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A FRAMEWORK FOR A NATIONAL WAGE POLICY

by

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ABSTRACT

The conflicting considerations of the desirability of raising the levels of living of workers and the need for capital formation and price stability have rendered it difficult for the policy makers in India to formulate a wage policy with unqualified and mutually consistent set of objectives. In spite of oft-pronounced denunciation of the free play of market forces, the intervention in the labour market has been limited and ineffective. On the other hand, the system of wage adjustment prevalent in the organised sector has turned wages into largely dysfunctional as factor prices and highly inequitable as factor incomes.

For some time now the need for evolving a national wage policy based on the principles of ensuring a minimum wage to all employed, rationalising the wage criteria and wage differentials and making wage adjustment functional, has been widely recognised. Approaching wages as <u>incomes</u> rather than <u>prices</u> and attempting a workable wage productivity link-up, the present paper endeavours to outline a framework of such a policy.

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A FRAMEWORK FOR A NATIONAL WAGE POLICY

TS Papola *

The Indian Wage Policy

The Indian economy is characterised by a number of such features which render the formulation of a single or even a few mutually consistent objectives for wage policy difficult. The generally low levels of wage warrant a policy for increase in the levels of real wages, but the overall low productivity, particularly in the low wage paying sectors - agricultural and non-organised, non-agricultural sectors, limits the capacity of the economy, sectors and units to sustain a substantial increase in wages. Unemployment and under-employment on a large scale adds to this limitation. The need for capital formation for growth is also supposed to limit the scope for a policy of substantial and continuous rise in wages. The inflationary situation posed a further dilemma to the wage policy: steeply rising prices warranted the necessity of increase in money wages so as to prevent erosion in the levels of living, particularly of the workers at the low wage levels, but dangers of the wage increases adding fuel to the inflationary fire had also to be recognised. At the same time it was also not found advisable to adopt a strategy of wage restraint for despite increases in money wages the wage levels in the most part of the economy were low in absolute terms, and although implications of rising wages for capital formation, employment and inflation were recognised, the contribution of the former to the latter was not considered to be dangerously significant.

The situation thus did not provide much scope for a clear cut approach to the wage problem, the wage issues mostly got settled on an adhoc basis. Apparently, the philosophy of development pronounced in the official and semi-official documents did not favour the concept of market-determined wage rates, and wage structures. Various panels, plan documents and adjudication awards unequivocally affirmed that the wage determination cannot be

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left to the forces of demand and supply in an underdeveloped labour surplus economy.[1] The fear that the wage rates will be forced to starvation level if left to the market forces, then, was the major rationale for a wage policy and therefore, ensuring a minimum level of wages to all employed became its primary objective. A number of other consideration such as productivity growth, industrial peace, price stability, rationality of wage differentials, and price stability were frequently mentioned with changing emphasis from time to time and some adhoc measures were suggested to achieve them. But none of them became a part of plan objectives and strategy; nor were they backed by any statutory measures. To ensure a minimum level of wages, however, a piece of legislation was enacted as early as 1948, and the issue still remains, one of the major concerns of public policy. Of late, it is considered a part of a comprehensive programme of ensuring minimum incomes to all.

It would, however, be wrong to assume that there has been an effective wage policy vigorously pursued for meeting the minimal objective of ensuring minimum wage. That the objective has a statutory backing is virtually the only evidence of such a policy. It is, no doubt, a necessary, but, obviously not a sufficient condition to meet the objective. The following are the major problems which have come in the way of effective use of the legislation. First, the Act is not automatic in its application; the 'appropriate' government has to decide from time to time about the activities where it is to be applied. Second, even in the selected activities, units can be granted exemptions. Third, the Act does not lay down the definite criteria for fixing the minimum wage and the adhoc wage fixing bodies have tended to give different weightage to the various factors. Fourth, while one would believe that the subsistence minimum which the minimum wage under this Act, in fact, is, would be dependent on an absolute standard of minimum needs, in practice, consideration like paying capacity of the employer have weighed significantly in its fixation. Fifth, the minimum money wage once fixed does not change with rising cost of living, except when the authority decides to revise it, which is not very frequent. Consequently, the use of this piece of legislation has not been very effective in meeting what has been implicity the major objective of the Indian wage policy.

