

In the informal sector, there are independent unions that represent certain categories of workers, such as the Self Employed Women's Association[35] (SEWA) (Datt, 2008). In all, there are 12 unions or federations that have the status of central trade union organizations (CTUOs).[36] In 2001, an amendment was made to the Trade Unions Act, 1926, requiring 10 per cent of workers or 100 workers (whichever is smaller) in an establishment as the minimum membership for registering a union, to stop the proliferation of unions.

Union density, which covers members of both trade unions and other associations, depends upon what is taken as the denominator. Union density across the total workforce stood at 10.7 per cent in 2011–12, increasing marginally compared to the 1993–94 level (Table 20). Union density among female workers is half that of male workers. Among non-agricultural workers, union density was 17.7 per cent in 2011–12, increasing marginally compared to 1993–94.

Table 20. Trade union density in India, 1993 to 2011–12 (percentages)

	1993	2004–05	2009–10	2011–12
Non-agricultural workers	16.0	20.9	18.7	17.7
Wage workers (Casual and regular/salaried)	16.2	14.1	13.4	13.4
Salaried workers	46.5	35.4	31.1	28.8
Self-employed workers	4.7	7.7	8.2	8.0
All workers	10.0	10.5	10.9	10.7

Source: ILO estimates based on NSSO data.

Among wage workers (casual and regular/salaried), union density has fallen since 1993–94, by 3 percentage points to 13.4 per cent. Union density among regular/salaried workers has fallen precipitously since 1993–94, by 17.7 percentage points to 28.8 per cent, while among the self-employed workers it has increased to around 8 per cent (approximately 14.7 million). Overall, trade union density in India is relatively low compared to other emerging economies such as Brazil and South Africa, which indicates the limited scope unions have to bargain for improvements in working conditions.

However, although trade union numbers are quite high in absolute numbers, the tendency to effectively bargain is quite low due to a lack of statutory support to promote collective bargaining in India. While unions represent a higher proportion of regular/salaried workers than any other category, the salaried workers comprised only 18.5 per cent of the workforce in 2011–12. The decline in trade union density among these workers over the past decade shows that a large proportion of them are in the private sector. It is difficult to gauge the extent of collective bargaining coverage in India as no reliable estimates are available; nevertheless, it would be fair to assume that it is lower than the trade union density rates and concentrated in large enterprises within the public sector.

Employers' organizations

Business representative organizations in India go back in time to the nineteenth century, i.e. to the time of the British East India Company. It was in the early twentieth century (1920), after the East India Company – that British industrial interest, with support from a few leading local industrialists – set up the Associated Chambers of Commerce (ASSOCHAM). To match ASSOCHAM, national industrialists influenced by the swadeshi movement set up the Federation of Indian Chambers of Commerce and Industry (FICCI) in 1927. The membership of these organizations included sectoral and regional associations and leading industrial enterprises. These two organizations operated at the national level focusing on industry and commerce, and labour and employment issues were very much in the background.

As a member of the ILO, India has participated in the International Labour Conference (ILC) since its inception in 1919. This required that the government, in terms of the ILO Constitution, identify the "most representative" employers' organization for the nomination of a national employer delegate to the ILC. Against this background, different business groups including ASSOCHAM, FICCI and sectoral associations promoted the setting up of an apex employers organization to address labour, employment and related social policy issues—but without much success. The government informed FICCI in 1931 that in terms of the Treaty of Versailles, Chambers of Commerce could not be recognized as organizations of employers, and so it could not be nominated as the national employer delegate to the ILC.

This situation led to the strategic decision vis-à-vis ILO requirements for FICCI to set up the All India Organisation of Employers (AIOE) in 1932 and for ASSOCHAM to set up, in the same year, the Employers' Federation of India

(EFI). Initially, keeping in mind the origins of each parent organization, the AIOE represented more of the indigenous industry and the EFI represented the British-led industrial interests. This distinction has now become insignificant. Meanwhile, these two employers' organizations, notwithstanding the vicissitudes of time, have continued to be recognized as the most representative national employers' organizations for all ILO related purposes; despite the fact that, since independence, employers' organizations have proliferated without a consolidated structure.

In 1956, primarily in relation to International Organisation of Employers (IOE) membership and dealings with the ILO, the AIOE and the EFI together amalgamated to create the Council of Indian Employers (CIE) with public sector enterprises playing a key role. The Standing Conference on Public Sector Enterprises (SCOPE), which represents public sector enterprises, was included in the membership of the CIE in 1976.

The CIE ensures cooperation and coordination between the All India Organisation of Employers (AIOE), the Employers' Federation of India (EFI) and the Standing Conference on Public Enterprises (SCOPE). The objective of AIOE is to educate employers in the best IR practices; SCOPE represents public sector enterprises at central and state level; and the EFI protects, promotes and champions the interests of employers, mainly in the areas of human resources, industrial relations, and labour problems. The CIE also represents Indian employers at the International Labour Conference and in other international forums. It must be recognized that since the reforms, private businesses and employers' associations have played a significant role in India's economy, especially in shaping a discourse that emphasizes the need to change the regulatory framework, advocating for freer hiring and firing and the use of contract workers—but, at the same time, a system that would provide some protection to these workers. There have also been attempts to strengthen concepts like human resource management, focusing on arrangements that position workers and management as equal organizational stakeholders rather than antagonist forces (Roy Chowdhury, 2003a).

Apart from representing the interests of employers in various committees and forums and at specific institutions for policy formulation, information sharing and strategic consensus development, employers' organizations nominate representatives for the determination of wages and working conditions in a particular schedule employment or industry – and for consultation on labour matters in the national context.

Collective bargaining since reforms

Since the opening up of the economy in the 1990s, the trade union movement mounted resistance to major reforms, especially privatization, and in collaboration with consumer and environmental organizations (Uba, 2008) its efforts substantially slowed down the process. Despite differences in approach that made consensus building difficult, several sectoral alliances, including the Road Transport Workers Federation, the Joint Action Council of Textile Trade Unions and the Railways Anti-privatization Campaign Committee, contested the privatization reforms (Venkata Ratnam, 2006, p. 43). The reversal of the government's decision to privatize some large companies demonstrated the ability of politically affiliated unions to resist the Indian government's reforms when they united across party lines (Candland, 1996).

There were about 226 protests against privatization as well as strikes, and most of them were mobilized by the left-wing trade unions—with 37 campaigns led by CITU and AITUC, and three by BMS and INTUC (Uba, 2008). Although it appears that all the major trade unions, irrespective of their ideological orientation, took part in the protests, there were differences. Similarly, despite fragmentation, trade unions have been fairly successful in stalling the changes in labour laws, which tried to introduce greater flexibility in the labour market (Hensman, 2010).

However, none of these developments led to an increase in unionization among wage workers, for a number of reasons. First, since the economic reforms there has been a tendency towards shifting production to ancillary units or less developed areas where labour is cheaper and unions are almost completely absent, and towards subcontracting and outsourcing (Banaji, 2000; Chakravarty, 2010; Davala, 1994). A small survey of 101 firms producing auto components in different regions of the country revealed that only 6 per cent of the firms reported having unions and the workers were dissuaded from forming a union (Unni and Rani, 2008).

Second, employers have been offering existing union members incentives to leave and non-members incentives not to join. A study involving 447 workplace union representatives of the INTUC, the second largest trade union federation, which is affiliated to the Congress Party in Maharashtra,[37] showed a high level of employer sponsored action to break legitimate unions in the private sector, and many instances of management actively offering incentives to workers to dissuade them from joining a genuine union (Badigannavar and Kelly, 2012, and see Table 21). Similarly, in the automobile sector, there are reports of instances of management paying compensation to leading unionists to quit (John, 2012, p. 20).

Table 21. Unfair labour practices reported by union representatives (percentage of employers in sample)

Unfair labour practice	Public services	Private manufacturing	Private services
Management offered incentives to workers to leave the union	33	57	41
Employer sponsored a union to break legitimate unions	32	43	40
Victimization of union representatives	47	69	62
Workers dismissed during strikes	19	59	53
Illegal lockouts	12	35	32
Illegal breaks in employment of workers to avoid permanent contracts	47	72	61

Source: Badigannavar and Kelly, 2012, Table 1.

Third, there is a reported tendency towards victimization and dismissal of union members. Badigannavar and Kelly (2012), in their analysis, show that over 60 per cent of the union representatives in private manufacturing and services—and almost half of those in public services—reported victimization of union representatives by management. Over half of all the union representatives surveyed reported that workers were dismissed during strikes in the private manufacturing and services sectors (table 21). In the automobile sector in the National Capital Region (NCR), workers were reluctant to form a union as they feared that the labour commissioner's office, to which they had no direct access themselves, would inform employers of their intention and that potential union leaders would be dismissed (Bose and Pratap, 2012, p. 58). The use of such methods has led to deterioration in labour management relations in a number of enterprises since the reforms.

Alongside the decline in union presence, there has also been a weakening of the bargaining power of the unions, which, as noted above, have increasingly resorted to cooperative or concession bargaining since the economic reforms. Two reasons have been advanced for this. The first has to do with the state of the unions themselves: only a small proportion of workers are unionized, and the union movement is fragmented and difficult to mobilize for dialogue and consultation (Mathur, 1993). A second reason may lie in the unions' pursuit of redress through litigation, having found the judiciary to be sympathetic to promoting workers' rights (Sundar, 2011). However, since the economic reforms, a number of judicial decisions (such as the Supreme Court judgements of 1990 and 2003)[38] have gone against the workers and have weakened their position.

Their reduced bargaining power has led some of the unions to adopt a strategy of cooperation and collaboration, rather than one of confrontation and conflict (Datt, 2008), and to fight for the rights of contractual workers rather than opposing their use altogether. In the PSUs, unions bargain directly with their principal employer, while in the private sector, agreements are often negotiated with the contractor. In the course of negotiating collective agreements, topics covered include regularization and continuity of employment, regular negotiation of wages, social security provision, and working conditions (Sundar, 2011). In a number of cases, the unions have been able to regularize contract workers.

Nevertheless, contractual workers still face several problems. The Supreme Court's ruling in 2006, that casual and temporary workers do not have a right to claim permanent employment as they were recruited "through the back door"[39], was a major setback. Also, employers often avoid regularization through illegal breaks in employment (dismissal and rehiring); this is one of the unfair labour practices identified by Badigannavar and Kelly (2012), who found that about 72 per cent of employers in private manufacturing and 61 per cent in private services use it to avoid giving workers permanent status (table 19).

