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WAGES IN INDIA : TOWARDS
A NATIONAL POLICY

by

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Introduction: The objective of this paper is to review the empirical understanding of wage trends and wage differentials in Indian industries. The studies undertaken by various researchers differ in terms of their variables, coverage of data and methodology; yet the conclusions confirm certain hypotheses regarding wage behaviour. These hypotheses relate to the institutional and labour market variables within the framework of the social and economic conditions and the process of economic development in the country. Certain policy implications for national wage structure emerge from these studies.

SECTION I : EMPIRICAL EVIDENCE

Wage Trends in India: The issues relating to wage trends have been studied by Johri[1], Fonseca[2], Ghosh[3], and Verma[4]. As a complementary problem, the question of salary determination has been studied by Verma[5] and Dhingra[6]. These researchers have tried to test the following hypotheses:

1. The increase in money wages is associated with demand variables such as productivity and capital intensity.

2. The trend in money wages is associated with cost of living index and trade union pushfulness.

3. Rising money wages adversely affect increases in employment.

These hypotheses were tested against a wide variety of data. Verma concluded from his study that productivity is a significant variable in the operation of the wage system in the industrial sector. He also found that capital intensity had a positive influence on money wages, but such a relationship was not statistically significant.

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Both Johri and Fonseca found that consumer's price index was significantly correlated with money wages; but the degree of unionisation was not statistically significant in the explanation of wage trends. Similar results were obtained by Verma also. All the three researchers emphasized however that a lack of statistical relationship did not in any way disprove the hypothesis that the unions have a positive influence on the movement of money wages. They reiterated the need to understand the economic effects which unions exerted on the employers and government through participation in wage determination process.

Ghosh did not find a statistical substantiation fot the classical hypothesis that money wages were negatively correlated with employment. Basing his study on wage and employment data, he found that the two variables were positively correlated. Ghosh concluded that neither the choice of capital intensive techniques of production was induced by increases in wage rates, nor for that matter were there any indications of substitution of capital for labour in Indian industry.

In order to understand the problem of executive compensation, Dhingrahypothesized an association of earnings with demographic variables such as education and family occupation, and organizational variables such as functions and the size of firms. Verma on the other hand included productivity, capital intensity, proportion of salaried staff to total employees and salary bill as a proportion of total employee cost as variables affecting executive remuneration.

Dhingra found that the high earners had a very high level of education, had a professional training in engineering and business administration and generally belonged to the families of business executives themselves. He also found that the high earners were handling both line and staff functions simultaneously, and they generally belonged to large size companies. Verma's study concluded that productivity, capital intensity and proportion of salaried staff to total employees had a significant influence on average salary. He also found that the proportion of salaried staff to total employment was negatively correlated with the average salary, implying that there was a negative relationship between salary and employment of such staff. These two studies taken together suggest therefore that both demographic and market variables appear to explain movement in salaries, just as these variables explain the wage movement.

Occupational Differentials: Although there is a lack of research on the problem of occupational wage structure, some attempts have recently been made to test the following hypotheses:

1. The skill differentials in wages are due to the demand for and supply of skilled work force for specific industries.

2. In the initial stages of economic growth, there is a tendency for occupational wage structure to widen.

Some researchers have attempted an analysis of data contained in the occupational wage surveys conducted by the labour bureau. Both K.K. Bhatia[7] and the N.C.A.E.R. study[8] relied on these surveys. On the other hand, field surveys undertaken by C.K. Johri with V.N. Mishra[9] and Papola and Subrahmanyam[10] have revealed some interesting facets of skill differentials and the occupational wage structure.

Bhatia concluded that there were wide variations in minimum and maximum wage rates in different industries and different regions of the same industry. He also indicated that there was some narrowing down of occupational and regional differentials over the period, 1958-59 to 1963-65. The N.C.A.E.R. study used the 1958-59 occupational wage survey data on important industries and data on specific firms to arrive at the conclusion that substantial differentials existed in these industries and firms.

The study undertaken by Johri with Misra did not confine itself to the published wage data. The study attempted to validate the hypothesis whether the variables associated with the supply side of the labour market viz., age, skill and experience, could explain the existing wage differentials. They also sought to understand the effects of management attitudes, policies and practices as embodied in the wage payment system. The study reached an interesting conclusion that while both skill and experience were important, it was the skill factor which was systematically more pronounced in its effects on wage differentials. The authors also found that the wage payment system contributed to skill based differentials.

Similar findings were reported by Papola and Subramanyam. The researchers concluded that skill, education and training predominantly contributed to occupational differentials, but the employment opportunities in the local labour market had also an impact on making an occupation a high or low wage one.

In the absence of a detailed study covering various industries and regions in the country, it is difficult to generalise. We may be justified however in stating that apart from the industry effects, the major reason for the continuace of wide differentials would seem to lie in the excess demand for the specific skills required for certain jobs.

