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## UNIT 13: WAGES IN INDIA

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### Structure

- 13.1 Section 1: Short title and extent Minimum Wages Act, 1948
- 13.2. Section 2: Interpretation.
- 13.3. Section 3: Fixing of Minimum rates of Wages
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- 13.6. Section 7: Advisory Board.
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- 13.12. Section 13: Fixing Hours for a normal Working day, etc.
- 13.13. Section 14: Overtime.
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- 13.15. Section 16: Wages for two or more classes of Work.
- 13.16. Section 17: Minimum Time rate Wages for piece Work.
- 13.17. Fair Wages
- 13.18. Living Wage
- 13.19. Summary
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### LEARNING OBJECTIVES

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After completion of this lesson the student will be able to understand:

- ✓ To understand the Minimum Wages.
- ✓ To discuss the procedure for fixing and revising minimum wages.
- ✓ To discuss the living wage.

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### 13.1 SECTION 1: SHORT TITLE AND EXTENT MINIMUM WAGES ACT, 1948

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- (1) This Act may be called the Minimum Wages Act, 1948
- (2) It extends to the whole of India.

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### 13.2 SECTION 2: INTERPRETATION

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In this Act, unless there is anything repugnant in the subject or context,--

- (a) "Adolescent" means a person who has completed his fourteenth year of age but has not completed his eighteenth year;
- (aa) "Adult" means a person who has completed his eighteenth year of age;]
- (b) "Appropriate Government" means,--
- (i) in relation to any scheduled employment carried on by or under the authority of the Central Government or a railway administration], or in relation to a mine, oilfield or major port, or any corporation established by <sup>3</sup>[a Central Act], the Central Government, and
- (ii) In relation to any other scheduled employment, the State Government;
- (bb) "Child" means a person who has not completed his fourteenth year of age;
- (c) "*competent authority*" means the authority appointed by the appropriate Government by notification in its Official Gazette to ascertain from time to time the cost of living index number applicable to the employees employed in the scheduled employments specified in such notification;
- (d) "*cost of living index number*", in relation to employees in any scheduled employment in respect of which minimum rates of wages have been fixed, means the index number ascertained and declared by the competent authority by notification in the Official Gazette to be the cost of living index number applicable to employees in such employment;
- (e) "*employer*" means any person who employs, whether directly or through another person, or whether on behalf of himself or any other person, one or more employees in any scheduled employment in respect of which minimum rates of wages have been fixed under this Act, and includes, except in sub-section (3) of section 26,--

(i) in a factory where there is carried on any scheduled employment in respect of which minimum rates of wages have been fixed under this Act, any person named under clause (f) of sub-section (1) of section 7 of the Factories Act, 1948 (63 of 1948), as manager of the factory;

(ii) in any scheduled employment under the control of any Government in India in respect of which minimum rates of wages have been fixed under this Act, the person or authority appointed by such Government for the supervision and control of employees or where no person or authority is so appointed, the head of the department;

(iii) in any scheduled employment under any local authority in respect of which minimum rates of wages have been fixed under this Act, the person appointed by such authority for the supervision and control of employees or where no person is so appointed, the chief executive officer of the local authority;

(iv) in any other case where there is carried on any scheduled employment in respect of which minimum rates of wages have been fixed under this Act, any person responsible to the owner for the supervision and control of the employees or for the payment of wages;

(f) "*Prescribed*" means prescribed by rules made under this Act;

(g) "*Scheduled employment*" means an employment specified in the Schedule, or any process or branch of work forming part of such employment;

(h) "*wages*" means all remuneration, capable of being expressed in terms of money, which would, if the terms of the contract of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment, and includes house rent allowance, but does not include--

(i) The value of--

(a) Any house-accommodation, supply of light, water, medical attendance, or

(b) Any other amenity or any service excluded by general or special order of the appropriate Government;

(ii) Any contribution paid by the employer to any Pension Fund or Provident Fund or under any scheme of social insurance;

- (iii) Any travelling allowance or the value of any travelling concession;
- (iv) Any sum paid to the person employed to defray special expenses entailed on him by the nature of his employment; or
- (v) Any gratuity payable on discharge;
- (i) "*employee*" means any person who is employed for hire or reward to do any work, skilled or unskilled, manual or clerical, in a scheduled employment in respect of which minimum rates of wages have been fixed; and includes an out-worker to whom any articles or materials are given out by another person to be made up, cleaned, washed, altered, ornamented, finished, repaired, adapted or otherwise processed for sale for the purposes of the trade or business of that other person where the process is to be carried out either in the home of the out-worker or in some other premises not being premises under the control and management of that other person; and also includes an employee declared to be an employee by the appropriate Government; but does not include any member of the Armed Forces of the Union.

