

Minimum wage conundrum

Updated at June 10, 2021 00:14 IST

The Union Ministry of Labour and Employment last week constituted an expert group to give technical inputs and recommendations on fixing a national minimum wage. The expert group, chaired by Ajit Mishra of the Institute of Economic Growth, has been constituted for a period of three years. This effectively means that the government is unlikely to fix the floor as mandated by the new wage code in the near term. According to the Code on Wages, 2019, the Central government is expected to fix a floor wage after taking into account the minimum living standards of workers. It can also fix a floor for the states so that the latter don't pay below the one set by the Centre.

However, the rationale for setting up yet another committee is not clear. The government had constituted another expert committee under Anoop Satpathy in January 2017. The committee submitted its report on "determining the methodology for fixation of the national minimum wage" in 2019 and recommended fixing the need-based national minimum wage at Rs 375 per day or Rs 9,750 per month as of July 2018. It suggested that this minimum wage was not subject to skill or occupation. The committee also recommended introducing an additional house rent allowance for urban workers. Besides a national minimum wage, the committee recommended different minimum wages for different regions to account for local factors, which was the right way to go due to the varied cost of living in different states. The report didn't seem to have made much headway as the government raised the minimum wage only marginally in 2019. However, some of the trade unions demanded higher wages.

In this context, it will be critical for the expert committee to strike the right balance. If the floor wage is set too high, it will deter employers from hiring more workers and force them to opt for more capital-intensive techniques of production. However, if it is set too low, sustenance would become difficult for workers. But, in principle, the minimum wage should not be high because it should leave space for market forces to determine wages above a minimum threshold. The government would do well to complete the exercise at the earliest in the interests of greater clarity. A large number of firms have been affected by the disruption caused by Covid-19. As the economy recovers, clarity on wages would help firms plan better. It will also give greater certainty to workers who will be looking to repair their household balance sheets.

India has not been able to take advantage of its large pool of labour to push labour-intensive manufacturing and exports. One of the reasons for this has been the maze of complex labour laws. As a result, businesses in India could not acquire scale to be able to compete in international markets. The government has done well to simplify these laws by enacting labour codes. It will be important that rules in this area are kept simple so that they encourage firms to hire more workers and increase scale. This would also lead to greater formalisation in the labour market, which should help ensure that rights of workers are protected.