



# Issues Related to Minimum Wage

## Why in News

Recently, the [International Labour Organization \(ILO\)](#) has termed the **current minimum wage fixing criteria** in the [Draft Code on Wages \(Central\) Rules, 2020](#) as ambiguous.

- On 7<sup>th</sup> July 2020, the Central government published the **Draft Code on Wages (Central) Rules, 2020** in the Official Gazette and placed it in the public domain inviting objections and suggestions.

## Key Points

### ▪ Fixation of the Minimum Wage:

- **Number of Consumption Units:** The Wage Code provides for the fixation of the minimum wage keeping in view the standard working class family, **the equivalent of 3 adult consumption units.**
  - The assumption that a standard working class family consists just of 3 adult consumption units is questionable.
  - This number has been arrived at by counting the male worker as 1 consumption unit, his wife as 0.8 consumption unit and two children as 0.6 consumption units each.
  - Such an assumption about the food requirements of the members of a family seems flawed. Furthermore, families with dependent elders are not considered.
- **Expenses:** The minimum wage under the code has been fixed by considering the estimate of expenses incurred towards food, clothing, shelter, fuel, electricity, children's education and medical requirements. It also includes expenses on contingencies and miscellaneous items.
  - However, the criteria prescribed for the fixation of the minimum wage **have not taken into consideration all the expenses incurred to meet the minimum needs of a family in the present day.**
  - For instance, the expenses incurred towards transport, mobile phone bills and internet connection bills have not been considered at all.
- **Clothing:** The clothing requirement at 66 metres of cloth per year per standard working class family is unrealistically low.
  - It also does not take into consideration the additional clothing requirements of people in cold regions.
- **Housing:** The housing rent expenditure will be factored at 10% of the expenditure on food and clothing, which is unrealistic considering that the rent towards decent housing for a family in and around metropolitan areas will amount to at least Rs. 5000 per month.
- **Basis of Fixation of Wages:** The fixation of minimum wages under the draft code has been kept on a day basis.
  - However, trade union leaders have opined that fixation of wages on a day basis could disadvantage workers when compared to the fixation of minimum wages on a

monthly basis.

▪ **Fixation of Floor Wage:**

- The Code on Wages, 2020 mentions the concept of a **floor wage**, which empowers the central government to fix floor wages taking into account the minimum living standards of workers.
  - The **floor wage is a baseline wage** below which minimum wages cannot be fixed by state governments.
  - The Wage Code permits the fixation of **different floor level wages for different geographical areas**. However, this has **given rise to the fear of flight of capital** from areas where the wage is higher to areas where the wage is lower.
  - There is also fear that it will lead to **fixation of low wages by state governments** in a bid to attract greater investments thus depressing the minimum wage.
- Also, the wage rules do not outline the exact criteria and methods for fixation of floor wage rates by the Central Government.

▪ **Suggestions:**

- **Stating the exact methods of fixation of floor wage.** This would enable the setting of the floor wage at an appropriate level after the wage code comes into effect.
- **Fixing the periodicity of revision of the minimum wage.** Of the two components of the minimum wage — basic wage and dearness allowance — the paper suggests revision of the basic wage every five years, a part which is missing in the proposed minimum wage rules.
- **Refining the rules** and suggesting relying on the evidence-based approach by holding consultations with representative organizations of workers and employers.

[Source: IE](#)

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