



Mains Practice Question

Q. Despite India's outstanding growth in the last two decades, low pay and wage inequality remain serious obstacles towards achieving inclusive growth. Examine. (250 words)

11 Dec, 2019 GS Paper 3 Economy

Approach

- Discuss India's achievements in terms of economic growth in the last two decades.
- Highlight the condition of low pay and wage inequality in India preferably with the help of examples for better substantiation.
- Discuss the reasons behind low pay and wage inequality in India.
- Suggest measures to address this situation.

Introduction

- From 1950 to 1980, Indian real GDP grew at an annual average rate of 3.6%. However with Indian growth turnaround, the average growth rate from the 1980s have been around 6.1%. India's GDP has risen by more than US\$1tr, in the process bringing millions of citizens into a new cohort, called the emerging middle class.
- India's per capita GDP has seen a 6% Compound Annual Growth Rate (CAGR) since 2000, up from 3% during 1980-2000.
- Real wages almost doubled over 18 years between 1993-94 and 2011-12 and GDP grew four-fold.

Body

Yet despite having a strong growth rate over the past two decades, low pay and wage inequality persists in India manifested in the facts as mentioned below:

- Regular workers in urban areas earn an average of Rs 449 per day, 49% more than their peers in rural areas who take home Rs 300.
- India has huge wage gaps between rural and urban, male and female, and regular and casual workers.
- 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.
- Regional disparities in average wages have actually increased over time, with wages rising more rapidly in high-wage States than in low-wage ones.
- The gender wage gap was 34.5% in India while globally it was a much lower 20% according to the Global Wage Report 2018-19.

Reasons for low pay and wage inequality in India

- Most of the employment in the last two decades was generated in the services sector. The services sector is much less labour-intensive and simultaneously more productive than the primary and secondary sectors.
- The cleavage between value addition and job creation is perhaps best exemplified by the fact that

the number of 'direct' jobs created by the Information Technology (IT) and Information Technology Enabled Services (ITES) sub-sectors was only around three million as of 2013.

- The present minimum wage system in India is extremely complex and geospatial variation is very high.
- Only 66% of workers are covered by the Minimum Wage Act. The remaining 34% not in "scheduled occupations" remain outside the scope of the minimum-wage law.

This generally leads to migration, consequently decreasing the bargaining power of workers. The problem of the minimum wage is further compounded by the unavailability of a statutory body.

- A national minimum wage was introduced in 1991, but its application is not legally binding. In 2009, 15% of regular workers and 41% of casual workers earned less than this minimum daily wage.
- The Indian labour market remains characterized by high levels of segmentation and informality, with around 93% of the working population involved in the informal sector.
- More casual and contractual jobs are being added to the organised sector but there has been a lack of substantial growth of regular jobs after 1991.

Addressing the problem of low pay and wage inequality

- Simplifying minimum wage structures, extending the scope of the law to all wage workers and creating a statutory authority for enforcement of minimum wage law are key steps to closing earning disparities.
- The government should facilitate a transformation from low-productivity to high-productivity sectors by focussing on skill accumulation and increasing the supply of more skilled workers.
- Increasing the proportion of higher-skilled workers may increase the wages of lower-skilled workers and thus reduce inequality.

Conclusion

Wage inequality can adversely affect political and economic stability and also challenge the notion of social justice and undermine social cohesion. A low pay and wage inequality will inhibit India's path to achieve decent working conditions and inclusive growth. Therefore it is imperative to address the issue of low pay and wage inequality in time.