

# Minimum wage: wage subsidy is the solution to income disparity

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Studies have shown that the vast majority of informal sector workers are paid below the official minimum wage Photograph:(Others)

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The recent one-day general strike on the 2nd of September brought several parts of the country to a standstill. Among the demands of the trade unions was one for raising the minimum wage to Rs. 18,000 per month. The NDA government, in an attempt to ward off the strike, had announced a hike earlier in the week from Rs. 246 per day to Rs. 350 per day (Rs. 9,100 per month for 26 working days). The unions, with the exception of the RSS-affiliated Bharatiya Mazdoor Sangh, denounced the government's efforts and the strike went ahead as planned.

Trade unions in India have historically fought for periodic raises in minimum wages. In 2013 there was a nationwide strike (20-21 February) during which one of the demands was for a minimum wage of Rs. 10,000 per month. There was a similar strike on 2nd September 2015 in which a minimum wage demand for Rs. 15,000 a month was made. But even though the unions have been raising this issue consistently for the past several years, increases have been paltry.

Minimum wages in India are regulated under The Minimum Wages Act (1948) and there are wage floors that, in the words of the Act, "ensure that the laws of demand and supply are not allowed to determine the wages of workmen in industries where workers are poor, vulnerable, unorganised, and without bargaining power." Thus, it is based on moral or ethical and not only economic principles.

The method of calculation of the "need-based" minimum wage dates back to 1957 when the Indian Labour Congress came up with a formula that included food, clothing, and shelter requirements for a family of four. The exact amount of the wage differs based on the occupation and geographical region. The Indian states have the freedom to set higher minimums, but conceptually these wages constitute the minimum level that the central government thinks those who work for it should earn.

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After periodic inflation adjustments, the minimum wage is now in the range of Rs. 9,100 to 13,600 depending on the geographical location of the worker. One may ask, whether this constitutes a living wage in India today for a family of four. Given the rapid increases in the price of housing, education, health, and food in the past few years, the answer must be in the negative. The concept of a “living wage” as distinct from a “minimum wage” has recently gained a lot of political traction in countries such as the United States.

The Committee on Fair Wages in India has defined a “living wage” that includes education, health, social needs, and insurance in addition to food, shelter and clothing. Studies have shown that rapid increases in expenditures on items such as education, health, fuel, and conveyance have cut into people’s food budgets. Indeed rise in non-food expenditures has been advanced as one of the explanations for India’s famous calorie puzzle wherein nutritional intake has been falling even as incomes are increasing in real terms. With these economic facts in mind, the claim that the official minimum wage is not a living wage and the demand for a much larger increase in the minimum wage are both justified.

An even more important issue is that, while the central and to some extent the state governments can try to enforce the minimum wages for their own employees (either direct or employed via contractors), enforcing them in the informal or unorganised sector where the vast majority of the Indian labour force earns a living is another kettle of fish.

The present increase in wages applies to unskilled non-agricultural workers in the central sphere, which means employees of the central government or workers in affiliated undertakings in occupations, such as stone breaking and crushing, mining, sweeping and cleaning, loading, unloading, construction et cetera. The National Commission for Enterprises in the Unorganised Sector (the Sengupta Commission), which became famous for observing that 77 per cent of Indians spent Rs. 20 a day or less in 2004-05, observed that even though The Minimum Wages Act covers all workers in the formal and the informal sectors, several studies have shown that the vast majority of informal sector workers are paid below the official minimum wage for their occupation.

In some instances, there exists no official minimum wage for a given occupation, so the question of compliance does not arise. Further millions of workers in the informal sector do not receive daily wages but instead, work on their own account (self-employment) or are paid in piece wages that are not easy to convert into time wages in the absence of data on usual working hours. The earnings of such home-based and other workers often fall well short of even the low official minimum wage.

In my own fieldwork in the textile industry in Varanasi, I found that weavers were routinely paid piece wages that translated into daily wages of around Rs. 100-150 per day (in 2010), far below the stipulated minimum wage for skilled silk weavers in Uttar Pradesh, which at

that time was more than Rs. 200.

The situation was even worse for women workers who were paid as low as Rs. 25 to 30 per day for embroidery work. A 2010 study by the All India Democratic Women's Association (AIDWA) in the Delhi-NCR region found that even after working for nearly seven hours a day home-based women workers managed to earn only Rs.32.54 per day. The daily minimum wage for unskilled workers in Delhi at the time was Rs.140. Abysmally low wages for women are often justified on grounds that they are "supplementary earners" or that they work in "spare time". Both these are questionable, not to say sexist, assumptions.

How then, can we ensure that at least the basic minimum standard of living that the government stipulates should accrue to every Indian family does, in fact, accrue to them? One way to do this is to end contract work as well as the practice of allowing informal workers in formal establishments, including public sector ones. This will make wage implementation easier. This was indeed one of the demands of the general strike as well.

In the post-reform period, employment of contract workers has become a prominent feature of the way private sector firms and even public ones operate to reduce labour costs and increase flexibility. The result has been a rapid rise in contract labour and almost no increase in regular formal jobs that come with some measure of job security and other benefits.

But what about the vast numbers who work in the informal economy beyond informal employment in formal establishments? As mentioned above, the millions of workers in India's small workshops, shops, and homes who produce a large variety of goods and services from food, metalware, and textiles to mobile and auto repair earn wages far below the official minimum. Most of these businesses are tiny, employing fewer than 10 workers each. Won't forcing such businesses to pay higher wages, closer to the official minimum wage, result in them going out of business and destroying jobs?

This is indeed a possibility because many informal businesses do operate on very small margins. In such cases, a wage subsidy, where the government supplements private sector incomes up to a certain level, may be the way to go. We are familiar with various subsidies that the government gives to the industrial sector in the form of tax breaks, depreciation allowances, SEZs, price supports etc. However, thousands of crores of rupees worth of such subsidies have not been particularly effective in creating jobs as the subsidising capital, not surprisingly, incentivises capital-intensive production.

Instead of subsidising capital, if we seriously believe that the official minimum wage constitutes an ethical lower bound on what a worker should earn then why not subsidise labour such that informal sector wages rise to that lower bound? Such a "wage subsidy" has recently been suggested by the well-known economist Pranab Bardhan.

Unlike a capital subsidy, this will encourage job creation as opposed to merely economic growth. It will also have large effects in boosting spending in the economy at a time when weak demand has been an important constraint on economic growth. Further, it will end the dualism between the formal sector with its minimum and inflation-indexed wages, and the informal sector that enjoys no such protection. Moreover, it will end it by moving the informal up to the level of the formal instead of bringing the formal down by informalising it, as has been the practice thus far in the post-reform period.



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