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ARTICLES ON CODE OF WAGES AUTHORED BY

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Karnataka minimum wage increase: A political gamble

The larger companies will make some noise, but will adopt it, because they have no choice and will start looking at productivity improvement and automation to compensate for the increase in costs. The MSME sector will be impacted.

Effective April 1, 2018, the JD(S)/Congress coalition government in Karnataka notified revision of minimum wages, which has triggered a big debate in the state. Here's all you need to know about the move, which has created furore.

What is percent wage Increase?

As per the notification, minimum wages went up across the board. The table below explains the extent of increase for the role of typist/data entry operator for Zone 1 (Bengaluru). The figures are in rupees per month.

The basic minimum wages are fixed every 3 to 5 years, while the VDA changes every 6/12 months. The basic wages were revised for this

	As on 1 April 2016	As on 1 April 2017
Basic	5590	5590
VDA (Variable Dearness Allowance)	2703	3070
Total	8293	8660
% growth over previous year		1%

role on 1 April 2012 and thereafter the increase was only in VDA, which is supposed to correct for inflation. The basic wages were revised in 2018, wherein part of the VDA was also included. But the total salary increased by 55 per cent, as compared to 1 per cent increase the previous year. The increase in other roles is also significant - upwards of 30 per cent.

Code on Wages (CoW) Bill controversy

This increase comes in the context of the recent Code on Wages (CoW) bill presented in the parliament on 10 Aug 2017, by the then minister of State for Labour. This bill, yet to be passed by the parliament, was part of the BJP government's labour reform, which tried to set a National Floor Level for Wages (NFL) and National policy on minimum wages that are actually administered by the individual States. CoW attempts to rationalise and revise minimum wages upwards and created a lot of reaction from the employers, who thought (mistakenly) the National Floor Wage would be over Rs 21,000 per month. It was later clarified that the NFL was not specified in the CoW bill. Incidentally, the minimum wage for a government employee was revised from Rs 18,000 to Rs 21,000 per month, recently. But the minimum wages for employees in private employment are far lower and despite that most employers beat the system by paying even less than the minimum wages

Why Karnataka?

But before we discuss Karnataka, we must discuss Delhi. AAP Government scored the first goal for minimum wage increase. According to the March 3, 2017 notification, the minimum wages for an unskilled worker went up from Rs 9,724 per month to Rs 13,350, an increase of 37 per cent. The semi-skilled wages went up from Rs 10,764 to Rs 14.698 per month, an increase of 36.5 per cent. This, however, was stuck down on the 4th August 2018 by the Delhi high court, as the employers went to the court and claimed that they were not consulted adequately.

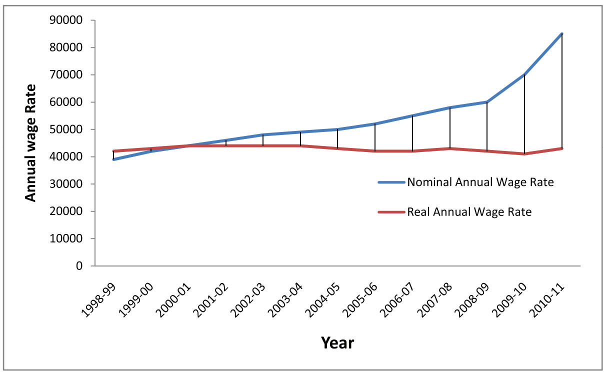
Karnataka has followed the Delhi AAP game plan to significantly increase the minimum wages. And it is a political gamble by the government. Karnataka was anyway struggling

to attract youth to non- IT jobs because the IT industry sets very high salary standards. So the big revision is a far easier matter for Karnataka than a state like Uttar Pradesh.

