



## Code on wages

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This article is based on **“The broken promise of decent and fair wages”** which was published in The Hindu on 25/11/2019. It talks about issues related to Code on Wages Act 2019.

Recently, the government proposed the rules to the Code of Wages Act 2019.

- Informal workers accounts for 93% of the total working population and contribute to over 60% of India’s GDP. Therefore, the new wage code has the potential to influence the lives of around 50 Crore workers in the country.
- A well designed minimum wage system can reduce inequalities in incomes, bridge gender gaps in wages and alleviate poverty.

### Why new Code on Wages?

- In India, labour market preys on excess availability of workers, therefore workers are not able to demand fair minimum wages and continue to live a precarious life.
- In India, labour laws fall in the concurrent list and are extremely complicated, therefore there was a need to bring reform by addressing some of the issues like multiple definition of wages, low wages etc.
- It will also lead to more formalization of the economy.
- An effective minimum wage policy that targets the vulnerable bottom rung of wage earners can help in driving up aggregate demand and building and strengthening the middle class, and thus spur a phase of sustainable and inclusive growth.
- Minimum wages can promote social justice without any major negative implication for employment if wages are set at an adequate level.

## Box 1: Timeline of adoption of National Minimum Wage



## Code on Wages Act 2019

- The **new wage code** removes the multiplicity of wage definitions, which can significantly reduce litigation as well as compliance cost for employers.
- The new Act links minimum wage across the country to the **skills of the employee and the place of employment**.
- It seeks to universalize the provisions of minimum wages and timely payment of wages to all employees irrespective of the sector and wage ceiling.
  - It seeks to **ensure "Right to Sustenance" for every worker** and intends to increase the legislative protection of minimum wage.
- A **National Floor Level Minimum Wage** will be set by the Centre and will be revised every **five years**, while states will fix minimum wages for their regions, which cannot be lower than the floor wage.
- It subsumes the following four labour laws:
  - The Payment of Wages Act, 1936
  - The Minimum Wages Act, 1948
  - The Payment of Bonus Act, 1965
  - The Equal Remuneration Act, 1976.

## Types of Wages

- **Minimum Wage: International Labour Organisation** defines it as “the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract”.

The minimum wage includes the bare needs of life like food, shelter, and clothing.
- **Living Wage:** It is the wage needed to provide the minimum income necessary to pay for basic needs based on the cost of living in a specific community.

In addition to bare needs, a ‘living wage’ includes education, health, insurance, etc.
- **Fair Wage:** A ‘fair wage’ is a mean between ‘living wage’ and ‘minimum wage’.
- **Starvation Wage:** It refers to the wages which are insufficient to provide the ordinary necessities of life.

## Concerns with New Wage Code

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- **Starvation Wages:** It has been alleged that the new wage code will **push the starvation wages** further by increasing the income capacity and **purchasing power** of the informal workers.
  - The increase in purchasing power of the workers will lead to the decrease in savings which in turn will reduce expenditure for productive purposes.
  - The introduction of concept of “**floor wages**” would mean that “starvation wages” which currently guarantees just **₹178 per day**, will continue to exist and would promote forced labour.
  - This has been highlighted by Supreme Court in his judgement in **U. Unichoyi and Others vs. The State of Kerala case**, where it remarked that in an underdeveloped country which faces the problem of unemployment on a very large scale, it is likely that labour offers to work even on starvation wages.
- **Deduction of Wages Clause:** The new law provides for the arbitrary deduction of wages (upto 50% of monthly wage) based on performance, damage or loss, advances etc.
  - The deduction clause will lead to reduced bargaining power and right of association of workers. The workers will not be able to demand even basic work rights in fear of wage deduction.
  - In India, the informal sector employers dominate the workers due to caste and higher social status, therefore the above provision may have the potential to become a handy tool for exploitation of these workers.

**In Raptakos case** (1991), the **Supreme Court** advocated the concept and the **right of living wage**.

**“Consumer Expenditure Survey”** result shows that the average family expenditure in **rural areas to be ₹83 per day and in urban areas as ₹134 per day.**

**Inspection Framework:** The rules do not clarify the governance and institutional structure for “labour inspection system”. The rules propose an ad-hoc unclear mechanism called “inspection scheme”.

- The scheme provides for appointment of **Inspector-cum-Facilator** by notification by the appropriate government. This may lead to the revival of **inspector-raj system** in the labour market.
- The **International Labour Organisation’s (ILO) Labour Inspection Convention of 1947 (Convention C081)** — which has been ratified by India — provides for a **well-resourced and independent inspectorate** with provisions to allow thorough inspections and free access to workplaces. However, the provisions of **ILO’s convention** has been overlooked while framing the new law.

## Way Forward

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- The government should focus on **“Need Based Minimum Wage”** covering nutrition, healthcare, education, housing and provisions of old-age. Therefore, **guaranteed minimum wage** should be treated as a **fundamental constitutional right** for every citizen of India.
- According to the new law, the revision of minimum wages is to be done after every **5 year**, which is quite a long period considering the volatility in the market. Therefore, minimum wages should be **adjusted to inflation** so as to align the wages to market volatility.
- The **National Commission for Labours** should be formed to streamline the issues and challenges of labour market and fixing discrepancies in national level minimum wage computation.

For the minimum wage system to play a meaningful role in aligning protection with the promotion of sustainable growth, it must be properly designed, its goals clarified, and its enforcement made effective.

### ***Drishti Inputs***

Briefly explain the various types of wages. Also explain the challenges related to new wage code.