

MINIMUM WAGE MUST BE SHAPED BY AIM OF ENHANCING INCOMES AND CONSUMPTION

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

India is facing a structural demand problem, one that predates the [COVID-19](#) shock. This challenge has been exacerbated over the past few months as jobs have been lost and incomes have collapsed. Boosting demand, in particular domestic demand, is critical for an economic revival as external demand is likely to remain muted. Rathin Roy of the National Institute of Public Finance and Policy has argued that India's growth story has been driven by demand generated by those who are at the top of India's socio-economic pyramid, but that has now plateaued. The question that arises is: Where is demand going to come from now? One option is to turn to those at the bottom of the pyramid who have a high marginal propensity to consume. However, realising the untapped demand potential of this group requires enhancing their incomes and earnings.

A significant share of India's workforce is trapped in low paid informal work. Data from the Periodic Labour Force Survey (2018-19) tells us that less than 10 per cent of the workforce is engaged in regular formal jobs, earning an amount (approximately Rs 26,000 per month) that is above a decent minimum wage. Another 14 per cent are engaged in regular informal jobs and report average monthly earnings (Rs 9,500), which is roughly equivalent to or slightly below a minimum wage. The self-employed (own-account workers and unpaid family workers) and casual workers account for 50 per cent and 24 per cent of the workforce respectively and report average earnings that are considerably below a decent minimum amount (Rs 8,400 per month for self-employed and Rs 209 per day for casual labour). Casual workers, who are unlikely to receive work on every day of the month, are at the bottom of the employment structure.

How do we increase earnings of those at the bottom of the pyramid? One way is by devising strategies that enhance productivity growth in the informal economy. In fact, structural change that allows for productivity increase in the informal sector increases the incomes of low-wage workers. Another way of achieving this is by raising the minimum wages of the worst-off workers. At present, India has a complex set of minimum wages which offer different wages by occupation type and skill levels for certain industries or sectors notified under the Minimum Wage Act. The Code on Wages (2019) seeks to universalise minimum wages and extend them to the unorganised sector. While this is a laudable objective, it is fraught with enforcement challenges in a labour market that is dominated by informal work arrangements and self-employment.

An effective intervention in this context would be to ensure a decent minimum wage for those who are the bottom of the distribution — the casual labour. This, in turn, will help set a higher wage floor for others engaged in low-paid work, including regular informal workers, thereby enhancing their earnings. In India, a disproportionately large share of casual workers are engaged in agriculture and construction work (roughly 40 per cent each) and raising their minimum wages can play a significant role in enhancing their earnings. The construction sector, in particular, is likely to play a critical role in the economic revival of the country and can emerge as an important source of employment generation. Concomitantly, it is important that minimum wages are paid in public workfare programmes too, in particular MGNREGA works, which involve the employment of unskilled labour. At present, MGNREGA wages are not covered under the Minimum Wages Act. However, it is important to note that less than 4 per cent of casual workers are employed in public works programmes. If wages of such a small proportion

are to serve as a credible wage floor for others, the contours of public workfare programmes need to be modified. In particular, such works will need to be made widely available all year round.

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The level at which the decent minimum wage should be set assumes importance in a framework where it is being leveraged to boost consumption and demand of those at the bottom. In India, the minimum wage is supposed to be shaped by the objective of prevention of exploitation and to ensure bare sustenance of life. However, to enhance the incomes and, therefore, consumption of low wage earners, we need to go beyond the objective of simply overcoming poverty and instead aspire to provide them a decent wage which enables them to maintain a reasonable level of consumption expenditure. For this purpose, the minimum wage can be linked to the consumption expenditure of the relatively better-off group of workers, that is, the regular formal workers in some manner, say the median consumption of the bottom 25 per cent. This would create not just a dynamic linkage with the consumption of the better-off workers, but will also allow for the updating of the minimum wage every year as and when the PLFS data is released.

The Indian employment challenge today cannot be seen independently of the problem of inadequate income. One half of the economy works on wage labour and policy interventions in the domain of wages can be used to construct a minimum income floor. This approach of increasing wages of casual workers in public programmes and linking them to the consumption of regular formal workers to provide a minimum income guarantee is different from the exercise of providing unconditional cash transfers to those at the bottom of the distribution. Such an intervention will not only enable income enhancement of those in low-paid work but also add fuel to demand and growth, this time from those at the bottom of the distribution.

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This article first appeared in the print edition on August 8, 2020 under the title 'Boosting demand, bottom up'. Kapoor is senior fellow at ICRIER and Majid is a Senior Employment Specialist ILO DWT for South Asia. Views are personal.

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