Inter-Industry Wage Structure: The studies relating to inter-industry wage structure have emphasized various facets of the problem. Johri and Agarwal [11] considered the demand aspects of inter industry wage structure. Verma[12], Sawhney[13], Sinha and Sawhney [(14)], and Shivamaggi[15] followed a similar logic. Papola sought to provide a broader framework for analysing the problem. Bharadwaj raised an issue similar to the one discussed here.

The basic hypotheses highlighted by these studies are as follows:

1. The inter-industry wage structure is characterised by a flexibility; but during certain periods, the structure tends to widen rather than narrow down.

2. Among the factors which could explain the inter-industry wage differentials, variables such as productivity and capital intensity would be significant. The skill mix in any industry would be determine the differential payments being made in that industry.

3. The extent to which wage differential would contribute to inflation depends upon the ratio of wage cost to total cost of production in that industry.

Researchers seem to agree that the inter industry wage structure is characterised by flexibility rather than stability. Johri and Agarwal study shows that, barring a few exceptions, the wage structure has tended to widen rather than to narrow. Sinha and Sawhney reached similar conclusions.

In an attempt to identify the variables which were associated with inter industry differentials, Johri and Agarwal focussed their attention on the demand related variables such as gross profitability, labour productivity, contract labour ratio, and wage cost ratio. They concluded that labour productivity was significantly associated with wages either singly or in conjunction with other explanatory variables.

Verma followed a similar approach but added other explanatory variables such as fixed capital per worker and the ratio of wage bill to net value added. The study suggested that there was a close relationship between wages and productivity. However, the regression coefficient for capital intensity had a negative sign when included in a multiple regression model. But when capital intensity and wages were considered together, the coefficient became positive as well as statistically significant.

Sinha and Sawhney compared the inter industry net distributable output and the wage payment in relation to that output. They found that there was a close relationship between productivity and the share of factor compensation in net distributable output.

Sawhney in his study covering the period 1953 to 1963 confirmed the hypothesis that productivity was the most significant factor in the explanation of the inter industry wage structure.

Papola took the view that the skill mix required for a specific industry would dictate the differential payment in that industry, in so far as the major source of differential payment would lie in a skill mix difference between plants and industries. The hypothesis was a step toward examining the explanatory variables at work in a plant situation. However this technological view could not be substantiated because Papola used the proxy variable of capital intensity instead of a direct measure of a skill mix. He arrived at the conclusion very similar to that of Verma that capital intensity has a certain effect on wage differential. Due to the varying degrees of capacity utilization, no systematic relationship could be established between capital intensity and wage rates.

Bharadwaj sought to explain the inter industry inflationary trends in terms of relative wage increases in selected industries. An interesting conclusion was reached that wage push was relatively an insignificant factor in the explanation of inter industry differentials in price increase.

The studies reviewed here suggest that there are wide inter-industry wage differentials and the structure is marked by flexibility. This phenomenon may have arisen due to the fact that high productivity industries characterized by higher degrees of capital intensity and skill mix might have been set up during the early years of the industrialisation process in this country. The purely competitive factors would not bring about a marked downward shift in the structure unless at the same time the low paying traditional industries were to contract on the one hand and the high paying technological based industries were to grow on the other. On the contrary, the effect of variables such as trade unions or government policy do not have a significant impact on the differential narrowing forces. If anything, the trade union pushfulness seems to have only reinforced the differential widening of productivity based wage increases.

Inter-regional wage differentials: There have been some attempts in the recent past to study the problem of wage differentials arising among states in India. Verma[18], attempted to measure the extent of wage differences between one state and another. A similar study employing a somewhat different methodology was undertaken by Papola[19] to show the extent of inter regional variations arising as a result of industrial structure and regional effects. Similarly, Bhatia and Mukherjee[20] selected a few industries to measure the industrial effects and capital labour substitution as variables affecting regional wage differentials. In another study Verma[21] selected labour market variables to understand the wage differentials. Mukherji[22] attempted to show the difficulties in comparing variations in real wages.

The studies mentioned above attempted to verify the following hypotheses:

1. The regional wage differentials arise due to the fact that the high wage industries may be concentrated in high wage states and vice versa.

2. The high wage industries would be associated with high productivity and high capital intensity.

3. The existence of excess demand for labour in high wage states and excess supply of labour in low wage states constitutes the labour market effect on regional wage variation.

4. Trade Unions in high wage states would tend to reinforce the market variables in maintaining and or raising the differentials.

5. The varying rate of increase in price from one region to another may also affect the regional wage variation.

Verma came to the conclusion that a large measure of differentials arise due to the preponderance of high wage industries and a slightly greater payment for similar work in the case of high wage states. He also concluded that productivity and trade unionism were the two major variables affecting the inter regional variations; but capital intensity seemed to influence changes in regional differentials over a period of time.