12.2.2 Collective bargaining in the informal sector

The trade unions have also been looking in new directions, seeking strategic coalitions with civil society organizations and workers in the unorganized sector

(Hill, 2009). The extent of these efforts varies from state to state, depending in part on different states' policies. In Kerala, Maharashtra, Tamil Nadu and West Bengal, labour welfare funds have been set up: these are tripartite bodies including representatives of workers, employers and the state government to provide a forum for effective social dialogue in the informal sector. Maharashtra has tripartite boards for headload workers[40] and security guards; other similar tripartite structures exist in Andhra Pradesh, Gujarat, Madhya Pradesh and Tamil Nadu. Kerala has a number of welfare boards, some of which are specific to occupations (tailors, auto rickshaw drivers, headload workers, construction workers), while others are sector-specific (for *beedi* workers,[41] cashew workers, agricultural workers, etc.) (NCEUS, 2008).

Through these channels, which enable them to negotiate with the government, some categories of informal workers have been able to secure legal rights to economic benefits. The National Centre for Labour (NCL), a lead organization for informal labour established in 1995, and the New Trade Union Initiative (NTUI), a non-party affiliated union established in 2002, also reflect a shift in union strategy to take into consideration the larger issues facing both formal and informal workers in the prevailing economic climate (Hill, 2009).

West Bengal has introduced a number of schemes to benefit informal workers, both generally and in specific areas, such as transport, *beedi* manufacturing and construction (Agarwala, 2013). A number of unions (CITU, AITUC and INTUC) have formed a Joint Action Committee (JAC) in the state to address issues pertaining to workers in certain occupations (e.g. *beedi* and brickmaking); it holds meetings every two months and organizes awareness campaigns. In the brick-kiln industry, the JAC has helped brick workers to unionize; it has also promoted implementation of minimum wages and provision of other welfare benefits (Sen, 2012). However, in the case of *beedi* workers, where the notified wage rate varies between INR 142 and INR 160, the unions in West Bengal signed bilateral agreements (*beedi* merchant associations and the union federation) to pay just 50 per cent (not exceeding INR 80) of the statutory minimum wages, as the wages are much lower in the neighbouring states (INR 55 in Odisha) (ibid.). This was done to ensure that work does not move to the other states where wages are low. Some of the major trade unions have also started to address some of the issues of unorganized workers.

SEWA has organized home-based *beedi* workers to fight for minimum wages. After a struggle of more than ten years, during which SEWA organized worker rallies, sit-in protests and strikes, and filed four cases in various courts, an agreement was finally reached with the employers whereby the *beedi* homeworkers were paid the minimum wage (Jhabvala and Tate, 1996). SEWA continues to negotiate through collective bargaining to increase the wages of *beedi* workers in western India, mainly in Gujarat and Rajasthan[42] (Sinha, 2013).

Similar efforts were also made by the Navayuga Beedi Karmika Sangam, a *beedi* homeworkers' union in Hyderabad in southern India, which organized strikes and demonstrations to publicize the plight of these workers. By 1995, the union had obtained minimum wages for the workers, along with welfare cards, which entitled them to maternity benefits and schooling for their children (Hensman, 2001). Other such groups include the Labour Education and Research Network (LEARN) and its subsidiary, LEARN Mahila Kamgar Sanghatana (LMKS), which operates in Mumbai, in Dharavi, one of Asia's biggest slums. These groups create awareness among workers about their rights, provide training in vocational skill development and/or engage in wage negotiations and collective bargaining, depending upon the requirements of the community (Mathew, 2010). The Chennai-based Working Women's Forum (WWF) is another such proactive organization. Focusing on the rights of women workers in trade and manufacturing, it helps to provide services to its members, such as training in entrepreneurship, childcare, education, family planning, and credit.

The waste pickers' trade union (Kagad Kach Patra Kashtakari Panchayat), based in Pune, has also changed the popular perception that waste pickers, who do not have a clearcut employer–employee relationship. They have been considered "simply people who rummaged in the waste". But the union argued that "their members were performing valuable service in the waste economy, collecting and trading recyclable commodities" in a manner that was far more efficient than any of the available alternatives (Kabeer, Milward and Sudarshan, 2013, p. 254). After a great deal of effort, the union achieved a partnership between itself as service provider, the government authority (the municipal corporation) and the consumers, which has yielded substantial social, economic and environmental rewards, and has ensured the right to livelihood and access to benefits such as health insurance for the workers (Sankaran and Madhav, 2011).

Bonner and Spooner (2011) also note that in Pune, "unions of informal workers (waste pickers, domestic workers, headloaders, auto rickshaw and tempo drivers, and construction workers) form a citywide Manual Labourers' Association". This association in fact operates as a trade union federation of informal economy workers and is "recognized by the municipal authorities as a bargaining counterpart" (p. 93).

Similarly, the NCL, which represents the interests of workers in the informal sector, undertakes collective bargaining for better wages or social security provisions and it has been quite successful in organizing slum dwellers in Bangalore city, through its constituent organization, the Karnataka Kollageri Nivasigela Sangathana (KKNS). The KKNS fights for "land rights for slum dwellers" and lobbies with the state government for the provision of "basic amenities such as street lighting… sanitation, housing [and] schools" in slum areas (Roy Chowdhury, 2003b, p. 5282). Thus, traditional trade unions and new forms of organizations try to secure basic rights for various groups of informal workers by negotiating with different stakeholders.

13 Minimum wage legislations and institutions[43]

Wage policy in India has been inspired and influenced by several national and international developments. The Indian labour movement started to gain strength during the 1920s, when India was still under the British colonial rule. Post-independence, the movement influenced national political leadership to frame a progressive labour policy as well as specifically look at a wage policy. At the international level, the importance of minimum wages as an instrument of social protection was highlighted in the Constitution of the International Labour Organization, which was adopted in 1919 as part of the Treaty of Versailles after the First World War. The preamble of the Constitution states "the High Contracting Parties, moved by sentiments of justice and humanity as well as by the desire to secure permanent peace" called for "the provision of an adequate living wage", alongside other urgent measures to improve the conditions of labour.

Subsequently, the ILO Declaration of Philadelphia in 1944, and, more recently, the ILO Declaration on Social Justice for a Fair Globalization in 2008, and the Global Jobs Pact adopted at the ILO in June 2009, have further reiterated the important social role of minimum wages. The two ILO Conventions – the Minimum Wage Fixing Machinery Convention, 1928 (No. 26), and the Minimum Wage Fixing Convention, 1970 (No. 131) – highlight the importance of this policy instrument in achieving fairness and social progress in the world of work.

India was one of the first developing countries to introduce a minimum wage policy. The enactment of the Minimum Wages Act in 1948 was the result of both internal and external factors (John, 1997). The internal factors included the increase in the number of factories and wage earners during the first half of the twentieth century, as well as the growing number of industrial unrests and strikes of workers who rebelled against their "starvation wages". The most significant external factor was the adoption by the International Labour Organization (ILO) in 1928 of Article 1 of Convention No. 26 on minimum wage fixing in trades in which no effective collective bargaining was taking place and where wages were exceptionally low. The Minimum Wages Act, 1948 is still considered to be one of the most important pieces of labour legislation in India. Further, the Constitution of India accepts the responsibility of the state to ensure fair payment to workers and just distribution of income in the economy, and to avoid gender-based discrimination in employment and payment.

13.1 Minimum wage policy in India

The Minimum Wages Act, 1948 was passed soon after independence and the Constitution of India in 1950 also proposed a "living wage" as an objective the state should endeavour to achieve. The Fair Wages Committee, a tripartite committee comprising employers, employees and government representatives, was constituted in 1948 to recommend a framework for fixing minimum wages. The recommendations made by the Committee have been a reference and a guide for successive legislations and wage-fixing machinery.

The Fair Wages Committee defined three different levels of wages: living wage, fair wage and minimum wage. Among the three, living wage constituted the highest level: covering food, clothing, shelter, education of children, health expenditure and old age insurance. Fair wage, envisaged as between the living wage and the minimum wage, includes subsistence plus standard wage. It considers national income, productivity and the capacity to pay of the industry, in the determination of its level. It should be set in such a way as to ensure continuation and growth of employment, at a level which is comparable to levels in similar occupations/ activities. A minimum wage was defined as one necessary for sustenance of life and some measure of education, meeting medical requirements and for amenities for the preservation of the efficiency of the worker. It is the absolute minimum below which wages should not be set. These concepts very clearly embody the social objectives of and aspirations for a "decent standard of life" (Anant and Sundaram, 1998).

The Committee recommended the setting up of a wage board for each state and a regional board for each industry to fix and regulate wages. Based on the guidelines of the Committee, successive meetings of the Standing Labour Committee were held to establish the statutory wage-fixing machinery. It was recommended that the statutory minimum wages should be fixed according to the provisions of the Minimum Wages Act, 1948. While both central and state governments operationalized the idea of minimum wage, the idea of a living wage remains only at the definitional level. Although no precise, fixed level of fair wage is in vogue, various wage boards fix wages taking into account workers' needs, demands, and the capacity to pay of the industry. But since the introduction of economic reforms, the functioning of the wage boards has been on the decline.

The Minimum Wages Act, 1948 itself does not determine any criteria for the determination of the minimum wage and leaves the concept undefined. However, the recommendations of two important sources are usually considered while discussing minimum wages, namely a) the conclusions of the Committee on Fair Wages (1949), which recommends the elements to be taken into account when setting the level of minimum wages, and b) the decisions taken at the 15th Session of the Indian Labour Conference (1957), which defined a list of basic requirements which should be taken into account.[44] Furthermore, the Supreme Court, in the historic Raptakos Brett judgement[45] in 1992, held that in calculating the minimum wage, the need based norms laid out in the 15th Session of the Indian Labour Conference in 1957 should be considered. It also specified additional components.[46]

A number of committees and commissions were set up subsequently to advise on labour and wage policy (Figure 39). The first National Commission on Labour (1966–69) addressed the question of wages and emphasized the need for a wage policy which ensures industrial harmony, increase in productivity and workers' share in it, taking into consideration workers' level of living and the impact of wages on prices. The *Bhoothalingam Committee set up in 1978* recommended the rationalization of wage differentials and wage disparities and the linking of wages with productivity.

The Committee also suggested a national minimum wage, which would enable the laying down of the lowest limit of a minimum wage for the country.

Given the great deal of disparity in minimum wages across states in India, the Government of India initiated steps in 1987 to set up Regional Minimum Wage Advisory Committees. These committees were subsequently renamed the Regional Labour Ministers' Conference, which made a number of recommendations including, (a) reducing the disparity in minimum wages between states of a region, (b) setting up of an interstate coordination council, and (c) consulting with neighbouring states while fixing/revising minimum wages. However, there is hardly any evidence to suggest that these recommendations are being seriously followed. Also, in order to protect fixed minimum wages against inflation, they have been linked to the Consumer Price Index for Industrial Workers (CPI-IW) after this was recommended at the Labour Ministers' Conference in 1988.