A big upward revision in minimum wages is long over-due

The graph plots the wages of the average factory worker. Nominal wage rate reports a steady growth. But the real wages appears to be stagnant Rs. 45,000 per annum over a 12 year period

A research paper published By Prof Bino Paul et al in Economic and Political Weekly (July 26, 2014 issue), revealed that the average factory worker's compensation - net of inflation - remained constant or was reduced, during the 12 year period between 1999 and 2012. During the same period, supervisor and managerial compensation went up by 200-400 per cent. Employers diverted the labour compensation to managerial compensation, because of demographics. Supply of unskilled and semi-skilled work force is far more than the demand.



This is the reason, why employers could manage to keep the minimum wages very low and even managed to pay less than the minimum wages. The demographic dividend is working against labour.

The minimum wages upward revision is essential for the skill movement.

In fact, the skill movement in India has suffered due to low minimum wages because it is not attractive to get skilled. On top of this, the skill premium - the difference in wages between unskilled and semi-skilled - is very low. For example, even under the new Karnataka Minimum Wages Notification for Shops and Establishments, the semi-skilled will get only Rs 45 per day (9%) more than the unskilled. So where is the incentive to get skilled?

Why now?

As it is elections time. For example, on August 8, 2018 'Beedi' workers staged an indefinite strike in Mangalore demanding the implementation of the minimum wages in 'Beedi' industry. Clearly, AAP and the coalition Government in Karnataka, would want to beat BJP in their game. Also minimum wages revision will also impact the MNREGA pay outs, and hence will have a huge rural and urban poor support. This means more votes in the next parliament elections.

What are implications for the rest of India?

The first party to propose the minimum wages increase was the CPM in its manifesto released in August 2014, which stated, "A statutory minimum wage of Rs. 10,000 per month linked to Consumer Price Index" is mandatory." Centre of Indian Trade Unions (CITU) has been demanding a minimum wage of Rs 15,000. After AAP and Congress/JDS coalition, all other parties will have to follow suit and I expect the BJP national government to also join the bandwagon. The Karnataka model will be adopted by all parties. The larger companies will make some noise, but will adopt it, because they have no choice and will start looking at productivity improvement and automation to compensate for the increase in costs. The MSME sector will be impacted. Those who can manage the local compliance authorities will get away by paying less than the minimum wages. Those who want to comply in MSMEs will suffer. The only solution is to provide Skill Wage Incentive (SWI) to MSMEs to compensate up to 25 per cent of the salary for all new employees for the first three years. Already the Central Government has started National Apprentice Promotion Scheme (NAPS) under which employers are paid directly Rs 1,500 per month for 12 months as an incentive. Central government is paying 12 per cent EPF contribution of employers for all new employment in the next three years. Hence, the MSME Skill Wage Incentive can be easily be implemented on similar lines and hence is a must for MSME compliance.

(The author is Chairman of HR services firm TMI Group)

Telangana Today

T. Muralidharan

28th Aug 2017

Avoidable row on New Wages Bill

It doesn't prescribe a National Floor Wage of Rs 18,000 per month that is fuelling the controversy.

Do you know that your barbers, workers of your club, etc, must be paid a salary above the minimum wages (MW)? And if it goes up, your bill will go up? If you are a worker in a company or a factory, do you know that your salary is linked to the MW determined by the government? If you are an employer and if you don't comply with this New Code on Wages (CoW) Bill, you can face prosecution? Read on about a new Bill that can affect us all — as employee, employer or customer.

On August 10, 2017, Minister of State for Labour Bandaru Dattatreya introduced a historic Bill — CoW Bill 2017 in the Lok Sabha. It is still a draft since Parliament is yet to pass this Bill. The Bill consolidates Minimum Wages Act 1948, Payment of Wages Act 1936, Payment of Bonus Act 1965, and Equal Remuneration Act 1976, into a single statute.

This is the first of the four major labour reforms being planned as part of the 'ease of doing business' agenda. The Ministry is also condensing 44 labour laws into four codes — wages, industrial relations, social security and safety, health and working conditions.

