

WAGE IMBALANCE

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

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Last week, the Union cabinet approved the revised version of the Code on the Wages Bill. The bill envisages a national minimum wage, linked to factors such as skill level and geographical region. This national wage would effectively serve as a floor wage, with states having the option of setting higher wages. Minimum wage legislation forms a vital component of the architecture for social protection. A well designed minimum wage system, as articulated in the [Economic Survey](#) 2018-19, can help “reduce inequalities in income, bridge gender gaps in wages and alleviate poverty”. It could also help address the imbalance of power between workers and employers.

Having said that, the government must carefully think through the consequences of this move for the very constituency it seeks to address. There is concern that if wages are pushed up, without being linked to productivity, companies will respond by hiring fewer workers. In a country where preference for capital intensive production is well documented, despite the abundance of labour, a high minimum wage may further skew the capital-labour ratio. It is also likely that companies will try to circumvent the system by opting to route part of their workforce through informal channels. By pushing up costs, a high minimum wage could erode competitiveness, making certain segments economically unfeasible. Coming at a time when India is struggling to find ways to boost exports, especially those of labour intensive sectors such as garments, such a move might have unintended consequences. And while the bill has proposed to take into account regional variations, wage differences across regions could impact labour mobility. Then, there's also the structure of the labour market in India to consider. The duality of the labour market, characterised by the presence of a large informal sector — 93 per cent workers are in the informal economy according to the latest Economic Survey — suggests that enforcement is likely to be problematic.

It is also true that with little bargaining power, workers are being squeezed, and that the government must intervene to address this. Though the share of workers' wages in gross value added has risen to 12.7 per cent in 2016-17, up from a low of 9.2 per cent in 2007-08, it remains well below levels seen in the early 1980s. But it must be asked whether, for serving the goals of equity and justice, a high minimum wage is the best way forward. Lowering the costs associated with formalisation, creating more flexible labour laws, might be a more prudent approach.

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