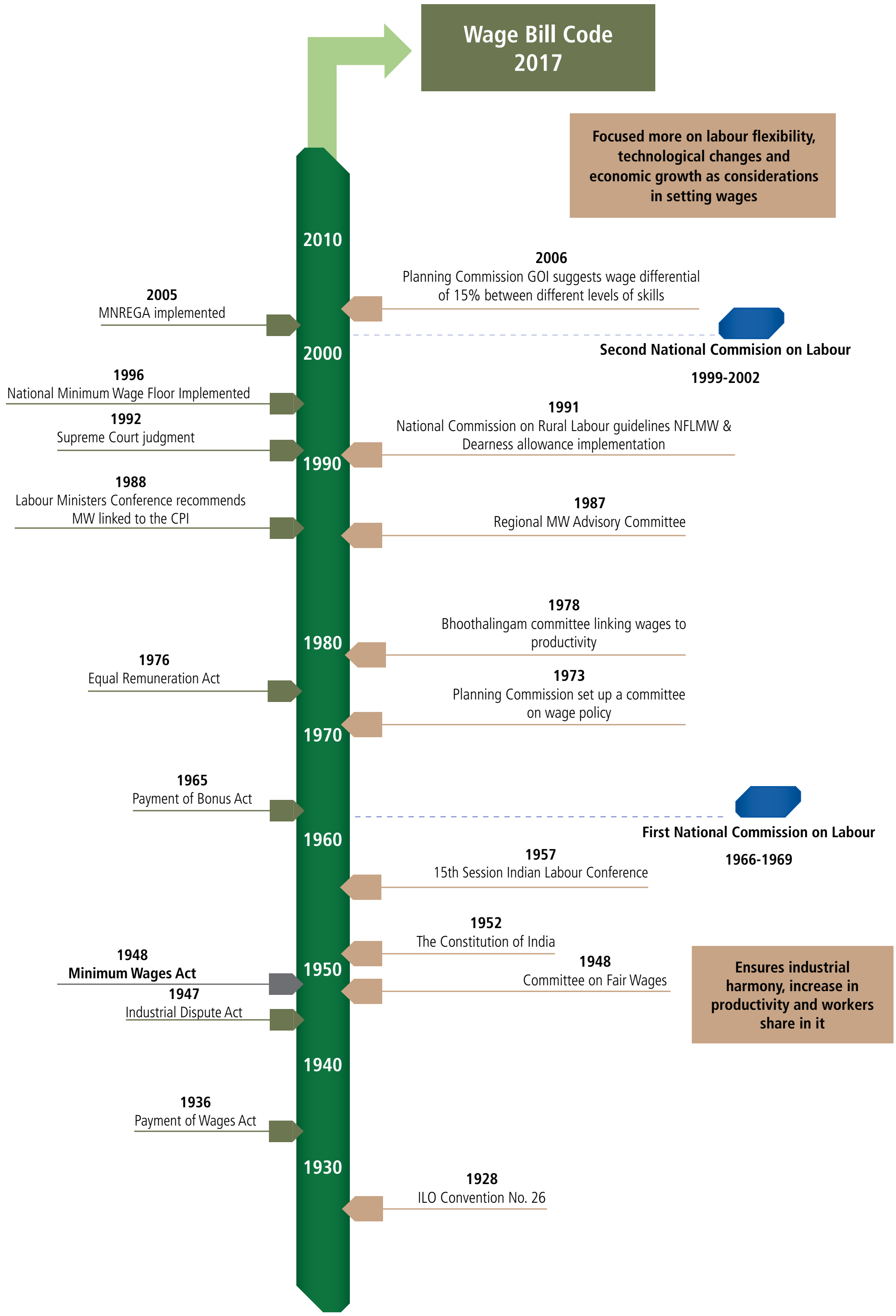
This provision of Variable Dearness Allowance (VDA) as a component of minimum wages has allowed for the revision of minimum wages in scheduled employment such that there is 100 per cent neutralization of inflation. VDA is revised in April and October every year in the central sphere.

Furthermore, a National Floor Level Minimum Wage was introduced in 1996 based on the recommendations of the National Commission on Rural Labour, 1991. The National Floor Level Minimum Wage was not given statutory backing, but it is revised from time to time and state governments are persuaded to fix the minimum wages in their respective states above this floor level for all scheduled employment. The second National Commission on Labour (1999–2002) focused more on labour flexibility, technological changes and economic growth as considerations in wage setting. It recommended a wage policy based on a set of principles directed towards attaining social justice, higher employment levels, capital formation and price stability. The National Commission for Enterprises in the Unorganized Sector (NCEUS) also recommended a statutorily backed National Minimum Wage along with a National Minimum Social Security and Minimum Conditions of Work to ensure the safety and health of workers (NCEUS, 2006, 2009b).

However, to date, minimum wages are applicable to only a limited proportion of workers (66 per cent) and do not cover all wage workers (Rani et al., 2013). There has been intense academic and policy debate about meaningful wage policy, including the introduction of a binding national minimum wage for all workers over the past decades[47] (Anant and Sundaram, 1998; Belser and Rani, 2011; Ghose, 1997; Handy and Papola, 1974; Sankaran, 1997). At present, the wage code bill, which consolidates four acts,[48] also makes a recommendation for a binding national minimum wage.

However, it leaves the option for the Central Government to fix this national minimum wage – provided that different minimum wage may be fixed for different states or different geographical areas. Trade unions are more inclined towards a single national minimum wage, while the employer organizations have advocated that region-wise and sector-wise wages should also be considered while fixing universal national minimum wage.

Figure 39. Timeline of wage policy in India



13.2 Setting the minimum wage

The Minimum Wages Act, 1948 empowers the Government of India to fix minimum wages for employees working in scheduled employment, male or female. The central government is the appropriate agency with regard to any scheduled employment carried out by or under its authority, in railway administration, in relation to mines, oilfields, major ports, and any corporation established under the central government (Article 2 of the Act). In respect of all other companies, the state governments and UT administration are the appropriate agencies. The central government is concerned to a limited extent with building and construction activities, carried on mostly by the Central Public Works Department, Ministry of Defence and Ministry of Agriculture and a few other departments. Most of the employment connected to such work falls under the purview of the state, and the state governments are required to fix/revise wages and ensure their implementation.

In the original Minimum Wages Act, 1948, there were 13 scheduled employments and these employments were considered as being the sectors which were not covered by collective bargaining – therefore most vulnerable to unduly low wages and exploitation, which increased to 376 scheduled employments in 2013. The central government sets 45 minimum wage rates for different job categories, including agriculture, mining, oil extraction, or any corporation under its ownership, while various state governments determine minimum wage rates for 1,709 job categories among the sectors scheduled under the Act. Hence, there currently exist in India a total of no less than 1,754 different minimum wage rates.

Section 5 of the Act provides for two methods of wage fixation: the committee method and notification method. Under the committee method, appropriate governments form committees and sub-committees to recommend rates for the fixing and revision of minimum wages. Under the notification method, the government publishes the proposed wage rates in the official gazette at least two months in advance from the effective date, and on the basis of advice and representations received during the due date, notifies the revised rates for the concerned scheduled employment in the official gazette.

India's system of minimum wages is one of the most complicated in the world. The 1948 legislation determines that the appropriate government should fix minimum wage rates payable to employees in a number of listed (or scheduled) employments. This has at least three important implications:

- firstly, minimum wages are set by different authorities in different types of companies.
- secondly, the minimum wage is set only "in certain employments or occupations" and so, not all wage earners are covered.
- thirdly, there are large numbers of rates which vary widely across states, even within the same occupation.

Overall, India has a complex system of minimum wages, not applicable to all workers, and set up often arbitrarily, by different authorities – making it difficult to monitor and enforce the innumerable minimum wages (Belser and Rani, 2010).

14 Issues in minimum wage policies[49]

While minimum wages can be an effective tool for addressing poverty and inequality, in India there are a number of issues and concerns with regard to the setting and implementation of minimum wages. There are, however, mechanisms that could be put in place to address these concerns and ensure that minimum wages can have a substantial and beneficial impact on subsistence wage and low-paid workers. This section discusses some of the issues related to setting the level of minimum wages, including revisions and adjustments; consultation with social partners; coverage, exemptions and exclusions; multiplicity of minimum wages; and implementation and enforcement mechanisms. While each of these aspects is discussed separately, it is evident that in practice they are often closely linked.

14.1 Norms for fixing minimum wages

In India, the Minimum Wages Act, 1948 does not specify the minimum wage, but provides the guidelines for setting minimum wages, which are based on the recommendations of the Committee on Fair Wages (1949), the 15th Indian Labour Conference in 1957, and the 1992 Supreme Court judgment. The elements guiding the fixing of minimum wages are similar to those laid down by Convention No. 131: the needs of the workers and their families, as well as economic factors. However, in practice, the norms that have been specified for fixing minimum wages are helpful for those at the lowest skill levels, but not for workers with different levels of skills.

After much deliberation, the Planning Commission of the Government of India in 2006 suggested a wage differential of 15 per cent between un-skilled to semi-skilled and semi-skilled to skilled (Reddy, 2016) – but the extent to which these differential rates are uniformly applied in practice is open to question. Further, fixing minimum wages in certain types of employment – such as contract labour – falls under both the Minimum Wages Act, 1948 and the Contract Labour (Regulation and Abolition) Act, 1970. In such instances it could become difficult to decide which of the two Acts to consider. This could then lead to conflict and litigation, if contested by the employees (ibid.). In addition, the presence of a long chain of intermediaries invariably results in wage theft or other malpractices, and this often occurs in industries where there is subcontracting. The Contract Labour Act that is supposed to fix the responsibilities between the contractor and the principal employer is not able to do this, and does not even mention the sub-contractor (Srivastava, 2016).

Another issue relates to the gender disparity in minimum wage fixing since scheduled employments dominated by women workers demonstrate lower minimum wages than those dominated by male workers. For example, in Kerala, the minimum wages in 2013 for women-dominated cashew factory work was INR 221 – compared to male-dominated coir manufacturing at INR 268, i.e. 18 per cent less. Similarly, in a tea plantation, where women workers are dominant, the minimum wage was INR 172 compared to that of male rubber tappers, at INR 210. There is a general notion among workers that trade unions have not accorded anywhere near equal status to women workers, be it in fixing minimum wages, election of office bearers, or being sensitive to women specific working conditions and problems.

14.2 Level of minimum wages

The Minimum Wages Act, 1948 only lays down the procedure for fixing and revising minimum wages, it does not define on what basis and at which level the minimum wage should be fixed. It is generally understood that the wage–fixing authorities will consider the principles laid down in the resolution of the 15th Indian Labour Conference, though they may not always be able to fully follow them. As a result, one finds very large variations in minimum wage rates for the same employment/occupation across states, not necessarily always reflecting the differences in cost of living. For example, minimum wages for agricultural labourers varied from INR 80 in Arunachal Pradesh and INR 92 in Odhisha to INR 170 in Mizoram and INR 178 in Haryana in 2011. In 2013, the revised minimum wages for agriculture varied from INR 80 in Arunachal Pradesh and INR 126 in Odisha to INR 269 in Karnataka. Further, in Maharashtra it was observed that agriculture, which has the highest number and share of workers, had a minimum wage that was not even three-quarters (at 73 per cent) of the national minimum wage and constituted one of the lowest minimum wages not just in Maharashtra but in the country itself in 2013 (Jagannathan, 2015).

