

## 1. The Minimum Wage Solution

### Context:

- ▶▶ 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.

### New Indexation of NREGA scheme:

- ▶▶ 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.**
- ▶▶ 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. But barring three States/UTs, NREGA wages are still lower than the State minimum wages elsewhere, in violation of the law.

### Why Minimum Wages is Required?

- ▶▶ Minimum wages are neither a dole nor an act of charity. They are a legal mandate that is 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 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”.**

### Increasing Inequality:

- ▶▶ 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 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.

### Government interventions:

#### Minimum Wages Act, 1948:

- ▶▶ Under the Minimum Wages Act, 1948, has different minimum wages defined for different job categories across states. This is very complex in nature.
- ▶▶ **Lack of uniform criteria** for fixing the minimum wage rate. This causes distress migration of labour to better paying states.
- ▶▶ **Gender Bias** - Analysis of minimum wage data also shows a systemic gender bias. For example – **male-dominated** job of security guards pays better than being a domestic worker, most of whom are women.

#### Redesigning Minimum Wage System:

- ▶▶ The Code on Wages, 2019 was introduced to regulate wage and bonus payments in all employments where any industry, trade, business, or manufacture is carried out.
- ▶▶ The Code will apply to all employees.
- ▶▶ The central government will make wage-related decisions for employments such as railways, mines, and oil fields, among others. State governments will make decisions for all other employments.
- ▶▶ According to the Code, the central government will fix a floor wage (at present RS.176 per day) taking into account living standards of workers. Further, it may set different floor wages for different geographical areas. The minimum wages decided by the central or state governments must be higher than the floor wage. While fixing minimum wages, the central or state governments may take into account factors such as: (i) skill of workers, and (ii) difficulty of work.

### Conclusion:

- ▶▶ Jean Dreze and Amartya Sen points out that India having pockets of California in a sea of sub-Saharan Africa is still eerily true.

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- ▶▶ So it is 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.