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### **13.3 SECTION 3: FIXING OF MINIMUM RATES OF WAGES**

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1) The appropriate Government shall, in the manner hereinafter provided,--

(a) Fix the minimum rates of wages payable to employees employed in an employment specified in Part I or Part II of the Schedule and in an employment added to either Part by notification under section 27:

Provided that the appropriate Government may, in respect of employees employed in an employment specified in Part II of the Schedule, instead of fixing minimum rates of wages under this clause for the whole State, fix such rates for a part of the State or for any specified class or classes of such employment in the whole State or part thereof;

(b) Review at such intervals as it may think fit, such intervals not exceeding five years, the minimum rates of wages so fixed and revise the minimum rates, if necessary:

Provided that where for any reason the appropriate Government has not reviewed the minimum rates of wages fixed by it in respect of any scheduled employment within any interval of five years, nothing contained in this clause shall be deemed to prevent it from reviewing the minimum rates after the expiry of the said period of five years

and revising them, if necessary, and until they are so revised the minimum rates in force immediately before the expiry of the said period of five years shall continue in force.

(1A) Notwithstanding anything contained in sub-section (1), the appropriate Government may refrain from fixing minimum rates of wages in respect of any scheduled employment in which there are in the whole State less than one thousand employees engaged in such employment, but if at any time, the appropriate Government comes to a finding after such inquiry as it may make or cause to be made in this behalf that the number of employees in any scheduled employment in respect of which it has refrained from fixing minimum rates of wages has risen to one thousand or more, it shall fix minimum rates of wages payable to employees in such employment as soon as may be after such finding.

(2) The appropriate Government may fix,--

(a) A minimum rate of wages for time work (hereinafter referred to as "a minimum time rate");

(b) a minimum rate of wages for piece work (hereinafter referred to as "a minimum piece rate");

(c) a minimum rate of remuneration to apply in the case of employees employed on piece work for the purpose of securing to such employees a minimum rate of wages on a time work basis (hereinafter referred to as "a guaranteed time rate");

(d) A minimum rate (whether a time rate or a piece rate) to apply in substitution for the minimum rate which would otherwise be applicable, in respect of overtime work done by employees (hereinafter referred to as "overtime rate").

(2A) Where in respect of an industrial dispute relating to the rates of wages payable to any of the employees employed in a scheduled employment, any proceeding is pending before a Tribunal or National Tribunal under the Industrial Disputes Act, 1947 (14 of 1947) or before any like authority under any other law for the time being in force, or an award made by any Tribunal, National Tribunal or such authority is in operation, and a notification fixing or revising the minimum rates of wages in respect of the scheduled employment is issued during the pendency of such proceeding or the operation of the award, then, notwithstanding anything contained in this Act, the

minimum rates of wages so fixed or so revised shall not apply to those employees during the period in which the proceeding is pending and the award made therein is in operation or, as the case may be, where the notification is issued during the period of operation of an award, during that period; and where such proceeding or award relates to the rates of wages payable to all the employees in the scheduled employment, no minimum rates of wages shall be fixed or revised in respect of that employment during the said period.

***(3) In fixing or revising minimum rates of wages under this section,--***

***(a) Different minimum rates of wages may be fixed for--***

- (i) Different scheduled employments;
- (ii) Different classes of work in the same scheduled employment;
- (iii) Adults, adolescents, children and apprentices;
- (iv) Different localities;

***(b) Minimum rates of wages may be fixed by any one or more of the following wage-periods, namely:--***

- (i) By the hour,
- (ii) By the day,
- (iii) By the month, or
- (iv) By such other larger wage-period as may be prescribed;

And where such rates are fixed by the day or by the month, the manner of calculating wages for a month or for a day, as the case may be, may be indicated:

Provided that where any wage-periods have been fixed under section 4 of the Payment of Wages Act, 1936 (4 of 1936), minimum wages shall be fixed in accordance therewith.