Papola study came to a similar conclusion which emphasized that the extent of inter-state wage variation tended to decline in both absolute and relative terms. He maintained that the industry effect has been more pronounced than the region effect in the variation. Bhatia and Mukherji followed a similar line of reasoning in analysing the regional and industry factors in the high and low wage states. The authors examined the impact of regional wage differentials on capital - labour substitution. The analysis revealed that there was no substantial capital labour substitution across regions as a result of wage variations.

SECTION II : SOME POLICY ISSUES

The empirics related to policy issues have already been reviewed in the earlier section. The empirical findings may now be reiterated as follows:

a) The trend in money wages is influenced by productivity, capital intensity, cost of living index, and trade union pushfulness, but it is not influenced by considerations of employment.

b) Significant wage differentials exist between occupations, industires and regions of the country. These differentials are again related to productivity and capital intensity.

These wage related dimensions need to be supplemented by a crucial growth related assumption:

c) The strategy of economic growth in India envisages a capital intensive choice of technique for Key sectors in the economy as well as a limitation on the availability of "wage goods".

Thus, the interplay of these factors indicate a policy frame wherein the growth objectives assume a preponderance over wage equalization objective. It is much more evident when the two sets of decisions i.e. the ones related to wages and the others related to investment are not undertaken within a single administrative system.

There is considerable evidence to show that wage decisions through tribunals, wage boards, collective negotiations and individual employers are neither based on the same criteria nor uniformily applied across different situations.[23] Both economic and non-economic considerations combine variously to produce different types of wage payment systems in the country. Consequently, anamolies appear which are partly unrelated to pure economic variables such as skill, productivity and capital intensity.

It may be argued that even if a single administrative machinery were to regulate wages, the differentials are bound to arise due to differing skill requirements of investments embodying varying proportion of capital intensity. Nevertheless, such a policy might only result in "pure differentials" which then are justifiable on both social and economic grounds. The experience of administered wage policy pursued at times in United Kingdom or United States may help to indicate certain preconditions for a successful administered wage policy.[24]

The attempt by the Health Government in 1972-73 to control wages and prices was preceded by Cripp's unofficial freeze (1948-50), first Tory Squeeze (1956-58), Selwyn Lloyd's freeze and squeeze (1961-62), and Wilson's freeze and squeeze (1966-67). The evident success of Cripp's freeze is believed to have been due to continued economic growth during the period 1948-50. Except for Sir Stafford Cripp's experiment, all other experiments had only partially succeeded. While wage increases considerably slowed down during these pauses, the growth rate failed to pick up. Consequently, as soon as the squeezes were lifted, there was an avalanche of new wage settlements creating inflationary situations. In all these cases, while inflationary trends were checked and the balance of payments position improved, the unemployment situation worsened. Thus a lack of a continuous policy of restraining wages and prices resulted in bouts of inflation and unemployment.

The institutional mechanism for enforcing an incomes policy also had something to do with the relative failure of these experiments. The council on prices, productivity, and incomes set up in 1957 did not carry any credibility with the trade unions. Similarily, the National Incomes Commission did not evoke an adequate response from the TUC. The National Board for Prices and Incomes had better luck, but it was severely constrained in its activities. Some of these are worth mentioning:

1. It dealt only with the cases referred to it by the government, and had no substantial statutory power;

2. The exception granted for productivity agreements led to an abuse of this concession; and

3. The norms set by the government were too ambitious and were discredited in practice.

The National Board has finally been disbanded. Thus the attempt at a continuity of an incomes policy was given up.

And yet the Health government was worried about the inflationary situation. While the government introduced, in July 1971, certain measures to reduce the burden of taxation, the employers' federation (CBI) decided to persuade its larger members to restrain price increases for a period of one year. This voluntary restraint on prices was further extended. In November 1972, the bipartite negotiations having failed, the Health government imposed a general freeze on prices, wages, rents, and dividends. The crucial factor seemed to be the uncertainty with regard to the projected 5 per cent rate of economic growth.

The guideposts for wages and prices in United States were first suggested by President Kennedy's Economic Report in 1962. They had their beginnings in the significantly upward movement of prices characterized by excessive unemployment and falling investment. Another consideration which prompted the presentation of the guideposts was the deteriorating balance of payments which had become a matter of concern.

The original formulation of these guideposts as stated by the Council of Economic Advisers is as follows.

