Wages and wage determination

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This issue of the *Indian Journal of Labour Economics* presents select research papers on Wages. The topic is deemed to be of consequence today when inequalities in income and wealth are becoming a concern in most countries across the world. Wage was also of pronounced interest to late professor TS Papola, who was among the pioneers and best-known scholars of Labour Economics in India. This issue is dedicated to his memory.

1 THE THEORETICAL POSITION

The wage rate is amongst the most important means to ensure livelihoods of people and income distribution among citizens in any modern society. Wages are also a powerful tool for improving equality and equity in an economy and societal sustainability. In many European economies and the United States, minimum wages are established for ensuring decent living standards for all and reducing income inequality. In developing countries as well, the wage rate has proved to be useful policy instrument in alleviating poverty and reducing income inequality. It is being increasingly recognised now that if minimum wages are effectively designed and enforced, they could improve the standards of living of workers; and most importantly, permit the workers to effectively invest in the future of their family and children in this era of knowledge economy.

In terms of a theoretical understanding, the classical subsistence theory of wages of the 18th and 19th centuries, known as the Ricardian theory of wages, relied

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heavily upon the Malthusian postulation which held that the wages would inevitably tend towards the minimum owing to an ever-increasing population. Next, the wage-fund theory, also from the classical era, proposed that wages depended on the relative amounts available with employers for payment of workers and the size of the labour force. Wages increase only with an increase in the resources of the employers or a decrease in the number of workers. Although the size of the ‘wage fund’ could change over time, it could be fixed at any given moment. Third, the 20th century saw the emergence of the marginal revenue productivity theory, which stated that wages are determined by the incremental revenue created by the deployment of the last worker. Finally, later and contemporary propositions have been linking wages with collective bargaining, existence of sticky wages, promulgation of stipulated minimum wages through the law, and so on.

2 EMPIRICAL REALITY

In real life situations, at least in developing countries there is no single labour market; there are several and the segmentations ensue owing to locational immobility of labour or capital, imperfect knowledge, skill levels beyond formal education, linguistic prowess, formal/informal sectors and the entry barriers therein, cost of living, reservation wages, and a host of social factors like gender, caste, kinship, aspects perpetuating inequity, and the like. Additionally, there are factors like capacity to pay. For example, the old textile mills in India pay much less compared to the newer ones since they do not make much profit and many actually sustain losses. On the flip side, in select cases employers retain workers at wages higher than those prevalent in the market, based on social contracts, personal trust, etc. Thus, wages could differ for the same jobs across establishments, locations, and for a number of other reasons. Ultimately, what matters is whether workers get at least the minimum emoluments and whether there is some sense of fairness in wage determination.

Next, should markets alone determine wages? While conventional wisdom suggests that artificially pushing up wages beyond what the market sets, reduces the employment levels, such a logic would hold true only if the markets are instantaneous in adjustments. In reality, in all probability there are lags and during these periods technological changes and/or growth in the economy might absorb the impact of wage rise in part or full. Further, in certain settings, keeping wages high might actually motivate workers to raise their productivity and off-set the increased costs of higher wages. Data from the United States for the second half of the 20th century suggest that there has been no overt increase in unemployment owing to fixing minimum wages. Also, the Scandinavian countries—which fully follow free market capitalism—have a system of collective bargaining between workers’ unions and employers/ governments at the national level. Workers are also guaranteed pension payments.

In most labour-surplus developing countries, the phenomenon of ‘working poor’ is widely prevalent as the markets are segmented by organised and unorganised sectors and the latter stay largely unregulated despite that many countries, including

India, have set minimum wages for this sector as well. It is also observed that minimum wages in some cases are set at levels somewhat lower than the prevailing wages so as not to actively intervene in the markets and/or raise costs. The Maharashtra Employment Guarantee Scheme Act of 1978 had stated that the wages to be paid under the Scheme should be fixed at a rate somewhat lower than the prevailing wage rates in agriculture so as not to affect agricultural activities. Thus, despite wages being downwards sticky as the 'reservation wages' theories put forth, the 'working poor' are a reality.

Overall thus, markets are not what they are theoretically assumed to be: they are complex and segmented, and there are forces beyond demand and supply that determine and impact wages. In the contemporary era, demographic pressures are also responsible for keeping wages and earnings low.

3 CURRENT DEBATES

The current debates on wages in developing countries are generally pivoted on four pillars: minimum wages and their implementation, both in the contexts of actual enforcement and impact on market equilibrium; wage-productivity linkages; inequity and inequality in wages (by gender, ethnicity, others); and wages being a mechanism for alleviating poverty. Some might argue that since wage/salaried workers do not form that large a segment of the workforce in developed countries, they are unlikely to majorly affect inequality. Nevertheless, the fact stays that the wage rate is now becoming an increasingly important tool in ensuring equality and equity. The emphasis on changes in the wage rates, especially in the unorganised/agricultural sectors, has assumed importance in India since rural poverty issues have been at the centre stage since the 1980s.

Again, in India, there is extensive debate on the measurement of wages (or emoluments) and methods of enumeration and data collection. For one, there are different segments in the labour market and across segments, there are diverse methods of engaging workers and for varied time periods (regular, seasonal, job-wise, others). Consequent to these, methods of compensating workers could also vary, resulting in issues in measurement and comparison. Next, there are multiple agencies that collect data on wages and each has its own nuances. A few examples would be useful here. The National Sample Survey (NSS)—which has been gathering data every few years (often, quinquennially) on a topic like this—collects information on wages of workers who are engaged as regular employees and casual workers among others, on a range of occupations, industrial categories, locations and formal/ informal sectors, and the data collection process is spread over a full year.