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#### **13.4 SECTION 4: MINIMUM RATE OF WAGES**

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(1) Any minimum rate of wages fixed or revised by the appropriate Government in respect of scheduled employments under section 3 may consist of--

- (i) a basic rate of wages and a special allowance at a rate to be adjusted, at such intervals and in such manner as the appropriate Government may direct, to accord as nearly as practicable with the variation in the cost of living index number applicable to such workers (hereinafter referred to as the "cost of living allowance"); or

(ii) a basic rate of wages with or without the cost of living allowance, and the cash value of the concessions in respect of supplies of essential commodities at concession rates, where so authorised; or

(iii) An all-inclusive rate allowing for the basic rate, the cost of living allowance and the cash value of the concessions, if any.

(2) The cost of living allowance and the cash value of the concessions in respect of supplies of essential commodities at concession rates shall be computed by the competent authority at such intervals and in accordance with such directions as may be specified or given by the appropriate Government.

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### **13.5 SECTION 5: PROCEDURE FOR FIXING AND REVISING MINIMUM**

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Procedure for fixing and revising minimum wages.

(1) In fixing minimum rates of wages in respect of any scheduled employment for the first time under this Act or in revising minimum rates of wages so fixed, the appropriate Government shall either--

(a) appoint as many committees and sub-committees as it considers necessary to hold enquiries and advise it in respect of such fixation or revision, as the case may be, or

(b) By notification in the Official Gazette, publish its proposals for the information of persons likely to be affected thereby and specify a date, not less than two months from the date of the notification, on which the proposals will be taken into consideration.

(2) After considering the advice of the committee or committees appointed under clause (a) of sub-section (1), or as the case may be, all representations received by it before the date specified in the notification under clause (b) of that sub-section, the appropriate Government shall, by notification in the Official Gazette, fix, or, as the case may be, revise the minimum rates of wages in respect of each scheduled employment, and unless such notification otherwise provides, it shall come into force on the expiry of three months from the date of its issue:

Provided that where the appropriate Government proposes to revise the minimum rates of wages by the mode specified in clause (b) of sub-section (1), the appropriate Government shall consult the Advisory Board also.

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### **13.6 SECTION 7: ADVISORY BOARD**

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For the purpose of co-ordinating the work of <sup>18</sup>[committees and sub-committees appointed under section 5 and advising the appropriate Government generally in the matter of fixing and revising minimum rates of wages, the appropriate Government shall appoint an Advisory Board.

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### **13.7 SECTION 8: CENTRAL ADVISORY BOARD**

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(1) For the purpose of advising the Central and State Governments in the matters of the fixation and revision of minimum rates of wages and other matters under this Act and for co-ordinating the work of the Advisory Boards, the Central Government shall appoint a Central Advisory Board.

(2) The Central Advisory Board shall consist of persons to be nominated by the Central Government representing employers and employees in the scheduled employments, who shall be equal in number, and independent persons not exceeding one-third of its total number of members; one of such independent persons shall be appointed the Chairman of the Board by the Central Government.

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### **13.8 SECTION 9: COMPOSITION OF COMMITTEES, ETC**

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Each of the committees, sub-committees and the Advisory Board shall consist of persons to be nominated by the appropriate Government representing employers and employees in the scheduled employments, who shall be equal in number, and independent persons not exceeding one-third of its total number of members; one of such independent persons shall be appointed the Chairman by the appropriate Government.

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### **13.9 SECTION 10: CORRECTION OF ERRORS**

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Correction of errors.--(1) The appropriate Government may, at any time, by notification in the Official Gazette, correct clerical or arithmetical mistakes in any order fixing or revising minimum rates of wages under this Act, or errors arising therein from any accidental slip or omission.

(2) Every such notification shall, as soon as may be after it is issued, be placed before the Advisory Board for information.



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### **13.10 SECTION 11: WAGES IN KIND**

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- (1) Minimum wages payable under this Act shall be paid in cash.
- (2) Where it has been the custom to pay wages wholly or partly in kind, the appropriate Government being of the opinion that it is necessary in the circumstances of the case may, by notification in the Official Gazette, authorise the payment of minimum wages either wholly or partly in kind.
- (3) If the appropriate Government is of the opinion that provision should be made for the supply of essential commodities at concession rates, the appropriate Government may, by notification in the Official Gazette, authorise the provision of such supplies at concession rates.
- (4) The cash value of wages in kind and of concessions in respect of supplies of essential commodities at concession rates authorised under subsections (2) and (3) shall be estimated in the prescribed manner.