> The general guide for non-inflationary wage behaviour is that the rate of increase in wage rates (including fringe benefits) in each industry be equal to the trend rate of over-all productivity increase. General acceptance of this guide would maintain stability of labourcost per unit of output for the economy as a whole - though not of course individual industries.
>
> The general guide for non-inflationary price behaviour calls for price reduction if the industry's rate of productivity increase exceeds the over-all rate for this would mean declining labour costs; it calls for an appropriate increase in price if the opposite relationship prevails, and it calls for stable prices if the two rates of productivity increase are equal.[25]

The guideposts were based on two assumptions. The first assumption was that the unions had considerable bargaining power in concentrated industries and the second that the holders of market power could be persuaded to exercise self-restraint in the public interest and that, in so doing, they would be acting in their own long-run interest as well. However, the Council of Advisors recognized that to reconcile the guideposts with objectives of equity and efficiency, specific modifications had to be adapted for special situations in particular industries.

The guideposts did introduce an element of seriousness among people and present a new thrust which was more consistent with efficiency.

Empirical analyses show that for the initial four years (1961-65) both prices and wages were more stable as compared either with the whole post-war period from 1947 to 1961 or with the period 1953-61. The level of unemployment kept low. Wholesale prices, similarly, were more nearly stable in 1961-65 than they had been in preceding years. Wages in manufacturing increased less rapidly from 1961 to 1966 than movements in unemployment.

The unions' acceptance of the guidepost policy has been regarded as generally unfavourable. American experience has demonstrated that unions cannot be expected to refrain from seeking above norm-wage increases. Both unions and managements failed to conform to the guidepost policy.

The Nixon administration had almost given up the idea of active state intervention in the economic sphere. However, continued inflation, unemployment, and balance of payments difficulties led to the adoption of a new economic policy in August 1971. The first phase of this programme was to freeze, for 90 days, all prices and incomes, with some exceptions. There was also a voluntary compliance to a freeze on dividends. Phase II which ran to April 30, 1973 was a series of anti-inflationary guidelines enforced by mandatory controls to keep price increases to 2 1/2 per cent and wage increases generally to 5 1/2 per cent.

The institutional mechanism is at two levels. The general policies are formulated by the Council of Advisors. The administration of incomes policy is handled by a Price Commission and a Pay Board. These administrative bodies are quite independent from the government. They have statutory powers to impose their awards, disallow settlement of wage claims, and roll back price increases.

Given the general economic situation and public support for anti-inflationary measures, the new policy has, by and large, succeeded in stabilizing wages and prices.

The British and US experience would seem to indicate the following pre-conditions for the successful implementation of an incomes policy:

1. A continuous mechanism for restraining wages, prices, and dividends;

2. Setting realistic norms for wages, prices and dividends;

3. The need to have independent, statutorily-armed incomes and prices commission;

4. Complementary tax and public expenditure policies with a view to ensure continuous economic growth and equitable distribution of income;

5. The need to involve both trade unions and employers' organizations in evolving appropriate policies; and above all;

6. A political courage to confront the vested interests.

Thus, despite the practical difficulties and curtailment of freedom that an incomes policy imposes, economists all over the world are veering round to the idea of administered wage system.

Keeping in view the need for uniformity in wage payments across regions, industries and occupations, the Chakravarti Committee[26] has suggested a national wage structure. "This involves working out a grade structure based on skill differentials and fixation of wages for each grade. In this structure, the total wage receivable by a worker or an employee may be made up of the following:

1. Minimum wages; 2. Skill differential, depending on the grade; 3. Compensation for exceptional hazards or other exceptional disadvantages; 4. Growth dividend; 5. Dearness allowance; and 6. Share in profits.

The new ideas in this proposal relate to skill differential and growth dividend. It is suggested that the grade structure should be based on objective and scientific criteria. Every grade will be assigned premium points reflecting the skill differential. The second idea consists of a growth dividend which will be calculated as an average increase in per capita private consumption. The other items in the wage packet will be based on rationalized system uniformily applied by all wage authorities.

The Committee has itself recognized the practical problems in implementing the suggestion. Consequently, it has emphasized the need for a phased introduction of the new system, considerable studies by concerned statistical organizations, setting up of National Wage Commission and National Wage Board, and dovetailing such a wage policy with other policies in the plan frame.

It is worth noting that job evaluation has for the first time being sufficiently recognized at the national level for the purposes of reformulating a wage structure. In many organizations in this country, job evaluation is already being used as the basis for grade structure. The development of a national grade structure is difficult but not impossible. In the United States, for example, the occupational descriptions and job rankings are periodically standardised and published by manufacturers' organizations. There is no reason why similar exercises may not be undertaken in India, under government or any other auspices.

In arriving at its recommendations, the Committee has pointed out the need for replacing market mechanism by administered system. While this is broadly the conclusion which was implied in the arguments presented above, the difficulties in administered system have also been pointed out. Nevertheless, if these difficulties are successfully overcome, there is no doubt that the existing chaos in wage structure may largely be overcome.

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