Unnecessary Frenzy

The Bill has created a media frenzy – by claiming that it will set a new single National Floor Wage (NFW) of Rs 18,000 per month (or Rs 693 per day assuming 26 days of earning per month), which means that the MW across all sectors, all States, would be above Rs 693 per day. This means almost doubling the current MW. While the employers welcome many aspects of the Bill, it faces stiff resistance on both the single NFW and its monthly value of Rs 18,000.

Employers believe this will prevent market forces from determining wages, thereby impacting competitiveness, profitability and even survival of enterprises, especially the MSMEs. The Retailers Association of India challenged the Rs 18,000 per month NFW incorrectly, because the government is yet to determine the amount.

In my view this controversy has taken the debate away from the core issue – the current MW regime is not working and we need to desperately correct it through a centrally-driven MW regime.

MW and NFW

The MW is a global practice to prevent exploitation of labour through payment of low wages and is championed by the International Labour Organisation. In India, the concept was first introduced through the Minimum Wages Act 1948.

The Labour Ministers Conference, 40 years later, in 1988 resulted in an addition of Variable Dearness Allowance (VDA) to the MW to address the issue of inflation. So there are two components to the minimum wage – a basic rate of wages and a special allowance or VDA. Some States announce these two components separately or merge it into one.

Determining MW

The MW are arrived on the basis of the following: first, arrive at a Living wage. Living wage is the level of income for a worker and his family of four (including two children), which will ensure a basic standard of living covering good health, comfort, education and contingency.

Second, arrive at the Fair wage. Fair wage is that level of wage that not just maintains a level of employment, but also seeks to increase the employment by keeping in perspective the industry's capacity to pay.

Lastly, arrive at the MW. Normally, the MW are between the Fair wage and the Living wage. There is a trade-off between what the worker needs and what the employer can afford to pay. It is my view that this trade-off has been against the worker.

MW set in two-stages

First, the Union Labour Ministry stipulates the draft MW for various sectors like agriculture and industry periodically (in three to five years), based on recommendations of the National Advisory Board and seeks objections and recommendations of the public and finally publishes the MW.

In the second stage, each State's labour department (as per recommendations of a State-level committee) is expected to translate these floor level wages and announce a minimum wage for each of the industries in the State, in each geographical zone, based on local conditions and as per guidelines specified in the Act.

In all these processes, the MW for unskilled is arrived at first and then extrapolated to semi-skilled and skilled categories based on the skill level and the arduousness required for the assigned job. Similarly the MW for various zones are extrapolated from the lowest cost zone. The real challenge has been both in determination and extrapolation of the MW at the State level and its poor implementation.

No Truth in Rs 18,000

The media focuses on the validity of a single NFW and why this amount of Rs 18,000 per month is too high. My detailed examination of the draft Bill, discussions with experts and Ministry officials confirm that there is no basis for these alarmist stories.

Firstly, there is no proposal for a single NFW across India. Clause 9(1) of the CoW draft reads, 'The Central government may, by notification, fix the national minimum wage provided that different national minimum wages may be fixed for different States or different geographical areas'. There is no reference to the single NFW of Rs 18,000 anywhere in the draft Bill. In fact, clause 9(3) clearly states, 'Central government, before fixing the national minimum wage may obtain the advice of the Central Advisory Board'.

This Board comprises employers, trade unions and independent members, who review data and recommend the national MW. This Board, which has 15 employer representatives, is yet to submit its recommendations. Hence, there is no basis for the Rs 18,000 per month NFW.

Current NFW

Based on the recommendation of National Commission for Rural Labour in 1991, the Government of India announced the national MW for agricultural/rural labour at Rs 35 per day, which was revised to Rs 100 per day in 2009, Rs 160 per day in 2015, and to Rs 176 per day from June 1, 2017 (for central sphere). However, these floor wages are non-statutory and advisory in nature and are not binding on the State governments. This is one of the root causes for the current state of affairs

What is new in CoW

Broadly three things. First, currently the applicability of the MW Act is restricted to a list of industries notified by the Central and State governments. This restriction is being removed. So every employee is covered except Apprentices and Armed Forces.