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### **13.11 SECTION 12: PAYMENT OF MINIMUM RATES OF WAGES**

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- (1) Where in respect of any scheduled employment a notification under section 5 is in force, the employer shall pay to every employee engaged in a scheduled employment under him wages at a rate not less than the minimum rate of wages fixed by such notification for that class of employees in that employment without any deductions except as may be authorised within such time and subject to such conditions as may be prescribed.
- (2) Nothing contained in this section shall affect the provisions of the Payment of Wages Act, 1936 (4 of 1936).

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### **13.12 SECTION 13: FIXING HOURS FOR A NORMAL WORKING DAY, ETC**

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*(1) In regard to any scheduled employment minimum rates of wages in respect of which have been fixed under this Act, the appropriate Government may--*

- (a) Fix the number of hours of work which shall constitute a normal working day, inclusive of one or more specified intervals;
- (b) Provide for a day of rest in every period of seven days which shall be allowed to all employees or to any specified class of employees and for the payment of remuneration in respect of such days of rest;

(c) Provide for payment for work on a day of rest at a rate not less than the overtime rate.

***(2) The provisions of sub-section (1) shall, in relation to the following classes of employees, apply only to such extent and subject to such conditions as may be prescribed:--***

(a) Employees engaged on urgent work, or in any emergency which could not have been foreseen or prevented;

(b) employees engaged in work in the nature of preparatory or complementary work which must necessarily be carried on outside the limits laid down for the general working in the employment concerned;

(c) Employees whose employment is essentially intermittent;

(d) Employees engaged in any work which for technical reasons has to be completed before the duty is over;

(e) Employees engaged in a work which could not be carried on except at times dependent on the irregular action of natural forces.

***(3) For the purposes of clause (c) of sub-section (2), employment of an employee is essentially intermittent when it is declared to be so by the appropriate Government on the ground that the daily hours of duty of the employee, or if there be no daily hours of duty as such for the employee, the hours of duty, normally include periods of inaction during which the employee may be on duty but is not called upon to display either physical activity or sustained attention.***

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### **13.13 SECTION 14: OVERTIME**

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(1) Where an employee, whose minimum rate of wages is fixed under this Act by the hour, by the day or by such a longer wage-period as may be prescribed, works on any day in excess of the number of hours constituting a normal working day, the employer shall pay him for every hour or for part of an hour so worked in excess at the overtime rate fixed under this Act or under any law of the appropriate Government for the time being in force, whichever is higher.

(2) Nothing in this Act shall prejudice the operation of the provisions of section 59 of the Factories Act, 1948 (63 of 1948) in any case where those provisions are applicable.

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### **13.14 SECTION 15: WAGES OF WORKER WHO WORKS FOR LESS THAN NORMAL WORKING DAY**

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If an employee whose minimum rate of wages has been fixed under this Act by the day works on any day on which he was employed for a period less than the requisite number of hours constituting a normal working day, he shall, save as otherwise hereinafter provided, be entitled to receive wages in respect of work done by him on that day as if he had worked for a full normal working day:

***Provided, however, that he shall not be entitled to receive wages for a full normal working day--***

- (i) In any case where his failure to work is caused by his unwillingness to work and not by the omission of the employer to provide him with work, and
- (ii) In such other cases and circumstances as may be prescribed.

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### **13.15 SECTION 16: WAGES FOR TWO OR MORE CLASSES OF WORK**

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Where an employee does two or more classes of work to each of which a different minimum rate of wages is applicable, the employer shall pay to such employee in respect of the time respectively occupied in each such class of work, wages at not less than the minimum rate in force in respect of each such class.

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### **13.16 SECTION 17: MINIMUM TIME RATE WAGES FOR PIECE WORK**

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Where an employee is employed on piece work for which minimum time rate and not a minimum piece rate has been fixed under this Act, the employer shall pay to such employee wages at not less than the minimum time rate.

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### **13.17 FAIR WAGES**

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Fair wage is another important concept used in a wage policy. There are no two opinions for the payment of wages which are considered as “*fair*”. But it is very difficult to define and determine what a fair wage is. The encyclopaedia of Social Science describes a fair wage as “*one equal to that received by workers performing work of equal skill. Difficulty or unpleasantness*”.