There are, however, some indicators available based on international experience which can be used to determine the minimum wage level: estimates of cost of living for workers and their families; ratio of minimum wage to average wage and median wage; number of employers directly affected by the minimum wage; and the impact on the country's wage bill (Belser and Sobeck, 2012).

In both advanced and developing economies, the ratio of minimum to mean or median wage has gained importance in setting or revising the level of minimum wages. In 2010, in advanced economies, the ratio of minimum to median wages ranged from 37 per cent in Japan to 60 per cent in France (United Kingdom Low Pay Commission, 2012). In developing economies, the minimum to median wages were above 60 per cent in most countries under analysis except for Mexico and Viet Nam, where the ratios were similar to those in developed countries. The minimum to mean ranged from 28 per cent in Mali to 78 per cent in the Philippines for the year 2010. The mean wage is relatively far from the median, implying that the distribution of wages is heavily skewed, with a vast majority of workers earning low wages (Rani et al., 2013). This is true even in the case of India, where the minimum to median (75 per cent) is quite far from the minimum to mean (40 per cent) for the year 2010. So, depending on the country, both the average wage and median wage could provide an indication of the appropriate level for setting the minimum wage. In South Africa, during the discussions on setting up a national minimum wage, both the minimum to mean and median wages were considered. However, for setting the minimum wage, finally, median wages were taken into consideration (NMPR, 2016).

The other factors that are taken into account by countries are the likely impact of the proposed wages on current employment and the creation of new employment, which was considered for sectoral wage determination in South Africa. China, with regional minimum wages takes into account the guidelines from the Five Year Plan, and the 13th Plan (2016–2021), which suggests minimum wages be adjusted at an average growth rate of 10 per cent per annum, and that the level should represent between 40 and 60 per cent of the average wages. This gives regions a set of indicators as boundaries for the determination of their levels. Disparities between full-time and other workers, particularly in relation to stability of employment, are also considered to set a premium for hourly workers with respect to full employment (Maiza and Bustillo, 2016).

The financial capacity of enterprises to pay a particular level of minimum wages for continuing their business is also considered by some countries (Indonesia, the Philippines, South Africa and Viet Nam). In some other countries like the Central African Republic, Russian Federation and Venezuela, though it is not a legal requirement, the economic situation (GDP growth) is taken into consideration while setting the level of minimum wage (ILO, 2014).

14.3 Consultation with social partners

The Minimum Wage Fixing Convention, 1970 (No. 131) also refers to the establishment of "a system of minimum wages", which includes full consultation with social partners in the design and operation of the minimum wage system and, where appropriate, their direct participation in the system (Sankaran, 1997). In practice, however, minimum wages are fixed by statute, by the decision of a competent authority, by decisions of wage boards or councils, or by industrial or labour courts and tribunals across a wide range of countries (ILO, 2014).

In India, two methods, the committee or the notification method, are used to fix and revise minimum wages. There has been an erosion of faith in the system, both among employers and employees, as, in some cases, the procedure for decision-making in the wage boards and the government took almost five years (Anant and Sundaram, 1998).

The functioning of the wage boards also differs across states. In Andhra Pradesh, the State Minimum Wages Advisory Board plays a key role in fixing minimum wages. The Board makes local visits, and conducts inquiries into the nature of the new employment generated, wages paid and the number of workers involved. Based on these inquires it then advises the government on the minimum wage rate to be fixed, working hours and allowances (Reddy, 2016). In Kerala, the Minimum Wages Advisory Board is reconstituted every three years and comprises workers' and employers' representatives and other experts who fix the minimum wages. Evidence is collected through a series of consultations with the stakeholders, and media coverage to these sittings is provided. The minimum wage is fixed though an interactive process with the stakeholders and then the outcome is recommended to the state government.

In contrast, in Maharashtra, minimum wages are initially notified by the government and this is followed by stakeholder representation and vetting by the Minimum Wages Advisory Board for final notification (Jagannathan, 2015). The New Wage Code does not change the mechanisms of consultation. Nevertheless, for fixing the national minimum wages it states that the Central Government, may obtain the advice of the Central Advisory Board constituted under sub-section (1) of section 42. The same situation follows when the appropriate Government that proposes to revise the minimum rates of wages through the notification process shall also consult the concerned Advisory Board. The evidence shows that there is no systematic procedure that is followed at the state level, and that it is to a large extent dependent on the institutional capacity of the state governments.

14.4 Periodic revisions to, and adjustments of, minimum wages

The Minimum Wages Act, 1948 empowered the states to set a wide variety of minimum wages and revise them regularly at intervals not exceeding five years using the same method as for fixing minimum wages. The idea behind the regular adjustment of minimum wages is to ensure that they remain in line with the socio-economic realities of that particular state. Revisions to and adjustments of minimum wages have not always been in line with the law, and in certain cases the interval between revisions has been quite long: “nine years on average” (Jackson, 1972, p. 190; Handy and Papola, 1974), or even 20 years in Maharashtra (Anant and Sundaram, 1998). Recent empirical evidence from Andhra Pradesh shows that, by and large, minimum wages are revised every five years where they include VDA, and every two years where VDA is not included. There are, however, instances where minimum wages are not revised for more than five years (Reddy, 2016).

An analysis of the minimum wage revisions across a select seven sectors in five states between 2008 and 2013 shows the pattern to be quite varied (table 22). In some states (Andhra Pradesh, Gujarat and Karnataka), real minimum wages have gone up in all seven sectors. In Kerala, real minimum wages decreased in brick kilns, oil mills and printing presses, but increased in the stone breaking and crushing industry. In Maharashtra, real minimum wages decreased in construction and printing press. This shows that minimum wage revisions and adjustments can be quite arbitrary across and within states.

Furthermore, in some sectors, minimum wages are not reported and it is not clear which minimum wage rate is applicable. The filing of returns on minimum wages to the government over the past decade also shows that, on average, only about 60 per cent of states submitted returns between 2004 and 2010, and all 35 states and UTs have been filing them since 2011. As such it is not clear what criteria are used for fixing the minimum wages, and in some cases it seems that minimum wage revisions are not even inflation adjusted.

Table 22. Minimum wage revisions in selected sectors and states, 2008 and 2013 (INR in real terms)

	Andhra Pradesh	Gujarat	Karnataka	Kerala	Maharashtra
2008					
Automobile engineering	96.0	n.r.	64.1	n.r.	n.r.
Brick kilns	90.7	n.r.	69.5	142.7	n.r.
Construction	100.0	80.3	70.5	125.3	128.5
Oil mills	97.3	81.5	71.5	119.2	67.4
Printing press	104.7	80.7	75.6	125.3	107.0
Stone breaking and crushing	94.7	78.8	65.5	125.3	50.9
2013					
Automobile engineering	117.1	94.7	94.7	n.r.	100.8
Brick kilns	93.8	n.r.	97.3	123.7	74.4
Construction	103.6	96.1	93.1	n.r.	106.5
Oil mills	125.3	96.5	93.3	102.0	99.6
Printing presses	107.9	96.0	93.5	108.2	93.3
Stone breaking and crushing	97.6	94.2	106.9	141.6	94.8

Note: n.r. = not reported.

Source: ILO estimates based on GOI, 2015.

Minimum wage revisions based only on price inflation will not improve the purchasing power of the wage earners, and will not ensure that the fruits of economic growth will be shared equitably. For it to be effective, wages need to be revised on a regular basis while taking into consideration changes in the cost of living, GDP growth and growth in labour productivity. Practice with regard to revisions and adjustments differ from country to country. In Brazil, Costa Rica, South Africa, and Viet Nam, minimum wages are revised on a regular basis, taking into consideration GDP growth over the previous two years (Brazil), productivity (Costa Rica, Peru, Viet Nam), or sectoral growth (South Africa) as well as inflation (ILO, 2014). However, revisions based on a standard formula and linked to the cost of living index (Indonesia) are not ideal as this precludes any form of social dialogue among social partners.

14.5 Coverage, exemptions and exclusions

A challenge developing economies often face is extending the scope of application of minimum wages to all wage workers, which is a key feature of ILO Convention No. 131, though some exemptions are possible. Around 40 per cent of the countries that ratified this Convention exclude certain categories of workers from coverage by minimum wage legislation (ILO, 2014). In India, minimum wage legislation only applies to certain schedules of employment (376 schedules), which are set by states or UTs (GOI, 2015). About 66 per cent of wage workers in India were covered by minimum wage legislation in 2009–10, with coverage varying between 93.4 per cent (agricultural workers) and 30.5 per cent (construction workers). During this period, 73.1 per cent of informal workers and about 70 per cent of SCs, STs and OBCs were covered by the legislation (Rani et al., 2013). There was also considerable variation in coverage across the various states, ranging from 12.8 per cent (Chhattisgarh) to 94 per cent (Odisha). In around 40 per cent of states, the scope of application of minimum wages was below 50 per cent.

In many countries, coverage is almost universal, although certain categories of workers, such as domestic workers, are excluded (Indonesia and Peru). In Viet Nam, although domestic workers are included in the scope of minimum wage application, the Labour Code does not cover individuals performing housework for piece-rate wages. In the Philippines, although minimum wage legislation does not cover domestic workers, they are covered by the Presidential Decree instituting the Labour Code (Decree No. 442) and, since 2013, by the Domestic Workers Act, 2013 (Oelz and Rani, 2015).

Although some exemptions on grounds of the socio-economic situation can be feasible, they should be kept to a minimum, and subject to consultations with social partners. Incomplete coverage makes the minimum wage system ineffective and subsequently limits the benefit to workers.

14.6 Multiplicity of minimum wages

There has been considerable debate in countries with regard to whether minimum wages should be set nationally or whether there should be multiple minimum wages that are region, sector or occupation-based. Around 50 per cent of countries implement systems with multiple rates, which vary by industry or occupation, according to the ILO's *Working Conditions Law Report 2012* (ILO, 2013b). While national minimum wages prevail in advanced economies, multiple rates dominate in Africa, Asia and, to a lesser extent, in Latin America and the Caribbean. There are country-specific advantages and disadvantages to both systems depending upon the size of the country.

India has one of the highest numbers of minimum wages, with 1,709 categories set by the state governments and 45 categories set by the central government. There are variations in minimum wages for the same occupation across states, which to a certain extent reflect the disparities in living costs between the different states. Within a particular state, minimum wages may vary between different occupations and industry groups, reflecting the particular industry's capacity to pay for particular occupations.

