

Executive summary

Wage trends in India

Over the last two decades, economic reforms have contributed to strong economic growth. The Gross Domestic Product (GDP) in India has increased at an annual average rate of about 7 per cent since 1993. This high rate of economic growth has been accompanied by a substantial decline in India's poverty rate and changes in employment patterns, with a growing proportion of jobs in services and industry and a declining share of employment in agriculture.

The Indian labour market, however, remains characterized by high levels of segmentation and informality. Of the total employed in 2011–12, more than half (51.4 per cent, or 206 million people) were self-employed, and of the 195 million wage earners, 62 per cent (i.e. 121 million) were employed as casual workers. Employment in the organized sector has grown, but even in this sector many jobs have been casual or informal.

The *India Wage Report* shows that low pay and wage inequality remain a serious challenge to India's path to achieving decent working conditions and inclusive growth. Based on the Employment and Unemployment Survey (EUS) of the National Sample Survey Office (NSSO), the report estimates that real average daily wages almost doubled between 1993–94 and 2011–12, increasing somewhat more rapidly in rural than in urban areas and increasing more rapidly for casual than for regular workers. Average wages increased more rapidly for women than for men, and rose faster in the unorganized than in the organized sector. These are all positive achievements. Nonetheless, low pay remains pervasive and wage inequality is still very high. In 2011–12, the average wage in India was about 247 rupees (INR) per day, and the average wage of casual workers was an estimated INR 143 per day.¹ 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.

Although overall wage inequality in India seems to have stabilized or even declined somewhat since 2004–05, wage inequality remains very high: the Gini coefficient for wages is 0.49 and the D9/D1 wage ratio is 6.7. Regional disparities in average wages have increased over time; wages rose more rapidly in high-wage states than in low-wage ones. The gender wage gap also remains very high by international standards, although it declined from 48 per cent in 1993–94 to 34 per cent in 2011–12. This gender wage gap can be observed among all types of

1. On 1 January 2012, US\$1 was equivalent to about INR 53.

workers: regular and casual, urban and rural. Of all worker groups, the average daily wages of casual rural female workers is the lowest (INR 104 per day).

Finally, because average labour productivity (as measured by GDP per worker) increased more rapidly than real average wages, India's labour share has declined. Labour share refers to the proportion of national income which goes into labour compensation, as opposed to capital or landowners. According to one estimate, the labour share declined from 38.5 per cent in 1981 to 35.4 per cent in 2013.

Wage policy in India

Wage levels and distribution of wages are, to a large extent, influenced not only by skills and productivity levels, but also by the role of labour market institutions, particularly minimum wages and collective bargaining. Part II of this report describes these institutions and some of their characteristics.

India's industrial relations system transitioned from a structure of centralized bargaining during the first three decades of planned industrialization to decentralized bargaining, following the partial liberalization of the economy in the mid-1980s. As a result, enterprise or plant-level bargaining has become the dominant level of bargaining in the private sector. Nevertheless, in key industries (banking, ports, oil, and steel) where public employment predominates, national, industry-wide bargaining continues. Union density, defined broadly in Indian data as the percentage of members of trade unions and associations across the total workforce, stood at a relatively low 10.7 per cent in 2011–12, increasing marginally compared to the 1993–94 level. Union density among female workers was half that of male workers. Among non-agricultural workers, union density was 17.7 per cent in 2011–12. It is difficult to gauge the extent of collective bargaining coverage in India, as no reliable estimates are available; nevertheless, it would be fair to assume that it is lower than trade union density rates and concentrated in large enterprises.

These aggregate numbers hide different trends for different groups. Union density among salaried workers has fallen precipitously since 1993–94, by 17.7 percentage points to 28.8 per cent, while it has increased for casual workers and among self-employed workers. There have been some attempts at unionizing worker in the informal economy, especially among home-based workers either to negotiate for minimum wages or to demand for better conditions (brick workers).