The wage situation

The ineffectiveness of a statutory measure to meet a simple and straight forward objective of ensuring a minimum subsistence wage, in a way, emphasises the futility of attempting any comprehensive wages and incomes policy in an economy run largely

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1 For a discussion on this issue see Papola TS, Principles of Wage Determination : An empirical Study, Bombay 1970, Chapter II.

on the basis of innumerable unorganised, small scale privately owned units. That, to a certain extent, explains the absence of such a wage policy as a part of the Indian economic policy. The fact that the wage situation cannot be left alone even in a predominantly private enterprise economy once central planning is accepted as the mode of managing the economy, cannot be ignored. Over the last two decades, wages have not featured as a part of the planning objectives, targets or instruments, and as such despite the over-emphasised notion of 'excessive intervention in the labour market', the wage trends and wage situation in India have behaved more or less as in unregulated labour market.[2] The overall labour supply situation has prevented real wages from rising despite a substantial increase in productivity, wage differentials by occupations and industries have widened, and the bases for wage relativities between activities and sectors continue to be irrational and inequitable. The labour markets have not been able to generate sufficient quantities of required skills due sometimes to the wage regidities and conventional wage hierarchies, but primarily on account of the lack of effective policy on wages, manpower information and training.[3]

The wage situation as it obtains in the Indian economy can be summarised in the following:

1. A large number of workers, particularly in the agricultural and the unorganised non-agricultural sectors earn a wage hardly sufficient to subsist with an average family of three dependents. There are neither forces at work nor any institutional mechanism to ensure rise in their money wages commensurate with the rise in cost of living.

2. The money wages, however, have been rising particularly in the organised factory sector where a worker's earnings would yield a per capita income (for a family of four) around one and half times the national average.

3. The real wages are on an average only marginally above the 1951 level, although labour productivity, (value added per worker) has increased at least by 50 per cent over this period in this sector.

4. There are a few large units, particularly the subsidiaries of the multinationals which pay wages and salaries at a level which the economy can ill afford at its present

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2 For a discussion on this proposition See L J Handy and T S Papola 'Wage Policy & Industrial Relations in India', Economic Journal,

3 For detailed discussion in the working of the labour markets, See T S Papola & K K Subramanian, Wage Structure and Labour Mobility in a Local Labour Market, Bombay, 1975.

level of development and lead to distortions in wages and salary structure and manpower allocation within the industry as well as between the private and public sectors.

5. As a result of (1) and (2) above the wage disparities between the organised and unorganised sectors have increased, and as the entry to organised sector is highly restricted, the unorganised sector provides the reservoir and residuum of labour supply. The situation, by depressing the wages in the unorganised, sector leads to a further increase in disparities.

6. Wage relativities between jobs and occupations continue to be governed by traditions and customs to a very large extent, thus being devoid both of rationality and equity.

7. The basis for increase in wages are not uniformly agreed. In the organised sector of industries and services, however, cost of living has been the major factor in the wage increases during the last three decades. There have been some wage revisions by Boards, Commissions, Collective agreements etc., but the major increase in wage packet has taken the form of cost of living based dearness allowance. The system has neither satisfied the workers nor the employers. The workers do receive some compensation for the increase in cost of living, but that does not on an average enable them to maintain their real earning. For, only the maximum - 100 per cent -neutralisation would maintain real wages, but that is granted only in rare cases. From the viewpoint of their sharing the gains of productivity, the system of wage adjustment provides no mechanism and, in general, the real wages have lagged behind increase in labour productivity. The employers, on the other hand, find that the increase in wages that they have to pay does not provide any inducement for better performance.

The system of wage adjustment has also led to certain other distortions in the wage structure. It is prevalent mostly in the organised sector, and the degreee to which neutralisation of cost of living index is provides is generally higher in large, already high wage paying, organisations. Thus it has led to an increase in wage disparities, even in the case of the similar occupations, between organised and unorganised sector on the one hand, and between large and small units on the other. Within an organisation, however, the neutralisation is higher at lower wage levels than at higher wage level. The arrangement is desirable to the extent irrational disparities get reduced with its operation. It is, however, found in certain cases that the variable D.A. which is based solely on cost of living constituting the major element in the wage packet, there is a tendency towards virtual elimination of even the differentials based on skills thus dampening inducement for the acquisition and enhancement of skills.

A Reformulation of Wage Policy: Objective

The features of the Indian wage situation mentioned above suggest that the wage levels and wage structures leave much to be desired both from the viewpoint of income distribution and efficiency-inducing aspects of wage payments. That the wage movements and wage relativities should be regulated and planned to accord with the plan objectives has been frequently emphasised; but due, first, to the virtually insignificant place to which wage policy has been rendered in the planning process and, secondly, to the presumably unsurmountable problems of implementation, this aspect of planning and economic policy has remained more or less neglected. Part of the problem lies also in the confusion regarding the role that a wage policy can play in the economy dominated by private enterprise but managed on the basis of central planning. An attempt is made here to clarify this issue by stating a set of basic objectives of wage policy in the given framework of the Indian economy and then formulate a scheme which can meet these objectives. Given the prevailing wage situation and the objectives of planning and economic policy in India, a wage policy has to basically work towards the following objectives:

(i) a guaranteed level of minimum wages sufficient to meet the subsistence needs of every worker and his family, irrespective of the location of his activity, job, sector and productivity;

(ii) improvement in the levels of living of the workers in accordance with the general rise in the real national output in the country;

(iii) a wage structure reflecting the differential based on the skills, job contents and social importance, but no disparities based on sectors, employers, and size of establishment.