Second, currently employees with wages over Rs 18,000 per month are not covered. This restriction is also being removed. Every employee irrespective of salary will be covered.

Third, this Act will have statutory powers to align the State MW to the central stipulations and also give teeth to the implementation.

So, the focus should be on the following key questions – How are the MW implemented currently and what is its impact on wage determination? Is the employer focus on wages or productivity? Has the management passed on labour productivity increases as wage increases? Why do we need to overhaul the whole wage system?

We will deal with these questions in the concluding part of this article tomorrow.

(The author is Chairman, TMI Group, and Independent Journalist)

Telangana Today

T. Muralidharan 29th Aug 2017

Overhaul minimum wage system

The new Code on Wages Bill must address the key problem of inconsistent minimum wage determination by the States.

The controversy over the Code on Wages Bill has taken the debate away from the core issue – the current minimum wages regime is not working and we need to desperately correct it through a centrally-driven minimum wages regime. We explain some of the key concerns that need to be addressed. Minimum Wages (MW) are declared for three categories – unskilled, semi-skilled and skilled. Most States also declare MW for these three categories industry-wise and zone-wise. For example, the current MW of Maharashtra (from July 1, 2017) has 61 industries and for each industry, there are three zones and three categories.

An analysis of the MW in Maharashtra is very revealing:

- The MW vary from Rs 13,650 per month (Rs 550 per day for skilled category for construction industry) to Rs 9,022 per month (Rs 347 per day for skilled category for retail petrol pumps). There is a 51% variation for the skilled workmen category between construction and petroleum retail sector in the same zone.
- An unskilled construction worker earns 15% more than a skilled engineering worker or 28% more than a skilled factory worker, in the same zone.
- An unskilled club worker earns 3% more than a skilled factory worker in the same zone.
- A skilled factory worker in Mumbai (zone I) will get only Rs 600 per month more compared to a skilled worker working in a very small town (zone III)
- Even more shocking is the skill premium (difference between unskilled and semi-skilled for the same industry, in the same zone). For example, for engineering industry in zone 1, the skill premium works out to only 5% or Rs 500 per month (Rs 19 per day)

What is the core issue here? It is the way the MW are extrapolated across industries, across zones and across skill categories by each State.

Right Minimum Wages

The current way is to fix the MW of the unskilled worker in the lowest cost zone in the lowest paying industry and extrapolate the MW of all the rest. This is the crucial flaw that has resulted in the above anomalies.The correct way is to determine the MW of the semi-skilled category first, based on the norms and derive the rest. Why? Because it will incentivise the youth and the unskilled employees to pick up skills. The employer is happier to pay more to the semi-skilled and skilled because they are fewer in number and because there are ways to recover the wage increase through productivity training. While government undertakings and large corporate houses may comply with this norm, a large section of medium and large employers do not comply with MW. This has resulted in the actual wages being determined by market forces. In fact, one of the strongest arguments of employers is that any stipulation of MW will distort wages and that it must be determined by market forces.

Startling Findings

In an article published in the Economic and Political Weekly (July 26, 2014 issue), three authors (including me) clearly established three very little known facts after analysing voluminous data from government sources:

1. During the 12-year period from 1999 till 2011, the average factory worker's (the average worker earns much more than the entry level worker) real wages (after adjusting for inflation) remained constant at Rs 45,000 per annum. In more than 50% of the industries, the real wages declined.

2. The supervisor compensation, during a similar period, went up two to four times the labour compensation. Clearly, the managers managed to secure higher wage raises and hence dominate the manpower costs of the organisation

3. The study shows a very weak (12%) productivity-real wage linkage in Indian manufacturing. If productivity goes up by Rs 100, only Rs 12 was passed on to labour. It shows that productivity has gone up owing to the management focus on automation and technology. Managements willingly did not pass on productivity increases to labour.