The NSS has recently begun conducting labour force surveys, though as of now they are not an adequate substitute for the periodic surveys mentioned above. Next is the Ministry of Labour (MOL), which collects data on a monthly basis from rural farm and non-farm workers in 600 districts, known as Wage Rates in Rural India (WRI). The MOL also collects data on wages of non-farm workers in industries, mines and plantations in the organised sector by canvassing questionnaires with

registered enterprises, under different legal provisions. The Ministry of Agriculture collects data on agricultural wages, on a format somewhat similar to the MOL's WRI mentioned above; and is known as Agricultural Wages in India (AWI). The Central Statistical Organisation conducts Annual Survey of Industries (ASI), under which it collects comprehensive data from factories that fall under [provision 2(m) of] the Factories Act 1948, wherein wage data are also collected.

There is a lot of debate on the efficacy of each dataset. However, a statistical exercise to match one dataset with the other is yet awaited.

4 THIS ISSUE

This issue of the IJLE places emphasis on constructing and interpreting wage series over time and also compares data on wages across cross sections; seeks to identify the drivers of change in wages; and determine the impact of migration on wages. This volume contains nine research articles and a short research note, two of which are from countries other than India, addressing issues on wages.

4.1 Constructing wage series

The lead paper in this issue is by Himanshu, which analyses wage trends and patterns as seen through the quinquennial rounds of the NSS since the early 1990s until 2011-12, and then delves into examining the wage trends as seen from the WRI. He concludes that there has been some convergence in wages across skills, category of work, and gender, but finds it less clear as to what is the real driver of change and whether it is possible to sustain an increase in wages. A number of factors like government intervention and expansion in non-farm sectors (especially construction) among others have been identified to influence the upward movement in the wages. AV Jose's paper traces the movement of wages of field labour in agriculture in 18 Indian states during 2005-06 to 2015-16, based on data from the AWI dataset. He finds the state-wise variations in wages to be stable over the years, suggesting a continued presence of differentials in productivity and cost of living to influence the wages across the states. One question that he raises is, why the more urbanised and industrially advancing states pay inordinately low wages to their unskilled workers in rural areas. S. Acharya constructs wage series: of agricultural workers for 1973 to 2015; and of factory, plantation and mines sectors for 2000-2015. His main aim is to reflect upon the rising inequality in the distribution of gains in the economy: that unskilled/manual work fetches increasingly little compared to other work.

4.2 Examining wage differentials

Sandhya Iyer examines the composition of employers by type—corporate versus individual proprietorship—and finds that the wage paid by each type of employer group is different: individual proprietors pay less compared to the corporates. She concludes that ownerships patterns could be drivers of inequality in the

remunerations structure. Smrutirekha Singhari and S. Madheswaran look at wage differentials through gender, caste and religious groups in formal and informal sectors in India. Using NSS data, the authors find that gender wage differentials are more in the informal sector than in the formal sector, while caste-based wage differentials are high both in formal and informal sectors. They also find that the average daily wages paid to women and the STs in informal sector are lower than the National Floor Level Minimum Wage rate.

RP Mamgain and S Tiwari disaggregate data from different rounds of the NSS and compare figures on regular employment and wages among workers belonging to different social categories: The Scheduled Caste, Scheduled Tribe, Muslims, etc. They find both, earnings and responses of earnings to education to be different among workers belonging to different social categories. They further find a great deal of variation in wages, benefits and regularity conditions *within* the work category 'regular workers'. M. Imran Khan, basing his analysis on data from the NSS 64th Round, finds that migrants earn higher daily wages than the non-migrant workers; urban migrants earn higher than rural migrants; and part of the wage gap between migrants and non-migrants could be due to factors other than the difference in human capital. Finally, Hansa Jain, basing her analysis on the ASI database, finds that increased deployment of casual labour is amongst the reasons for slow growth in wage incomes and rise in inequality of incomes among workers.

4.3 Minimum wage implementation

T. Aderemi examines the link between minimum wage and poverty status in Nigeria, using household survey data for 2004 and 2009. He finds that, although the minimum wage is targeted at the poor working groups, the link between wage and poverty is not strong, as the minimum wage policy in Nigeria has only a minimal poverty-reducing effect. Plausible explanations for this are the poor targeting, and the rapidly declining value of the nominal minimum wages overtime.

Additionally, there is a short research note on examining the impact of trade on employment and wages by A. Sepehrivand.

4.4 The way forward

There are multitudes of issues that could be discussed within the purview of wages and employment. For example, the interfaces of employment, earnings and health and/or education and their implications on the current and coming generations; or issues relating to wages, wage bargains and trade unionism, are of utmost importance. Next, in the wider context, there are pressing concerns about the sustainability of the development process in the face of rising population, which is at an all-time high and is exerting a downward pressure on wages; and automation through the electronic/ computerisation route, which is rapidly displacing jobs at least at the lower-end. Each of these to an extent is also responsible for the rising inequality and political intolerance. Also, in the wider contexture issues relating to employment and wages that have resulted in the world becoming protectionist after 2-3 decades of relative economic openness. However, it would require another

forum or a special volume of the journal to address these and similar issues in greater length.

Some, though not all, of the papers in this volume are revised versions of presentations made at the 58th Annual Meet of the Indian Society of Labour Economics, held in December 2016. It is believed that these papers, despite them not covering the full span of concerns related to wages, would be to an extent useful for researchers and policymakers alike.