Furthermore, there is no uniformity in the wage structure across states or scheduled employments. Some pay consolidated wages, including basic pay and dearness allowance, while others report dearness allowance as a separate component. As of 2013, only 15 states, four UTs and the Organization of the Chief Labour Commissioner (at the central government level) have linked wages to the periodic revision of dearness allowance, while 20 states and UTs are paying the same wages to all workers irrespective of scheduled employment. In four north-eastern states (Arunachal Pradesh, Manipur, Meghalaya and Nagaland) the uniform minimum wage was below the recommended national minimum wage rate of INR 137 in 2013. Also, in most cases the uniform minimum wage rates of many states are less than the minimum wages in states with differential rates and dearness allowances (GOI, 2015).

The existence of multiple minimum wage rates for similar kind of work within and across states is difficult to defend or comprehend. This was earlier also pointed out by Ghose (1997) who argued that "a plethora of statutory minimum wages, all arbitrarily set, which vary across jobs within a state and across states in the same job" is simply "indefensible" (p. 697). The difference between the highest and lowest minimum wage within a state ranges from 1.4 times in Karnataka to 4.8 times in Andhra Pradesh (table 23), which could lead to huge wage disparities. Over the past decade, the highest minimum wage has increased faster than the lowest minimum wage, leading to growing differentials and inequality. Further, there is also gender disparity in minimum wages with women concentrated employments (tea plantations) having far lower minimum wages (18 per cent) than male-dominated sectors (rubber tappers) in Kerala.

Table 23. Minimum wage variations within states, 2013 (INR)

State	Highest minimum wage	Lowest minimum wage
Andhra Pradesh	335.31 (*Safai Karamcharis* or cleaners)	69.27 (forestry and timbering operations)
Gujarat	248 (private security guards)	100.0 (*agarbathi* (incense stick) making)
Karnataka	314.9 (metalrolling)	219.2 (steel almirah (cupboard) making)
Kerala	532.5 (river sand collection and its loading and unloading)	150 (agricultural operations)
Maharashtra	368 (dyes and chemicals)	100 (agriculture)
Tamil Nadu	358 (public transport worker)	100 (agriculture)

Source: GOI, 2015

Multiple minimum wage rates increase administrative complexity, and can make it difficult for workers and employers to determine the rate applicable to them. In Andhra Pradesh, there are about 20 to 40 categories for each scheduled employment, which would demand considerable time and effort in revision and implementation. Further, workers also often feel discriminated against when they do not see much difference in the work performed in certain operations differentiated by minimum wages (Reddy, 2016). Multiple minimum wages can also trigger internal migration. The statutory wages for *beedi* rolling (cigarette rolling), for example, vary across different states, and even within states can differ between districts. Enforcement of the statutory rates could either lead manufacturers to shift their operations to states where minimum wages are considerably lower, or lead workers to move temporarily to states with higher minimum wages.

In many countries, including Brazil, Costa Rica, Indonesia, Mexico, Peru and the Philippines, there is a national wage floor, which provides universal coverage to all workers, and is combined with either federal or provincial and sector, industry or occupation-level minimum wages (ILO, 2013a). Although both systems are plausible, international evidence shows that relatively simple systems are more effective to implement, as they are easily understood (ILO, 2008). Cunningham (2007), who based her analysis in Latin America and the Caribbean, concludes that minimum wage systems that are too complex are the least effective to implement and therefore suggests designing a “simple system that is well understood by all” (p. 4).

In India, the complex multiple minimum wage system needs to simplified and also extended to all wage workers. Though there has been a debate about this since the 1970s, there has not been much progress. The national floor level minimum wage recommended by the National Commission on Rural Labour in 1991 and introduced by the central government in 1996 continues to be non-binding and does not have any statutory backing (Belser and Rani, 2010), and it is revised based on inflation. There have been some efforts at the state level to simplify and rationalize the fixation of minimum wages based on skill levels, though it has not been implemented.[50] Finally, the recent Code on Wages Bill 2017 also makes recommendations towards a statutory national minimum wage, which, if implemented, should cover all wage workers, so that the minimum wage system can be effective.

15 Implementation and enforcement: How can minimum wages reach low-paid workers?[51]

The potential for minimum wages to reach low-paid workers depends on the level at which the minimum wage is fixed, and the mechanism, the extent of coverage of workers; most importantly, on whether the enforcement machinery is in place. Minimum wage legislation by itself cannot ensure that minimum wages would reach low-paid workers (Murgai and Ravallion, 2005), and efforts would need to be made to make it effective and put enforcement mechanisms in place. The extent of minimum wage compliance[52] is quite varied in developing economies and depends to a large extent on the institutions.

An analysis of 11 developing countries shows much higher compliance in Latin American countries than Asian countries. High levels of compliance observed in Mexico and Viet Nam are argued to be due to the low minimum wage levels, while in Brazil it was the result of a comprehensive enforcement strategy. In India, compliance was much lower for female workers, for those living in rural areas, for certain castes, for those engaged in agricultural and low-skilled services sector, and for those in the informal sector (Rani et al., 2013). The extent of compliance in China was quite high compared to other developing countries in Asia due to penalties and fines, and improved labour inspections (Ye, Gindling and Li, 2015). However, this has resulted in violations in overtime pay and bonus.

Analysing the different states in India, Rani and Belser (2012a) show that more than 60 per cent of female domestic workers, in urban and rural areas alike, were paid below the minimum wage in Andhra Pradesh and Karnataka.

The extent of minimum wage compliance in enterprises also varies between permanent and contractual workers. In Andhra Pradesh, a study of 30 enterprises showed that permanent workers in 22 out of 30 enterprises received wages that were higher than the statutory minimum wages, while in three other enterprises the wages were equal to the statutory minimum and in five units wages were less than the statutory minimum. However, for contractual workers, the wages were equal to that of the statutory minimum in 21 enterprises, and in others they were below the statutory minimum (Reddy, 2016).

The extent of compliance depends on the minimum wage system, the level of minimum wage and the prevailing institutions (Rani et al., 2013). An analysis of the relationship between non-compliance rates and minimum wage levels in Latin American countries showed that while Costa Rica and Peru had similar levels of minimum wages, compliance was quite high in Costa Rica compared to Peru. Similar trends were also observed in Chile and Uruguay (Marinakis, 2014). The reason for the difference in compliance levels is largely due to the institutional structure and enforcement mechanism in that particular country.

A number of strategies have been identified to improve compliance in the literature, which include conducting information and awareness raising activities, reinforcing labour inspections, strengthening the role of workers' and employers' organizations, and imposing sanctions and penalties (Benassi, 2011; ILO, 2016d; Rani et al., 2013).

Information and awareness raising campaigns could play a very important role in improving compliance. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in India, which included a legislated Right to Information and Social Audits (Jeyarajan, 2011; Rani and Belser, 2012a), has played an important role in creating awareness among workers about minimum wages and their rights, which led to improved compliance as a larger proportion of workers received minimum wages (Rani et al., 2013). Similarly, the national minimum wage campaign (Campaña Nacional de Salarios Mínimos) in Costa Rica, launched in August 2010, led to improving compliance (Gindling, Mossaad and Trejos, 2013). Some legislations, like the Domestic Workers Act, 2013 in the Philippines, are making it obligatory to develop and implement a continuous information dissemination programme, in collaboration with a range of stakeholders, to create awareness among workers and employers (Oelz and Rani, 2015).

Labour inspection services in developing countries are often under-resourced and under-staffed, and the challenge is even greater in the agricultural sector and the informal sector. In India, there is no effective enforcement mechanism for minimum wages, as the task falls on the inspection staff; who are already entrusted with monitoring the implementation of other labour legislation. In addition, the number of staff has declined sharply over the past decade in all states (GOI, 2015). Furthermore, the inspection policy has changed since 2014, with inspections only carried out in the event of a complaint, as was observed in Karnataka. Even in domains where inspection is a legitimate activity, lack of infrastructure constitutes a serious impediment to the effective implementation of laws (Roy Chowdhury, 2016).

Similarly, in Andhra Pradesh, it was found that the agricultural employment officers from the revenue department as well as excise department (for toddy tapping) are enlisted for inspection, while in the case of employment in public motor transport, the services of the motor vehicle inspectors are utilized for inspection. Apart from shortage of staff, the labour inspectors have to deal with a plethora of minimum wages in a given employment depending on skill, zone and category of work (20 to 40 categories for each scheduled employment), which makes their task cumbersome and difficult (Reddy, 2016). In countries such as Brazil and Costa Rica, where the compliance rates are high, this is also due to the strengthening of the labour inspection systems through considerable investment (Gindling, Mossaad and Trejos, 2013; Rani et al., 2013).

Kerala has adopted the electronic system that logs wage payments into bank accounts, which is based on the United Arab Emirates model (United Nations, 2012), and the labour department monitors it to ensure compliance. Similarly, workers engaged in MGNREGA are also paid wages directly in their bank accounts and adequate monitoring has been able to strengthen the focus on the groups that are entitled to these benefits, but also for the provision of financial services to rural areas. The strengthening of the labour inspection system along with electronic payments could improve compliance.

Workers' and employers' organizations also play a very important role in ensuring compliance. Trade unions have been actively engaged in the processes of minimum wage setting and implementation, and are instrumental in implementing minimum wage policies in Brazil and South Africa. Enterprise based studies in Andhra Pradesh show that firms with unions ensured that statutory minimum wages were paid to workers, and it was often in firms without unions that there was non-compliance, which shows the critical role of unions in wage fixation and implementation (Reddy, 2016). Unions can also play an important role in creating public awareness about minimum wages.

For example, in Kerala, the trade unions are quite vigilant in monitoring the implementation of minimum wages, which acts as a deterrent should there be temptation to default. Employers' organizations can also contribute to better compliance by disseminating information to their members.

Civil society and new forms of organization in many states have also played an important role to ensure workers' rights and raise awareness about minimum wages. MGNREGA also provides an opportunity for civil society to ensure that the implementation of the programme is effective. The varied impact and effectiveness of MGNREGA across the different states are highly dependent on the commitment of the local leadership at the village council level, the level of institutional preparedness and governance capacities (Reddy et al., 2010). Similarly, in Kerala, civil society and new organizations like the United Nurses Association with members from all over India have been quite successful in ensuring effective implementation of minimum wages, revision of wages and reasonable working conditions for nurses.

Finally, *penalties and sanctions* are also used as a mechanism to improve compliance. However, to be effective they must be set at an appropriate level with effective institutions and procedures to administer and enforce them. If reliant primarily on criminal liability and court proceedings, they will rarely be imposed in practice because such proceedings are costly and lengthy (ILO, 2016d). This was observed in Costa Rica, wherein workers are required to claim outstanding wage payments in court. Since judicial proceedings are lengthy, only a small proportion of workers are able to recover back payment of underpaid wages (Trejos, 2013). In China, the penalties for violations were increased from 20 to 100 per cent of wages to a new range of 100 to 500 per cent to improve enforcement. The procedure is quite lengthy as initially a warning is issued in the case of a violation. If it is not adhered to within a specified time then a fine is imposed, and in case of non-payment the matter is referred to the judicial authorities (Ye, Gindling and Li, 2015).