(iv) a system of wage adjustments conducive to better performance and enhancement of productivity.

This set of objectives gives preponderance to the goal of a fair distribution of income over allocation. The implicit assumption is that a planned economy has other instruments such as manpower planning to ensure fulfillment of the manpower requirements of the plan. The wage policy would primarily ensure a minimum income to every worker and a fair share in the increase in national output. Wage differentials based on nature of job, skills, occupational hazards, strategic importance etc. would have to remain to avoid individual dissatisfaction even if adequate labour supply to difficult jobs can be ensured by some other method. Similarly, granting undifferentiated increases based on overall economic performance would certainly imply some element of cross subsidy, the workers in sectors with high productivity increases will have to share part of such increases with those in sectors with low productivity increases. An appropriate balance between the equity implicit in this procedure and greater efficiency enhancing potential of a differentiated scheme of wage revisions based on differential rates of productivity increases will have to be worked out.

Components of Wage Structure

In order to evolve a wage pattern fulfilling the above objectives of a wage policy, the wage packet of workers would consist of the following four components: (a) minimum wage considered essential for the fulfillment of a subsistence level of living for an average family; (b) an element of premium for skill, workload, hazard, responsibility and importance of the job; for brevity let us call it 'skill premium'. These two elements will make the wage structure in the base period. Over time, the wages will move on the basis of the following two components: (c) a productivity component based on the overall performance of the economy, industry, the unit and group of workers or individual worker; and (d) a cost of living component for workers with earnings below what can be regarded as a need-based wage. Let us briefly explain the concept and rationale of each of these components.

The minimum wage envisaged here is the absolute minimum based on physiological and social needs of an average working class family. The concept is, of course, specific to a certain extent to the level of economic and social development of a country, but once determined on a national level, its uniform application irrespective of industry and establishment is essential. If, however, the needs are found to differ significantly among the various regions, it may be desirable to fix the regional minim[illegible] The concept is identical with the one implied, though not stated and effectively implemented, in the Minimum wages Act. Its rationale is obvious: the society cannot afford to engaged people to work without providing them the necessary wherewithals to subsist and to maintain their efficiency. The principle is universal, but it is imperative for any society with a conscious policy aiming at improvement in living standards in general and at an egalitarian system, in particular. Therefore, consideration like the productivity and paying capacity of an individual establishment are irrelevant for the fixation of the minimum wage.

The skill premium is the differential to compensate a worker for his skills and special attributes of his job. Application of this criteria to evolve a rational structure of wage differentials would have to be preceded by the evolution of a scheme of assigning values to jobs according to their requirements of skills, responsibility and other attributes. This process would involve not merely analysis of the contents of jobs but also applying judgements based on the accepted values of the society. The jobs can then be classified into a manageable number of grades each carrying a different skill premium. The 'premia' superimposed on the 'minimum', would constitute the wage structure in the base year.

The Productivity component would be the major, and in many cases, the sole mode of wage increases. The basic idea here is not that a worker should be paid according to his contribution, but that the worker should get a fair share out of the increase in overall efficiency. Therefore, the usual argument that the productivity understood to mean the specific contribution of a factor, is not measurable, and therefore, cannot be made a basis for wage increases, is irrelevant in this scheme. The measure of productivity that is required here is relative; change rather than magnitude is to be measured, and since one is interested in overall efficiency, output per worker, or value added per worker would serve the purpose. The productivity change, understood in this sense is measurable for the economy, industry, establishment and in many cases, for a worker or a group of workers. Since both equity and inducement for the improvement in performance are to be considered a composite index of productivity is preferable over the index at any one level. If equity is the major consideration greater weight may be given to the efficiency of the economy and industry, and if incentive for improving performance is given more importance, then worker's/group's and unit's productivity gets higher weightage. In a national wage policy, the weights have to be determined at the level of the economy. It may be mentioned here that by making wage increases in a unit partly dependent on productivity increase in the industry, not only is a measure of equality introduced in the wage structure, but the units with low performance are motivated to introduce productivity enhancing conditions as well.