*According to Pigou*, there are two degrees of fairness for deciding fair wage. In a narrow sense. Trade and in the neighbourhood for similar work. In a broader

sense, a wage is fair if it is equal to the predominant rate for similar work throughout the country and in the generality of trades.

Thus, a fair wage is one which can be fixed only by comparison with an accepted standard of wages. Such a standard can be determined in relation to those industries where. Such a standard can be determined in relation to those industries where labour is well organised and is able to bargain well with employers.

*According to the minimum Wages Fixing Machinery of the I.L.O.*, regard should be primarily given to the rates of wages being paid for similar work in trades where the workers are adequately organised and have concluded effective, collective agreements, or if no such standard of reference is available in the circumstances, to the general level of wages prevailing in the country or in the particular locality.

***Wages tend to be unfair in the following circumstances:***

- ✚ Where the supply of labour in relation to demand is abundant and it is immobile.
- ✚ Where the workers are ignorant of the rates prevailing in other trades or areas or where they are not so well organised.
- ✚ Where the employers in a particular locality have entered into an agreement to the effect that they should not compete among themselves for labour.

Therefore the removal of these causes is essential, if fair wages are to be established.

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### **13.18 LIVING WAGE**

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Living wage is a step higher than fair wage. It may be defined as the wage that would enable the worker to provide a measure of comfort for himself and his family, in addition to the essentials of life.

The concept of living wage was first defined by *Justice Higgins* of the Australian Commonwealth Court of Conciliation in 1907. He defined the living wage as *“one appropriate for the normal needs of the average employee regarded as human being living in a civilized community. He further pointed out that living wage should be sufficient not merely to provide bare necessities of life but also a condition of frugal comfort estimated by current human standards.”*

He further held that, *“treating marriage as the usual fate of adult man, a wage, which does not allow of the matrimonial condition and the maintenance of about five persons in a home would not be treated as a living wage”*.

The committee on Fair Wages laid down that the living wage should enable the male earner to provide for himself and his family not merely the basic essentials of food. Clothing and shelter but a measure of frugal comfort. The items included in the frugal comfort are such as provision of education to the children. Protection against ill-health, requirements of essential social needs and a measure of insurance against the more important misfortunes like the old age.

*Thus, from the above discussion it is clear that a living wage is a wage –*

- ✚ Which should provide absolute essential needs like food, clothing and shelter,
- ✚ Which should be sufficient for the worker and his family to live in a frugal comfort;
- ✚ Which should provide an insurance against future risks, and (4) which should be according to the special skill of the worker, if any. Now-a-days, the concept of living wage has been widely accepted. If there is any difference of opinion, it is regarding the details of its calculation and not regarding the concept.

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### 13.19 SUMMARY

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Employer" means any person who employs, whether directly or through another person, or whether on behalf of himself or any other person, one or more employees in any scheduled employment in respect of which minimum rates of wages have been fixed under this Act, and includes, except in sub-section (3) of section 26,-- (i) in a factory where there is carried on any scheduled employment in respect of which minimum rates of wages have been fixed under this Act, any person named under clause (f) of sub-section (1) of section 7 of the Factories Act, 1948 (63 of 1948), as manager of the factory;

Further, “wages" means all remuneration, capable of being expressed in terms of money, which would, if the terms of the contract of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment, and includes house rent allowance, but does not include: (i) The value of-- (a) Any house-accommodation, supply of light, water,

medical attendance, or (b) Any other amenity or any service excluded by general or special order of the appropriate Government; (ii) Any contribution paid by the employer to any Pension Fund or Provident Fund or under any scheme of social insurance; (iii) Any travelling allowance or the value of any travelling concession; (iv) Any sum paid to the person employed to defray special expenses entailed on him by the nature of his employment; or (v) Any gratuity payable on discharge;

"employee" means any person who is employed for hire or reward to do any work, skilled or unskilled, manual or clerical, in a scheduled employment in respect of which minimum rates of wages have been fixed; and includes an out-worker to whom any articles or materials are given out by another person to be made up, cleaned, washed, altered, ornamented, finished, repaired, adapted or otherwise processed for sale for the purposes of the trade or business of that other person where the process is to be carried out either in the home of the out-worker or in some other premises not being premises under the control and management of that other person; and also includes an employee declared to be an employee by the appropriate Government; but does not include any member of the Armed Forces of the Union.