PART III Wage policies for decent work and inclusive growth

16 Introduction

What can be done to ensure that wage policies and economic growth lead to decent work for all wage earners in India and an inclusive pattern of growth?

The Preamble to the ILO Constitution calls for "the provision of an adequate living wage" and the ILO Declaration on Social Justice for a Fair Globalization adopted by the International Labour Conference at its 97th Session in June 2008 calls for wage policies which "ensure a just share of the fruits of progress to all, and a minimum living wage to all in need of such protection".

In 2016, the G20 also adopted a call for sustainable wage policy principles, specifically minimum wages and collective bargaining, which ensure that wages grow in tandem with labour productivity and contribute to reducing inequality and promoting inclusive growth. The G20 also agreed on the objective of effective wage policies to address gender pay gap. The objectives of decent work for all and reduced inequality through fiscal, wages and other policies are also recognized as key objectives of the United Nations 2030 Agenda for Sustainable Development.

Sustainable wage policies that promote decent work and inclusive growth have several advantages. First, they can contribute to a pattern of sustained and balanced economic growth, which relies on the progressive increase of domestic consumption by lower and middle-income groups as a key factor in overall aggregate demand. Second, they can contribute to more social cohesion and social mobility, making a broad segment of society feel part of the country's economic success. Third, with less inequality in the labour market there may also be less pressure on redistribution through fiscal measures, which can alleviate demands on the state budgets.

16.1 Minimum wages

Minimum wages can play a very important role in supporting the wages of low-paid workers and reducing wage inequality. A recent review of the literature on the effects of minimum wages on employment has concluded that "although the range of estimates from the literature varies considerably, the emerging trend in the literature is that the effects of minimum wages on employment are usually small or insignificant (and in some cases positive)" (Kuddo, Robalino and Weber, 2015, p.11). This does not mean that minimum wages cannot have an adverse effect on employment if they are set too high. But it points towards the beneficial effects that minimum wages can have when they are set in a carefully balanced way that is consistent with Convention No.131, taking into account both the needs of workers and their families as well as economic factors. In India, there would be scope for improving the minimum wage system along the lines of those identified in the large existing literature and by the participants of the workshop ‘Towards More Effective Wage Policies in India’, jointly organized by V.V. Giri National Labour Institute and the ILO, New Delhi in April 2015 (the conclusions of which can be found in the Appendix).

We highlight here some ways in which the system could be improved in order for the minimum wage policy to achieve the objectives identified by the workshop, namely “to eliminate exceptionally low wages”, “fulfil the essential needs of workers and their families”, and “provide for equity in the distribution of the fruits of economic development”.

Extending the legal coverage beyond workers in scheduled occupations: According to the ILO conclusions concerning the Recurrent Discussion on Social Protection (labour protection),[53] minimum wages should afford adequate protection to all workers in an employment relationship, including women, youth and migrant workers, regardless of their contractual arrangements. Convention No. 131 calls for broad coverage, and the Minimum Wage Fixing Recommendation, 1970 (No. 135), provides that the number of groups not covered should be kept to a minimum. The universalization of the minimum wage and introduction of statutory coverage of wage workers in all sectors, industries and areas would extend legal coverage beyond the currently limited number of workers in scheduled occupations towards inclusion of all wage earners.

Minimum wages will only truly be effective if they are inclusive and cover workers from groups that are vulnerable, disadvantaged and/or subject to discrimination. Extending minimum wages to all low-paid workers will not eliminate all forms of discrimination or pay gaps. But given the over representation of women and workers from vulnerable groups in low-paying jobs, minimum wages with broad coverage can make a significant contribution to social justice and more inclusive growth.

Ensuring full consultation and, insofar as possible, the direct participation of social partners on a basis of equality in the establishment and operation of minimum wage systems: This principle is at the heart of Convention No. 131. The involvement of social partners allows the concerns and priorities of those most directly affected by the minimum wage policy to be taken into account more effectively. This in turn is likely to secure greater legitimacy and support for the minimum wage that will be fixed, and tends also to facilitate its effective implementation. Statistical offices and independent experts with technical expertise, who represent the general interest of the country, also play an essential role. Around the world, the most frequent way of ensuring consultation and participation of social partners and independent experts is through institutions such as tripartite wage commissions, wage boards, wage councils or other bodies with general competence for economic and social affairs.

Undertaking regular and evidence-based adjustments: Provision should be made for minimum wage-fixing procedures that enable sound and evidence-based social dialogue which results in minimum wage levels that take into account: (a) needs of workers and their families, and (b) economic factors. This requires the use of up-to-date and relevant statistical indicators. Monitoring the effects of minimum wages systematically is also an important aspect of an evidence-based system. Evidence on changes in the cost of living and other economic and social conditions can inform subsequent rounds of adjustments. Governments and social partners can in principle agree to revise the minimum wage whenever they consider it necessary. However, in the absence of fixed periodicity, both workers and employers will be affected by some uncertainty. Most frequently, countries around the world adjust their minimum wages once a year. Some countries adjust rates every six months, while others have two-year intervals. Five-year periods may lead to an erosion of the purchasing power of workers who earn the minimum when prices of goods and services are rising, or may lead to more wage inequality when the general level of wages is increasing.

Simplifying minimum wage structures: Where different minimum wage rates are very similar, different occupations and sectors could be categorized and a single minimum wage could apply to each group of occupations in order to simplify notification processes and implementation (see the appendix). Systems that are overly complex tend to lose their effectiveness, and may in some instances interfere with collective bargaining. Attention should thus focus on keeping the level of complexity manageable, taking into consideration the country's institutional capacity, the quality of wage statistics, and the enforcement capacity of the labour administration. In India, the simplification of the minimum wage system has been under discussion since the 1970s at both national and regional levels, and recently also at the state level, and there is some level of agreement that the current system is complex (Reddy, 2016). It is also essential that minimum wages do not themselves directly or indirectly discriminate against women or vulnerable groups of workers, for example, by setting systematically lower wage levels in sectors or occupations held by women or by workers from vulnerable groups.

Ensuring more effective application: Adequate levels of minimum wages and simplified minimum wage structures can go a long way towards better compliance. But to achieve an effective minimum wage, the enforcement mechanism must also be improved, which includes strengthening labour inspection through the provision of adequate staff, facilities, and training. There is also a need to strengthen the powers of the labour inspectorate to enforce legislation (including the power to recover claims for workers). A range of other measures to improve implementation could be envisaged, including greater publicity, capacity building activities for employers and workers' representatives, empowering workers to claim their rights (through a national toll-free hotline to handle complaints, for example), measures to formalize the informal economy, more stringent sanctions, and protection against victimization. Monitoring of implementation of minimum wages has been found to be a great challenge with a high rate of default in submitting returns and detecting non-compliance. A system of periodic surveys to monitor compliance under labour legislation may be instituted.

Kerala has adopted the new electronic monitoring system for payment of wages and this has also been introduced in MGNREGS, which has helped to improve compliance. Though these efforts are at a nascent stage in India, they could be expanded to other states.

Ratification of Convention No. 131: International Labour Standards have provided guidelines as well as useful frameworks for the evolution of legislative and administrative measures for an enabling environment for ensuring decent work. With regard to minimum wages, the Government of India ratified the Minimum Wage Fixing Machinery Convention, 1928 (No. 26), in 1955. India was one of the first countries that implemented minimum wages, through the Minimum Wages Act, 1948 which was much aligned to the aforementioned Convention.

The Government of India approved a new wage code bill that integrates four labour-related laws which will ensure a minimum wage across all sectors. The ILO's Minimum Wage Fixing Convention, 1970 (No. 131), and Minimum Wage Fixing Recommendation, 1970 (No. 135) offer useful guidance to governments, employers' organizations and workers' organizations in designing a machinery to establish a system of minimum wages which covers all groups of wage earners whose terms of employment are such that coverage would be appropriate. Convention No. 131 follows the philosophy of older instruments, and is based on the idea that it is necessary to protect wages, which are generally the only means of subsistence of workers, from the effects of market competition, and to prevent a race to the bottom. By the same token, its implementation helps to ensure conditions of fair competition between employers. As practices and law are aligned to Convention No. 131, its ratification will strengthen the framework with a balanced approach to set minimum wages at the national and state level.

16.2 Collective bargaining

Collective bargaining offers a mechanism for inclusive, coordinated wage setting. Collective agreements on wages can be used to establish minimum standards and to set wages above an existing floor. In some countries with well-developed multi-employer bargaining structures (national or sectoral level), minimum wages are set by the social partners themselves, through collective bargaining. Collective bargaining has therefore long been recognized as a key instrument for lifting wage floors and addressing wage inequality more broadly. The ILO's Right to Organise and Collective Bargaining Convention, 1949 (No. 98), the Collective Bargaining Convention, 1981 (No. 154), and the Collective Bargaining Recommendation, 1981 (No. 163) offer useful guidance to governments, employers' organizations and workers' organizations in designing, developing and utilizing collective bargaining institutions and processes.

In practice, countries where a larger proportion of workers are covered by collective agreements tend to have lower wage inequality. This is because collective agreements tend to lift wage floors and compress wage distributions. At the same time, the extent to which unionization and collective bargaining affect wage distribution also depends on whether the collective bargaining system is narrow (where collective bargaining takes place at the company or workplace level) or more inclusive and encompassing (where collective bargaining takes place at the national, industry and/or branch level in multi-employer settings with coordination across levels). In countries with relatively narrow enterprise-based systems, coverage by collective agreements tends to be lower and top–bottom wage differentials higher. In more inclusive and encompassing systems, collective agreements tend to cover a larger proportion of workers and there is less inequality between the top earners, and those at the bottom of the wage scale. This is important not only because perceptions of inequality can impact social and industrial unrest, but also because inequality has been linked to inferior poverty reduction outcomes.

In a recent publication by the Asian Development Bank Institute, impressive economic growth in Asia was accompanied by increasing inequality, ("80% of developing Asia's population in 2010 experienced rising inequality") (p.6) with significant impacts on poverty reduction efforts. The study notes: "Economic growth will generate a lower rate of poverty reduction when inequality is increasing than when it remains unchanged or is decreasing" (Zhuang, Kanbur and Rhee, 2014, p.8), highlighting the link "between inequality and the quality of institutions."

Governments may also take policy measures to extend the application of collective agreements to non-signatories, thus reinforcing the equity enhancing effects of collective bargaining. This is done out of a recognition of the public interest in extending the terms of collective agreements, signed by sufficiently representative parties, creating a level playing field, and—not unlike minimum wages or other regulatory functions of the public authority—because governments recognize the important public policy consequences of such extension. Finally, the extent to which collective bargaining can compress overall wage inequality depends on the position of unionized workers in the pay distribution, the outcome of bargaining for different types of workers, and the degree to which collective bargaining is centralized and coordinated.