Supply Exceeds Demand

While India's GDP growth is one of the world's fastest, employment creation in eight sectors, including textiles and automobiles, as per a 2016 Ministry of Labour report, was the slowest in seven years. Over 12 million Indians enter the workforce every year. Between 2011 and 2015, the number of agricultural jobs reduced by 26 million while non-farm jobs rose 33 million.

According to McKinsey Global Institute, the net growth in employment was a meagre 7 million over 4 years or less than 2 million per year. What happens when supply of onions far exceeds demand for onions? Onion prices crash. The same thing happens in the labour market as wage is the price paid for labour.

Analyses of past data validate the fact of wage stagnation and this is because of huge supply over low demand. Demographic dividend is the main cause for real wage stagnation. Most of the employers get away with paying lower than MW because of the desperation of the unskilled worker to find and keep the job.

Entry Level WagesIn manufacturing, the total manpower cost as a percentage of the total cost varies from industry to industry – from 6% in highly automated plants to 20% in labour-intensive industries like apparel. We need to estimate the entry level factory worker cost as a percentage of the total manufacturing cost after subtracting for supervisory costs, experienced worker salaries, etc, which may vary from 1% to 5%. Hence, a 50% increase in MW will only impact the total manufacturing cost by 0.5% to 2.5%. If the increase is mainly in the semi-skilled category, the impact will be far lower owing to fewer numbers. This can be offset by increasing productivity through skill training and tool kits. Most industries are impacted more by energy cost than entry level labour cost of semi-skilled manpower. So, the claim that MW increase will kill the industry is more emotional than factual.

Ensuring Compliance

If most enterprises are already beating the MW regime at the current MW, what will happen when the MW are revised significantly upwards? Surely, this is an area of concern. Firstly, there is a need to make medium and large employers and all employees aware of this new CoW Bill and the consequences of non-compliance. Employers must be asked to declare their compliance in their annual reports. Secondly, the Labour Ministry must set up a portal and activate call centres for MW complaints with time-bound investigation and publish their findings. This portal should also encourage compliant companies to share their experiences in improving productivity to offset the increase in MW and this will differentiate the compliant and non-compliant employers and quality labour will move to work for employers who comply with this.

Over a period, non-compliance will become more expensive than compliance. The MW need to be revised significantly upwards to offset the wage stagnation due to excess supply over low demand. The Central government must intervene in this since MW cannot be left to market forces and State's interpretation and extrapolation. However, the increase in MW should be in the semi-skilled category rather than unskilled wages. The CoW Bill can be used to strengthen the skill ecosystem. A strong CoW Bill along with fair MW is the need of the hour. Concluded

(The author is Chairman, TMI Group, and Independent Journalist)

Telangana Today

T. Muralidharan

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Cash in on Wages Bill

CoW Bill presents a great opportunity to correct wage stagnation and build demand for skills among youth

In my two-part article earlier in this column (on Aug 28 and 29 – telanganatoday.com), I had argued that the current minimum wages implementation has failed and the cost of this failure is being borne by workmen through stagnant wages for over 12 years because of our unique skill market conditions, where the supply far exceeds the demand.

The Code on Wages or CoW Bill presents a great opportunity to not only correct the wage stagnation but also to build a demand for skills as well as Recognition of Prior Learning (RPL) in skills among the youth.

Dipping Demand

The following are three reasons for low demand for skills among youth:

Wages are low: Most of the jobs are in cities and require youth to migrate. The current wages are not enough to cover their costs and hence most end up borrowing from parents and co-workers. This is the reason for low retention in post-skilling jobs.

Skill premium is low: According to the Maharashtra minimum wages notification effective July 1, 2017, the skill premium measured by the difference in the minimum wages for unskilled and semi-skilled (for example in the engineering sector) is as low as 5%. Obviously, there is no incentive to undergo skill training.