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### **13.20 SELF-ASSESSMENT QUESTIONS**

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1. Explain what is Wages system?
2. What are the various scopes as regards to Wages?

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### **13.21 FURTHER REFERENCES**

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- DeSilva, S. R. Issues, Problems and Trends in Performance and Skills Based Pay Systems (ILO, 1994).
- Flannery, Thomas P., Hofrichter, David A. and Platten, E. Pane. People, Performance and Pay (The Free Press, N. York, 1996).

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## UNIT 14: METHODS TO REGULATE WAGES IN INDIA

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### Structure

- 14.1. Introduction
- 14.2. Prescribing Minimum Rates of Wages
- 14.3 Preventing Discrimination in remuneration on the ground of Sex
- 14.4 regulating payment of wages
- 14.5. Compulsory Conciliation and Arbitration of Wage Disputes
- 14.6. Setting up Wage Boards
- 14.7 Pay Commissions
- 14.8. Summary
- 14.9. Self-Assessment Questions
- 14.10. Further References

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### LEARNING OBJECTIVES

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After completion of this lesson the student will be able to understand:

- To understand the methods to regulate wages in India.
- To discuss the major problems identified by NCL
- To evaluate the Permissible deductions?

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### 14.1 INTRODUCTION

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*The various methods which the government has adopted to regulate wages in India are the following:*

1. Prescribing Minimum Rates of Wages
2. Preventing Discrimination in Remuneration on the Ground of Sex
3. Regulating Payment of Wages
4. Compulsory Conciliation and Arbitration of Wage Disputes
5. Setting up Wage Boards
6. Pay Commissions.

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## 14.2 PRESCRIBING MINIMUM RATES OF WAGES

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The Minimum Wages Act, 1948, is a direct State measure for the regulation of wages in the country. The Act empowers the Central and State Governments to fix minimum rates of wages in respect of certain sweated and unorganised employments specified in Part I or Part II of the schedule appended to it.

Over the years, minimum wages have been fixed for an increasing number of these employments both at the Central and State Government levels. It is open to the appropriate government to refrain from fixing minimum rates of wages in any scheduled employment wherein the whole State there are less than one thousand employees engaged in such employment.

Minimum wages payable under this Act are to be paid in cash only. But where it has been the custom to pay wages wholly or partly in kind the appropriate Government may, by notification in the Gazette, authorise the payment of minimum wages either wholly or partly in kind. It may also provide for the supply of essential commodities at concessional rates. The Act also provides for the review and revision of minimum wages at intervals not exceeding 5 years.

Procedurally, rates can be fixed in one of the two ways. The appropriate government can fix such rates either on the recommendations of Advisory Committees appointed under Sec. 5(1) (a) of the Act, or by directly publishing the proposed minimum rates of wages in the Gazette under Sec. 5(1) (b) of the Act. Both the procedures are currently being used.

The operation of the Act suffers from several weaknesses. First of all, the provisions of the Act are not properly implemented. A study of the working of the Act conduct by the Government of India in 1965 through a one-man committee, known as the Vidyasagar Committee, concluded that the desired objective of the Act could not be fully achieved due to the inadequate and improper organisation of the administrative machinery.



Inadequate inspectorate and administrative machinery make the enforcement of the Act extremely difficult. Second, criticism of the Act relates to the review of minimum wages. Even though the Act provides for at least five-yearly review, the minimum wages are actually reviewed only at much longer intervals.

Based on the evidence submitted to it, the National Commission on Labour (1966) concluded, we have come across several instances where the rates have not been revised even once after they were initially fixed. In view of the persistent inflationary trend in the Indian economy, the recommendation of the NCL that the minimum wages should be revised at least every three years merits a serious consideration.

Central and State Governments have not yet acted on this recommendation. Finally, the Act does not define minimum wages in precise terms nor does it lay down any norms for their determination. The question is whether it should. Trade union organisations have argued that the ‘minimum wage’ should be spelled out in precise terms to avoid differences in interpretation by the wage-fixing authorities.