It is also important to understand how minimum wages and collective bargaining interact. Minimum wages provide a wage floor for the lowest paid, and collective bargaining can determine higher floors and/or lift wages for those above the minimum. The relationship between statutory minimum wage policies and collective bargaining is thus of particular importance. Minimum wages should not be used as a substitute for collective bargaining. Strengthening collective bargaining in addition to effective use of statutory minimum wages is required to achieve inclusive growth.

Strengthening the framework for collective bargaining: Tripartite cooperation between government and social partners can play an important role in creating the right conditions for effective collective bargaining, by ensuring the appropriate framework is in place. In India, in recent years, many new forms of organization have emerged to try to secure basic rights for the various groups of informal workers. These organizations represent a new model of institution that combines the role of a trade union with the promotion of employment. These efforts could be supported by adequate and enforced legislation to protect these workers and their representatives.

To be more inclusive, the organizational basis for collective labour relations could be strengthened, drawing on new networks and sources of power, including those in the unorganized or informal sector. MGNREGA 2005 and the Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act, 2014 represent interesting initiatives. More efforts could be made to bring the large informal workforce within the country's legislative framework, so that their rights are ensured, and also to bring the informal economy within the framework of social dialogue and collective bargaining.

16.3 Collection of data on a regular basis and analysis

An evidence-based approach to minimum wage fixing, collective bargaining and the development of adequate labour market policies requires regular production of good and reliable national data on employment, wages, productivity and hours worked, based on which policymakers can make informed decisions. In India, such data is not collected on a regular basis. We bring up for consideration two recommendations made by Papola on improving coverage and data collection for a meaningful empirical analysis to inform policymakers and social partners.

First, to entrust the task of coverage and data collection to the Labour Bureau, which already conducts both the Rural Labour Enquiry (collecting rural and agricultural wages) and the Occupational Wage Survey (capturing wage data for occupations in the non-agricultural sector), thereby covering all sectors; and, second, to revise the list of occupations in the Occupational Wage Survey, which was established almost four decades ago (GOI, 2012; Papola, 2014).

Given the regional variation in levels, disparity and growth in wages, there is a need for a more nuanced understanding of the working of labour markets at the state level. This calls for detailed state-specific as well as comparative studies on wages within the framework of labour and employment, in addition to collaborative work among government agencies, academia and expert organizations.

16.4 Other measures

The measures discussed above are not the full story of how inequality can be reduced. In this regard many other publications (including various international editions of the ILO *Global Wage Report*) have provided more comprehensive sets of policy orientations which can be considered to address inequality (ILO, 2016b). They include (but are not limited to) the following:

Skills and productivity growth for sustainable enterprises: Promoting productivity growth among sustainable enterprises may simultaneously permit higher average wages and reduce wage inequality. Indeed, there need not be a trade-off between growth and inequality. Policies that lead to convergence in the firm's productivity distribution can be expected to also help to close the pay gap among workers. Examples of such policies may include industrial policies promoting employment and productivity growth of small and medium-sized enterprises, or investment in innovation that improves product quality.

More generally, ILO's *Conclusions concerning the promotion of sustainable enterprises* (ILO, 2007) emphasizes the importance of an environment that is conducive to the creation and growth or transformation of enterprises on a sustainable basis. Such an enabling environment combines the legitimate quest for profit, which is one of the key drivers of economic growth, with the need for development that respects human dignity, environmental sustainability and decent work. A large array of factors come into play here: including peace and political stability, good governance, social dialogue, respect for human rights and international labour standards, stable macroeconomic policy, the development of an entrepreneurial culture, an enabling legal and regulatory environment, access to financial services, information and communication technologies, and physical infrastructure (ILO, 2007).

In developing countries, structural transformation from low-productivity to high-productivity sectors may play an important role in this respect. This usually requires and also fosters an accumulation of skills and eventually a growing supply of more educated workers. Governments can facilitate these developments through quality public education, skills-training programmes and job-matching services. A growing supply of higher-skilled workers may also push up the wages of low-skilled relative to more skilled workers and thus reduce inequality.

Promoting equal pay for work of equal value: A significant source of wage inequality can be found in exclusion or discrimination against some categories of workers, including women, ethnic minorities or castes. To reduce wage gaps, national legislation must provide for the right to equal remuneration for work of equal value[54] and effective access to justice to claim this right. But overcoming unequal pay across groups requires sustained effort at various levels and through a wide range of policy approaches. Equal pay between men and women needs to be promoted through strong polices to promote gender equality, including combating gender-based stereotypes about women's roles and aspirations, strengthening polices on maternity and paternity as well as parental leave, and advocacy for better sharing of family responsibilities. Equal pay at the enterprise level also requires job evaluation methods that are free from gender bias. Implementing policies targeting vulnerable workers can pose particular challenges in the informal economy and in rural areas as well as where labour market institutions such as labour inspectorates or collective bargaining is weak. The pay gap between workers in the informal and formal economies can be reduced by laws, policies and practices which facilitate the transition from the informal to formal economy. In this regard, a comprehensive anti-discrimination law, such as the Anti-Discrimination and Equality Bill (2016), if enacted into a statute could help in addressing some of the discriminatory practices.

Formalizing the informal economy: According to the recently adopted ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), countries should progressively extend minimum wage protections, in law and in practice, to workers in the informal economy through the process of formalization. The recommendation provides guidance to facilitate the transition of workers and economic units to the formal economy, while ensuring the preservation and improvement of existing livelihoods during the transition. It calls for a combination of incentives, compliance and enforcement measures, including, for example, improving access to business services or finance as a result of transition, reducing compliance costs for micro and small economic units through simplified tax and contribution regimes, as well as more extensive coverage of labour inspection in the informal economy.

Strengthening social protection: Social protection systems are key in reducing inequality and contributing to more inclusive growth. It is thus essential that minimum income needs are tackled through both wages and social transfer payments to low-income households. Transfers may arise in many different forms, including direct payments to low-income households, the creation of public employment opportunities for low-income households, pensions, or publicly provided or financed health care, among others. The appropriate design and mix of social protection measures will vary from country to country (see ILO 2017).[55]

Appendix

Capacity-building workshop: Towards more effective wage policies in India

V.V. Giri National Labour Institute Noida, 15-16 April 2015

Summary of workshop conclusions

A capacity-building workshop called 'Towards More Effective Wage Policies in India', with a focus on minimum wage fixing, was held jointly by the V.V. Giri National Labour Institute (VVGNLI) and the ILO in NOIDA on 15th and 16th April 2015. There was strong participation from senior officials in the central government (Ministry of Labour and Employment, Organization of the Chief Labour Commissioner) and states and Union Territories, drawing both policymakers and those responsible for the implementation of minimum wages.

Guided by the opening statement made by Mr P.P. Mitra, participants reflected on the opportunities provided by the consolidation of India's labour legislation, in particular the on-going drafting process of a Labour Code on Wages. The main conclusions from this discussion are presented below.

1. Objectives of minimum wages

Participants agreed that there should be clarity on the objectives of the minimum wage. It was proposed that the objective of minimum wages should be to "eliminate exceptionally low wages", "to fulfil essential needs of workers and their families", and to "provide for equity in the distribution of the fruits of economic development".

2. Measures and changes needed to achieve these objectives

Participants identified a number of practical measures and changes to the legislation that would enable states to better achieve the main objective of a minimum wage system. These included the following:

- **Coverage**: To ensure equity and essential needs, participants supported the universalization of minimum wages and the introduction of statutory coverage of wage workers in all sectors, industries and areas of India.
- **Simplification of minimum wage structure:** As an intermediate step towards universalization, different occupations and sectors could be categorized (e.g. category A, B and C) and a single minimum wage would apply to each group of occupations in order to simplify notification processes and implementation.

- **A statutory national floor level minimum wage:** This proposal received some support, though participants from certain states argued that it should have regional variation in line with the level of development and the cost of living in a particular state.
- **Measures towards better implementation:** A range of measures to improve implementation where proposed, included more stringent penal provisions, mandatory display of notifications at workplaces and greater publicity, a national toll free hotline to handle complaints, and the use of bank transfers or other measures to improve documentation of wage payments.
- **Well-defined responsibilities of relevant authorities**: The responsibilities and roles of employers, trade unions and governments should be well-defined, and the powers of the labour inspectorate to enforce legislation should be strengthened (including power to recover claims for workers).

Participants expressed the hope that these suggestions could inform the on-going drafting process for the Labour Code on Wages.

In his closing address, Mr D. Chaudhuri thanked the practitioners from the state and centre for their insights and suggested that the outcome of the workshop be forwarded to the drafting team.

A representative of the ILO emphasized that the idea that minimum wages should provide protection to all wage earners was consistent with the philosophy of ILO Convention No. 131, which calls on member states to "establish a system of minimum wages which covers all groups of wage earners whose terms of employment are such that coverage would be appropriate".

ILO and V.V.G. NLI agreed to follow up this workshop with an *India Wage Report* and associated studies, which would draw on both an analysis of the trends and the implementation of the Minimum Wages Act, 1948 and other components of wage policies at the state level.

Endnotes

Part I. Wage trends in India

1. See also *Conclusions of the Recurrent Discussion on Social Protection (Labour Protection)" (ILO, 2007).
2. This meeting was held in Bali, Indonesia, on 9 December 2016.
3. In India, the economic reforms in 1991 brought about a number of changes including a gradual dismantling of domestic industrial controls and liberalization of foreign trade and investment schemes (Goldar and Sadhukhan, 2015). This process of trade liberalization continued over time and, eventually, by around the mid-2000s, almost all products were freely importable.
4. Persons who are working in other person's farm or non-farm enterprises (both household and non-household) and, in return, have received salary or wages on a regular basis (i.e. not on the basis of daily or periodic renewal of work contract) are regular wage/salaried employees. This category includes not only persons getting time wage but also persons receiving piece wage or salary, and paid apprentices, both full-time and part-time (NSSO, 2014, Chapter 2, p. 17).
5. A person who is casually engaged in another person's farm or non-farm enterprise (both household and non-household) and, in return, has received a wage according to the terms of the daily or periodic work contract is a casual wage labourer (ibid.).
6. Rani and Belser (2012b) concluded, for 2009–10, that half of the casual workers are low-paid workers. One-third of regular workers and three-quarters of the self-employed also share this characteristic.
7. Overall wage employment elasticity in the economy was 0.22, but if we look at regular and casual employment, regular employment has a wage elasticity of 0.39 and casual employment of 0.14 for the said period, bearing in mind that the absorption of regular employment was prevalent in the economy.
8. The National Commission for Enterprises in the Unorganized Sector (NCEUS) defines informal workers as follows: "Informal workers consist of those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and Social Security benefits provided by the employers" (NCEUS, 2008, Chapter 2, p. 27).
9. The increase in contractual work has been due to a number of states amending the Contract Labour (Regulation and Abolition) Act, 1970 to facilitate the interests of the market-friendly business economy (Roy Chowdhury, 2003b). Andhra Pradesh, for example, did so in 2003, allowing the employment of contract labour in certain non-core and core activities depending upon the

situation (Sundar, 2011); other states opened the way to contract labour by redefining certain core activities as non-core activities. Many states also set out to attract foreign capital and sustain growth by relaxing their labour laws, as well as providing tax holidays and other incentives, further encouraging the use of flexible labour (Rani and Sen, 2018).