No employment preference for skill certification: Skill certifications have no legal standing vis-a-via employers and hence cannot be enforced. This is a big obstacle in drumming up demand for skills.

The RPL programme attempts to identify skilled craftsmen and youth who are not certified and encourages them to take an assessment and get certified by the Skills Ministry. This is also yet to take off for identical reasons cited above.

How CoW Bill Can Help

Step 1: Revise the minimum wages substantially for semi-skilled and skilled categories. The revision can be far less for unskilled.

The CoW Bill plans to revise minimum wages through a National Floor Level Wages (NFW) model and to streamline the extrapolation of minimum wages across sectors and geographies. A committee has been appointed to arrive at the NFW and it is believed that the NFW will be increased significantly to offset the low stagnant wages.

Though experts believe that market should determine the wages, I believe this is only valid in a perfect market. Let me cite an example where this wisdom has not been adopted but the results have been dramatic and beneficial to the nation — Dr Kurien and Amul decided that milk producers will create a producer's cooperative that will determine the prices and that the prices must be remunerative to the milk producers. This resulted in the Indian milk revolution.

The skills market is also imperfect. The supply is far more than the demand and will continue to be so because of the demographic dividend. So the wages, which are determined by the demand-supply gap, have stagnated.

The Minimum NFW

As per 7th Pay Commission report, the minimum salary of Central government employees may be raised to Rs 21,000 per month from the existing Rs 18,000 per month. It is an irony that the government pays its employees much more than the market. Though this is a data point, the new NFW has to be far less.

The current (effective July 1) minimum wages in Zone 1 for the unskilled category in Maharashtra varies from Rs 8,033 to Rs 12,450 per month.

The new NFW to be defined by the committee will be, in my opinion, somewhere between government employees' minimum wages and the current levels, at around Rs 14,000 per month. But there will be a lot of reactions against the upward revision on the grounds that the business cannot absorb this increase, especially the MSME sector.

So, the first step is to revise the NFW of only the semi-skilled and skilled upwards significantly. The NFW of the unskilled should be revised upwards at much lower rates than the semi- skilled.

For example, the minimum NFW can be fixed at Rs 14,000 for semi-skilled and the unskilled NFW could be at Rs 11,000 per month. The skilled NFW may be at Rs 18,000 per month. This will be acceptable to the employers because the semi-skilled and skilled numbers are very small compared with the unskilled numbers.

This will also create a skill premium of over 27% without upsetting the employers.

Step 2: Define skill certification as one of the indicators for semi-skilled and skilled wages in the CoW Bill, thereby legitimising the skill certification.

Skill certificate has to be at a level specified by the Skill Ministry (say level 5 of the National Occupational Standards for semi-skilled and level 7 for skilled). Automatically this will drive the demand for skill certification. A bigger benefit will be the demand for RPL.

Step 3: The CoW Bill should specify that inexperienced fresh students certified by the Skills Ministry will be paid 5% less than the semi-skilled. This will create a sustainable wage for the migrating skill certified students.

Step 4: Like skill certification, link apprenticeship programmes to semi-skilled status at the end of the first six months of the apprenticeship programme. This will mean that the government reimbursement under the apprenticeship programme will be at the semi-skilled wages. This will drive demand for apprenticeships among students.

Step 5: Ensure better implementation of the CoW Bill by encouraging skill students to share their compensation data online on the Labour Ministry portal. This will highlight the defaulter employers so that corrective steps can be taken.

Step 6: Initiate a Skill Wage incentive programme to refund 25% of the applicable minimum wages to SMEs who employ fresh certified skill trainees for a period of six months. The payment must be directly made to the employer similar to the current apprenticeship scheme. This will encourage the SMEs to employ fresh certified youth and give them six months to realise the full productivity.

The CoW is a golden opportunity that should not be missed.

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