India was one of the first developing countries to introduce a minimum wage policy. The Minimum Wages Act adopted in 1948, is considered to be an important piece of labour legislation. It is one of the few protections afforded to both regular and casual workers, and to workers in both the organized and unorganized sectors. However, the minimum wage system is complex, its rates set mainly by state governments for employees working in selected "scheduled" employment. This has resulted in an estimated 1,709 different rates across the country, at times set somewhat arbitrarily, without full consultation with social partners, revised only about every five years, and applicable to an estimated 66 per cent of wage workers

(those working in “scheduled” employment). In around 40 per cent of states, the legal scope of the application of minimum wages was below 50 per cent of wage workers.

A national minimum wage floor was introduced in 1991 and was progressively increased up to INR 176 per day in 2017, but it is not legally binding. Moreover, there is a lack of consensus with regard to the methodology used to determine the rate, which has resulted in neither the central nor state governments using it as a floor for determining minimum wages.

Despite this wage floor being nonbinding, one estimate shows that in 2009–10, about 15 per cent of salaried workers and 41 per cent of casual workers earned less than this indicative national minimum wage. Overall, 33 per cent of wage workers (i.e. 62 million workers) were paid less than the indicative national minimum wage, and the rate of low pay was higher among women than among men.

Wage policies for decent work and inclusive growth

Ensuring decent work and inclusive growth through sustainable wage policies is a widely shared objective across many countries. The Preamble to the ILO Constitution calls for “the provision of an adequate living wage” and the ILO Declaration on Social Justice for a Fair Globalization adopted by the International Labour Conference at its 97th Session in June 2008 calls for wage policies which “ensure a just share of the fruits of progress to all, and a minimum living wage to all in need of such protection”. In 2016, the G20 – of which India is a member – also adopted a call for sustainable wage policy principles, specifically minimum wages and collective bargaining, which ensure that wages grow in tandem with labour productivity and contribute to reducing inequality and promoting inclusive growth. The G20 also agreed on the objective of effective wage policies to address gender wage gaps. The objectives of decent work for all, equal pay for work of equal value and reduced inequality through fiscal, wages and other policies are also identified as key objectives of the United Nations 2030 Agenda for Sustainable Development.

Sustainable wage policies that promote decent work and inclusive growth have several advantages. First, they can contribute to a pattern of sustained and balanced economic growth, which relies on the progressive increase of domestic consumption by lower- and middle-income groups as a key factor in overall aggregate demand. Second, they can contribute to more social cohesion and social mobility, making a broad segment of society feel part of the country’s economic success. Third, with less inequality in the labour market there may also be less pressure on redistribution through fiscal measures, which can alleviate demands on the state budgets.

Minimum wages

There has been a revival of interest in minimum wages in many countries in recent years. Recent literature on the effects of minimum wages shows that if set in a

carefully balanced way, taking into account both the needs of workers and their families as well as economic factors, minimum wages can support the wages of low-paid workers and reduce wage inequality with no significant negative impact on employment.

There are several possible options to improve the current minimum wage system. These recommendations have been based on a vast body of existing literature and the ILO standards (particularly the Minimum Wage Fixing Convention, 1970, No.131) as well as the conclusions of a capacity-building workshop titled “Towards more effective wage policies in India”, jointly organized by V.V. Giri National Labour Institute and the ILO, New Delhi in April 2015 (see Appendix).

These are:

- Extending legal coverage to all workers in an employment relationship.
- Ensuring full consultation and, in so far as possible, the direct participation of social partners on a basis of equality in the establishment and operation of minimum wage systems.
- Undertaking more regular and evidence-based adjustments.
- Progressively consolidating and simplifying minimum wage structures.
- Taking stronger measures to ensure a more effective application of minimum wage law.

Collective bargaining

Collective bargaining offers a mechanism for inclusive, coordinated wage setting. Collective agreements on wages can be used to establish minimum standards as well as to set wages above an existing wage floor. It is important to understand how minimum wages and collective bargaining interact. In most countries where a statutory minimum wage exists, minimum wages provide a wage floor for the lowest paid, and collective bargaining can determine higher wage floors or lift wages for those above the minimum. The relationship between statutory minimum wage policies and collective bargaining is thus of particular importance. Minimum wages should not be used as a substitute for collective bargaining. It is thus recommended that the government strengthen the framework for collective bargaining. Tripartite cooperation between government and social partners can play an important role in creating the conditions for effective collective bargaining – at all levels – by ensuring the appropriate framework is in place.