10. Ghose (2016) using the usual principal status (UPS) shows that between 1999–2000 and 2011–12 regular informal employment in the organized sector grew at an astonishing 9.5 per cent, followed by casual employment at 6.5 per cent, and regular and formal employment at only 3.2 per cent.
11. The Labour Bureau of the Government of India collects and compiles data annually on average daily employment, gross wage bill, per capita annual/daily earnings of workers, etc., from the annual statutory returns submitted by state governments/Union Territories under the Payment of Wages Act, 1936 (Papola, 2014).
12. The figures have been adjusted for inflation by using the Consumer Price Index for Agricultural Labourers (CPI-AL) for rural areas and the Consumer Price Index for Industrial Workers (CPI-IW) for urban areas. The real wages computed from unit level of various NSS rounds are at 2011–12 prices.
13. Net national product (NNP) per capita grew at an annual rate of 4.3 per cent from 1993–94 to 2004–05, and at an annual rate of 6.7 per cent from 2004–05 to 2011–12 (calculation using data from the Central Statistics Office or CSO). Overall wage elasticity of economic growth per capita increased from 0.60 in the former period to 0.83 in the latter.
14. These include: Chakraborty and Mukherjee, 2014; Duraisamy and Duraisamy, 1995, 1999; Divakaran, 1996; Glinskaya and Lokshin, 2007; Jacob, 2006; Kingdon, 1998; Kingdon and Unni, 1997; Mukherjee and Majumdar, 2011.
15. These include: Bhattacharjee, Hnatkovska and Lahiri, 2015; Deshpande, Goel and Khanna, 2015; Duraisamy and Duraisamy, 2014, 2016; Karan and Sakthivel, 2008; Khanna, 2012; Madheswaran and Khasnobis, 2007; Mukherjee and Majumdar, 2011.
16. The central government launched the National Rural Health Mission (NRHM) in April 2005 to address the health needs of the rural poor; the Sarva Shiksha Abhiyan (SSA) in 2000–01 for the universalization of elementary education; and several rural housing schemes, all of which contributed to raising the reservation wage of labourers in rural areas, and their levels of well-being.
17. According to Ghose (2016), most of regular salaried workers in the unorganized sector are not entitled to institutionalized non-wage benefits and social security, thus categorizing them as regular informal wage employees. These workers are distinguished from casual workers as they have regular employment without any benefits and social security.
18. Note that there are also large disparities within the organized sector, as the average salary in the public sector has been reported to be more than twice that in the private sector (IHD, 2014).
19. The Pay Commission is set up intermittently by the Government of India to review and make recommendations on the work and pay structure of all civil

and military divisions of the Government of India. The Sixth Pay Commission submitted its report on 24 March 2008, and recommended four running pay bands for civilian employees as well as for defence forces. The minimum salary at the entry level of PB1 pay band was to be INR 6,600.

20. The high-skill occupations (Div. 1 to Div. 3) include corporate managers, professionals and associate professionals; medium-skill occupations (Div. 4 to Div. 8) include clerks, service workers, shop and market sale workers, agricultural and fishery workers, craft and related trade workers, and plant and machine operators and assemblers; low-skilled occupations (Div. 9) include labourers in agriculture, fishery, mining, construction, manufacturing and transport.
21. These include: Bhattacharjee, Hnatkovska and Lahiri, 2015; Bhaumik and Chakrabarty, 2007; Kijima, 2006; Rodgers and Soundararajan, 2016; Roy, 2012; Rustagi, 2005.
22. Workers with secondary education or a higher level of education are regarded as skilled and those with lower than secondary level of education are regarded as unskilled.
23. CV is a statistical measure of dispersion of a frequency distribution and is often expressed as the ratio of the standard deviation to the mean.
24. In the state of Kerala, the wage rates of male and female unskilled labourers are much higher than the national average wage as well as the minimum wage prescribed for the state.
25. Other explanations have also been examined. Abraham (2010), using ASI data for the period 1998–99 to 2004–05, focused on the effect of information technology (IT) investment on wage inequality. He finds that the main cause is the intra-sector shift in production technology. The most consistent and quantitatively large explanation is given by the effect of the intensity of IT application in the production process.

Part II. Wage policy in India

26. Trade unions usually mean associations of workers. But employers' associations are also regarded as trade unions.
27. Sections of this text were published previously in Rani and Sen (2018) and in T.S. Papola and K.P. Kannan (2017).
28. The basic objective of the board was wage fixation, taking the following criteria into account: to maintain industrial production, adjust wage differential such as to provide incentives to workers for skill improvement, to ensure due allowance for fair return to capital, to ensure fair allocation to depreciation and reserve, and remuneration to management and prices.
29. It was the consequence of the Bombay Industrial Relations (Amendment) Act, 1946 which was the first such legislation to include the provision for establishing a Wage Board for any industry covered by the Act. The Wage Board for the said industry was non-statutory in nature, so their recommendations were not binding by law.

30. These were cement, jute, rubber plantations, coal mining, ports, tea, coffee, leather goods, iron and steel, limestone.
31. The enterprises surveyed were in automobile, chemical and pharmaceuticals, electronics and electrical, food and beverages, general engineering, and other sectors.
32. A survey of 30 enterprises included the following sectors: pharmaceutical, automobile, consumer goods, textile and engineering.
33. AITUC, established in 1920, was the first national federation of trade unions in India, comprising communists, the Congress, and other independent trade unionists. Ideological and political differences led to the formation of splinter unions, which were reunited into AITUC in 1935 due to the Great Depression and the rising prices which affected the working class. The Congress Party decided to form its own union just before Independence as AITUC was under the control of the communists and had subsequently split into different groups again (Bhowmik, 2006).
34. This was earlier called the United Trade Union Centre (Lenin Sarani) (UTUC-LS).
35. SEWA was recognized as a national federation in 2006, with a membership of 500,000 workers. A mission by the International Confederation of Free Trade Unions (ICFTU), headed by the then General Secretary Guy Ryder and comprising eight prominent union leaders, held two-day discussions with SEWA in 2005 and they supported the proposal made to the government. These discussions related to representation, engagement in collective bargaining agreements and organization, and the proposal included these three components for them to be recognized as a federation.
36. To qualify as a CTUO, a federation must have a membership of at least 500,000 and cover at least four states and four industries (Datt, 2008).
37. Maharashtra is defined as a pro-worker state by Besley and Burgess (2004) and as having extensive labour law provisions by Deakin and Sarkar (2011), implying that it would favour the protection of workers' rights.
38. The two key legal rulings by the Supreme Court were: the "no work, no pay" judgement of 1990 (Kochar, 1990), and the 2003 judgement that government employees do not have a legal and moral right to strike, which was accompanied by the dismissal of 6,074 workers (Pratap, 2011).
39. *Secretary, State of Karnataka &Ors vs. Uma Devi &Ors*, cited in Sundar, 2011.
40. Headload workers are those workers who carry goods or baggage on their heads.
41. *Beedi*: a type of cheap cigarette made of unprocessed tobacco rolled in leaves.
42. In 2013, they managed to get a 15 per cent wage increase in Gujarat and a 12 per cent increase in Rajasthan.
43. Sections of this text were published previously in Rani (2017) and reprinted with permission from the Licensor: Springer Nature, *Indian Journal of Labour Economics.*
44. The 15th Indian Labour Conference (a tripartite body comprising representatives of governments, employers and labour) laid down the norms

for setting up minimum wages, which included three consumption units per worker: minimum food requirements of 2,700 calories per day per consumption unit; cloth requirement of 72 yards per annum per family; rent allowance which is equivalent to the government's industrial housing scheme. Fuel, lighting and miscellaneous items constitute 20 per cent of the minimum wage.

45. *Workmen v. Raptakos Brett & Co. Ltd.*, 1992 1 LLJ 340, AIR 1992 SC 504.
46. The additional components constituted allowances for children's education and medical, including festivals, ceremonies, provision for old age and marriage.
47. A number of committees were set up to address the national minimum wage and wage policy: the Bhoothalingam Committee (1978), Regional Advisory Committees (1987), the National Commission on Rural Labour (1991), the Second National Commission on Labour (2002), and the Working Group of the Central Advisory Board (2003) (Belser and Rani, 2010; GOI, 2015)
48. These are: the Minimum Wages Act, 1948; the Payment of Wages Act, 1936; the Payment of Bonus Act, 1965; and the Equal Remuneration Act, 1976.
49. Sections of this text were published previously in Rani (2017) and reprinted with permission from the Licensor: Springer Nature, *Indian Journal of Labour Economics,* and in Papola and Kannan (2017.
50. The Department of Labour, Government of Andhra Pradesh, set up a committee in 2010, which recommended that the existing scheduled employments could be rationalized and simplified into four categories: manufacturing industries or factories; shops and establishments; *beedi* and cigar establishments; and agriculture related employments. These could be further classified into technical categories, based on different levels of skills: unskilled, semi-skilled, skilled and highly-skilled. Non-technical categories could be classified into managerial, supervisor, clerical, and sub-staff. Finally, the minimum wages could be set for three zones: municipal corporations, all municipalities, and rest of the places (Reddy, 2016).
51. Sections of this text were published previously in Rani (2017) and reprinted with permission from the Licensor: Springer Nature, *Indian Journal of Labour Economics.*
52. The extent of compliance is often measured as the proportion of wage earners who earn more than the minimum wage, which is the simplest method. There are other methods, such as incidence of violation of minimum wage laws detected during workplace inspections, or complaints filed by workers to enforcement bodies and courts, which are not generally used owing to difficulties in the collection and interpretation of data (Rani et al., 2013).

Part III. Wage policies for decent work and inclusive growth

53. http://www.ilo.org/ilc/ILCSessions/104/textsadopted/WCMS_380781/langen/index.htm
54. ILO's Equal Remuneration Convention, 1951 (No. 100) represents a widely agreed standard.

55. The ILO's Social Protection Floors Recommendation, 2012 (No. 202) provides guidance to member states in building comprehensive social security systems and extending social security coverage by prioritizing the establishment of national floors of social protection. To achieve universal coverage of populations the ILO's extension strategy recommends ensuring at least basic levels of income security and access to health care as a priority through nationally-defined social protection floors, while progressively ensuring a wider scope and higher levels of protection.

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