Source : www.thehindu.com Date : 2019-10-10

THE MINIMUM WAGE SOLUTION

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

Labourers at work under the NREGA job scheme

The government made two recent announcements at two ends of the spectrum to mitigate the economic crisis. One concerns a new indexation of NREGA wages meant to increase rural incomes. The second is a reduction in corporate tax rate.

Prices of commodities increase each year, so it's important to accurately estimate how much a NREGA labourer should earn in 2020 if she earned 179 (national daily average NREGA wage) in 2019. For this, we need a good index to benchmark and revise the wages. Indices are (weighted) averages of the prices of a basket of goods consumed and the index must be based on the main items of consumption for rural households. NREGA daily wages are to be indexed with an updated inflation index called the Consumer Price Index-Rural (CPI-R) instead of the older Consumer Price Index-Agricultural Labourers (CPI-AL). The calculation of CPI-AL involved more food items in the consumption basket while the calculation of CPI-R involves more non-food items such as healthcare and education. CPI-R better reflects the rural consumption basket compared to CPI-AL.

Although this new indexation is critical, it will have a sizeable impact on increase in rural incomes only if the base NREGA wages are high. For example, let's assume a 10% increase in wages due to the new indexation. Then NREGA wages in Kerala at 271 per day, one of the highest, would become 298. However, if NREGA wages were equal to the State minimum wages, the wages in Kerala would increase from 490 to about 540. A substantial increase in NREGA wages and subsequent indexation with CPI-R would be meaningful for the workers and the economy. But barring three States/UTs, NREGA wages are still lower than the State minimum wages elsewhere, in violation of the law.

Minimum wages are neither a dole nor an act of charity. They are a legal mandate that are arrived at by calculating the minimal nutritional requirement and basic needs of an individual. In fact, the Fair Wages Committee of the Ministry of Labour (1949) noted in a progressive report that a "living wage" should also include education, healthcare and insurance besides the bare essentials. In *Sanjit Roy v. State of Rajasthan* (1983), the Supreme Court held that paying less than minimum wages is akin to "forced labour". In *Workmen v. Management of Raptakos Brett* (1991), it said that the aforementioned provisions must be added to arrive at a moral "living wage" to ensure basic dignity of life. Yet, the current daily NREGA wages are just a quarter of the minimum daily living wage of 692 as outlined in the 7th Pay Commission.

The current corporate tax cut will only widen economic inequality. According to the Oxfam Inequality Report 2018, in one year, the wealth of the richest 1% in India grew by 20.91 lakh crore, which is equivalent to the 2017-18 Budget. According to estimates by CRISIL, due to the recent tax cut, 1,000 companies would have annual savings of around 37,000 crore. In comparison, the last annual NREGA budget is 60,000 crore. So the estimated gains of more than a 1,000 companies would be equivalent to the annual earnings of around 7.2 crore NREGA labourers. What is worse is that the budget allocation for NREGA gets exhausted by October of each financial year, leading to delays in payment of wages. These are all legal violations.

According to a 2015 IMF report, "if the income share of the top 20% (the rich) increases, then GDP growth actually declines over the medium term", while "an increase in the income share of

the bottom 20% (the poor) is associated with higher GDP growth". While corporate tax cuts and lower interest rates would give corporations some liquidity, it is unlikely that rural demand will increase. On the contrary, without a substantial increase in NREGA wages, the wages would barely match inflation levels leading to wage stagnation in real terms. It is therefore economically prudent to substantially increase the budget for public programmes such as NREGA. This would lead to higher disposable income for the poor which in turn would have positive multiplier effects in the economy.

On economic, ethical, and legal counts, it behoves the government to pay attention to the poor. However, the ruling party seems to pander to the super rich. In circumstances of unsustainable wages, the poor would be forced to become part of the migrant labour force eager to eke out a modicum of existence. India Inc. would, in turn, benefit by absorbing them at throwaway daily wages leaving no alternatives for labourers. Jean Dreze and Amartya Sen's poignant — almost dystopian — imagery of India having pockets of California in a sea of sub-Saharan Africa is still eerily true. This, at the twilight of the second decade of the 21st century, is deeply worrying

Rajendran Narayanan teaches at Azim Premji University, Bengaluru, and Sakina Dhorajiwala is a researcher with LibTech India

END