To be more inclusive, the organizational basis for collective labour relations could be strengthened, drawing on new networks and sources of power, including those in the unorganized or informal sector. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act 2014 are interesting initiatives to bring informal sector workers into the realm of legislations. Other efforts could be undertaken to bring the informal economy within the country’s legislative framework and into the framework of social dialogue and collective bargaining.

Data collection and analysis

An evidence-based approach to minimum wage fixing, collective bargaining and the development of adequate labour market policies requires regular production of good and reliable national data on employment, wages, productivity and hours worked, based on which policymakers can make informed decisions. In India, such data are not collected on a regular basis; due to this, even in this report the latest data for analysis refers to 2011–12. In this report, we raise for consideration some recommendations on improving coverage and data collection towards a more timely and in-depth empirical analysis, to effectively inform policymakers and social partners. Given the regional variation in levels, disparity and growth in wages there is a need for a more detailed understanding of the working of the labour markets at the state level. This calls for state-specific and comparative studies on wages and for collaborative work between government agencies, academic institutions and expert organizations.

Other measures

Many other publications (including various editions of the ILO *Global Wage Report*) have provided more comprehensive sets of policy orientations, which can be considered to address wage inequality. They include (but are not limited to) the following:

Higher skills and productivity growth for sustainable enterprises: The ILO's *Conclusions concerning the promotion of sustainable enterprises* (2007) emphasizes the importance of an environment that is conducive to the creation and growth or transformation of enterprises on a sustainable basis. In developing countries, structural transformation from low-productivity to high-productivity sectors may play an important role in achieving higher overall labour productivity. This usually requires and fosters an accumulation of skills, and eventually a growing supply of more educated workers. Governments can facilitate these developments through quality public education, skills-training programmes and job-matching services. A growing supply of higher-skilled workers may also push up the wages of low-skilled workers relative to more skilled workers, and thus reduce inequality.

Promoting equal pay for work of equal value: A significant source of wage inequality can be found in exclusion or discrimination against some categories of workers, including women and scheduled castes. To reduce wage gaps, national legislation must provide for the right to equal remuneration for work of equal value² and effective access to justice to claim this right. But overcoming unequal pay across groups requires sustained effort at various levels and through a wide range of policy approaches. Equal pay for men and women needs to be promoted through strong policies, including awareness raising, combating gender-based stereotypes about women's roles and aspirations, strengthening policies on maternity leave, and advocacy for better sharing of family responsibilities. Equal pay at the enterprise level also requires job evaluation methods free from gender bias.

2. ILO's Equal Remuneration Convention, 1951 (No. 100), represents a widely agreed standard.

Formalizing the informal economy: The pay gap between workers in the informal and formal economies can be reduced by laws, policies and practices which facilitate transitions from the informal to formal economy. According to the recently adopted ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), countries should progressively extend minimum wage protections, in law and in practice, to workers in the informal economy through the process of formalization. Recommendation No. 204 provides guidance to facilitate the transition of workers and economic units to the formal economy, while ensuring the preservation and improvement of existing livelihoods during the transition. It calls for a combination of incentives, compliance and enforcement measures, including, for example, improving access to business services or finance as a result of transition, and reducing compliance costs for micro and small economic units through simplified tax and contribution regimes, as well as more extensive coverage of labour inspection in the informal economy.

Strengthening social protection: Social protection systems are key in reducing inequality and contributing to more inclusive growth. It is thus essential that minimum income needs are tackled through both wages and social transfer payments to low-income households. Transfers may take many different forms, including direct payments to low income households and the creation of public employment opportunities for low-income households, pensions, or publicly provided or financed health care, among others. The appropriate design and mix of social protection measures will vary from country to country (see ILO, 2017) and is beyond the scope of the present report.³

3. The ILO's Social Protection Floors Recommendation, 2012 (No. 202) provides guidance to member States in building comprehensive social security systems and extending social security coverage by prioritizing the establishment of national floors of social protection. To achieve universal coverage of populations, the ILO's extension strategy recommends ensuring at least basic levels of income security and access to health care as a priority through nationally defined social protection floors, while progressively ensuring a wider scope and higher levels of protection.