This mechanism of wage adjustment overtime is expected to lead to a rise in real wages of the workers. As a matter of fact, if productivity change is measured in real terms, then the money wage increases would be determined at a level which ensures a proportionate increase in real wages. So long as the productivity increase in an establishment is given a significant weight, there may be units, particularly in the unorganised sector, which on account of peculiar circumstances in which they are placed, would be required to pay a relatively small wage increase to their workers. And most of the woerkers in these units may also be on a wage level hardly above the subsistence minimum, due to low levels of skills. In the event of a price rise of substantial magnitude, their real wages may decline. For them, therefore, a cost of living component would have to be built into the scheme, which will neutralise a certain extent of the increase in cost of living. This component may be made applicable to wage levels only upto what can be considered a need-based minimum, providing not for bare subsistence but some measure of comfort, recreation and social needs.

The Scheme in Operation: An Illustration

The proposed scheme can be explained with the help of a hypothetical illustration. The illustration gives wages for the initial period for the various categories of workers, but so far as the wage increases are concerned, the magnitude would refer to an individual worker or a group of workers depending on whether the individual or group productivity is considered. The illustration assumes the following:

(i) All jobs are classifiable into eight distinct group each including categories fairly homogenous or comparable to each other. Obviously, in practice, there will have to be many more grades.

(ii) The fulfillment of the physiologically and sociologically determined minimum needs requires Rs.300 per month for an average worker to subsist with his dependents - say, two adult equivalents - at the prices obtaining at the time of wage fixation.

(iii) Productivity indices over the period (of, say, one year) are: 110 for the economy as a whole, 120 for the industry concerned, 120 for the establishment and 110 for the individual worker/group of workers.

(iv) Each of the four indices are given equal weight thus yielding an overall productivity index of 115.

(v) The consumer price index moved up from 100 in the base year to 110; and the neutralisation envisaged is 50 per cent.

(vi) Cost of living component is not applicable beyond a total wage of Rs.500/- p.m., which is considered to be the need based minimum wage.

WAGE FIXATION AND REVISIONS UNDER THE PROPOSED SCHEME: AN ILLUSTRATION

(Figures in Rs. per month)

Grades	Unskilled I	Semi-skilled II	Skilled III	Highly skilled IV	Supervisory V	Managerial I VI	Managerial II VII	Managerial III VIII
Wage Components								
1. Minimum wage	300	300	300	300	300	300	300	300
2. Skill premium	-	50	100	200	300	500	700	900
Initial wage at the time of fixation	300	350	400	500	600	800	1000	1200
3. Productivity component (at index 115)	45.00	52.50	60.00	75.00	90.00	120.00	150.00	180.00
4. Cost of living component (at CPI=120)	15.00	17.50	20.00	-	-	-	-	-
Total wage during the next period	360.00	420.00	480.00	575.00	690.00	920.00	1150.00	1380.00

Advantages and Limitations of the Scheme

The framework of a wage policy illustrated in the proposed scheme meets the basic objectives stated earlier. It ensures a minimum level of earning, share in productivity gains over time and a rational bases for wage relativities. Subsistence and 'skills' provide the basis for wage fixation while a productivity-wage link up provides the mechanism for wage increases. A fusion of the considerations of equity and efficiency has been attempted. The main advantages of such a framework lie in its following features.

First, it would be possible with the help of the proposed framework to include wages as an element in the process of economic planning. Given the output and employment targets, and the implicit productivity projections, the wage movements can be predicted, and effectively regulated. It would also be possible to consider the achievement of the planned wage levels as one of the criteria for evaluating performance.

Second, the framework is capable of application to all categories of workers and, therefore, provides the basis for a national wage policy. The problem of non-measurability of productivity of workers in certain, 'unproductive' sectors (e.g. government service, university etc.) can be tackled by giving entire weightage to the national productivity in their case. As a matter of fact the principle applies to workers in all sectors: if worker's or group's productivity is not measurable, the corresponding weightage gets transferred to the establishment index (in over illustration the weightage of establishment productivity becomes 50% per cent in such cases.)

Third, the inducement mechanism is built into the scheme without necessitating the measurement of specific productivity or contribution, which has always been held as the bottleneck in the way of evolving a productivity wage link up. The problem no longer exists with the adoption of 'income' rather than 'price' concept of wages; and that has been the basic philosophy behind this scheme.

Some major problems relating to the implementation of the scheme may be mentioned here. First, the relaisation of a measure of price stability is a prerequisite for the successful functioning of this scheme. Second, since it provides a major break from the existing arrangements, the scheme would have to compromise initially to a certain extent in order to fix the existing wage pattern into the new scheme. Third, a large official machinery would have to be deplayed to collect statistics as well as to administer the scheme. It may be possible to involve trade union organisations in this task if they could be made to agree to the principles implicit in it. It is, however, expected that the benefits following from putting the national wage policy in order on the basis of the framework outlined here, will far exceed the costs involved in dealing with the problems of its formulation and implementation.