But, India is a large country with substantial regional variations in industrial development, and wide differences in prices of essential goods between regions. The minimum wages will necessarily vary from industry to industry and region to region and even within one region and industry from time to time. To prescribe any rigid across-the-board money figure of the minimum wage would, therefore, be unwise and undesirable.

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### **14.3 PREVENTING DISCRIMINATION IN REMUNERATION ON THE GROUND OF SEX**

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Discrimination in remuneration on the ground of sex is prevented by the Equal Remuneration Act, 1976. Under this Act it is the duty of the employer to pay equal remuneration to men and women workers for the same work or work of a similar nature.

Further, no discrimination is to be made against women in recruitment and in conditions of service subsequent to recruitment such as promotion, training etc. unless it is so provided for under any law for the time being in force.

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## 14.4 REGULATING PAYMENT OF WAGES

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Payment of wages is regulated by the Payment of Wages Act, 1936. The object of this Act is to provide for regular payment of wages without any unauthorised deductions to persons who are employed in any industrial establishment or factory or by a railway contractor and whose monthly wages are less than Rs. 1,600. Following are the important provisions of this Act.

### **(I) The Act lays down the time of payment of wages as under:**

- ✚ In case of railway, factory, or industrial establishment where the number of persons employed is more than 1,600 wages must be paid before the expiry of the tenth day after the last day of the wage period in respect of which the wages are payable.
- ✚ In case of railway, factory or industrial establishment where the number of persons employed is less than 1,600 wages must be paid before the expiry of the seventh day after the last day of the wage period in respect of which the wages are payable.
- ✚ In case of termination of employment of any person, the wage earned by him must be paid before the expiry of the second working day from the day on which his employment is terminated.
- ✚ In case of persons employed on a dock, wharf, or jetty or a mine, the balance of wages found due on completion of the final tonnage account of the ship or wagons loaded or unloaded, as the case may be, must be paid before the expiry of the seventh day from the day of such completion.

**(II) The Act says that the wages shall be paid in cash but the employer may, after obtaining the written consent of the concerned employee, pay him wages either by cheque or by crediting the same in his bank account.**

**(III) The Act gives an exhaustive list of permissible deductions which can be made from the wages of a worker. The employer cannot make any deductions other than those mentioned in this list.**

**These permissible deductions are as follows:**

- (i) Fines;
- (ii) Deductions for absence from duty;
- (iii) Deductions for damage to or loss of goods entrusted to the worker for custody or for loss of money for which he is required to account where such damage or loss is directly attributable to his neglect or default;
- (iv) Deductions for recovery of losses sustained by a railway administration on account of (a) acceptance by the employed person of counterfeit or base coins or mutilated or forged currency notes, (b) failure of the employee to invoice, bill, collect or account for appropriate changes due to that administrator, (c) any rebates or refunds incorrectly granted by the employed person where such loss is directly attributable to his neglect or default;
- (v) Deductions for payment of insurance premium on Fidelity Guarantee Bonds;
- (vi) Deductions made with the written authorisation of the employed person for contributions to the Prime Minister's National Relief Fund or to such other fund as the Central Government may, by notification in the Official Gazette, specify;
- (vii) Deductions made under orders of courts of any other competent authority;
- (viii) Deductions made, with the written authorisation of the employed person, for payment of the fees payable by him for the membership of any trade union, registered under the Trade Unions Act, 1926;
- (ix) Deductions for contributions to and repayment of advance from any provident fund;
- (x) Deductions for payment to co-operative societies or to a scheme of insurance maintained by the Indian Post Office;

- (xi) Deductions made with the written authorisation of the person employed for payment of any premium on his life insurance policy, or for the purchase of securities of the Government of India or of any State Government;
- (xii) Deductions for such amenities and services supplied by the employer as the State Government may authorize;
- (xiii) Deductions for house accommodation supplied by the employer;
- (xiv) Deductions for recovery of advances or overpayment of wages;
- (xv) Deductions for recovery of loans made from any fund constituted for the welfare of labour;
- (xvi) Deductions for recovery of loans granted for house building or other purposes approved by the State Government;
- (xvii) Deductions for income-tax payable by the employed person;
- (xviii) Deductions made with the written authorisation of the employed person, for the payment of his contribution to any fund constituted by the employer or a trade union registered under the Trade Unions Act, 1926, for the welfare of the employed persons or the members of their families, or both, and approved by the State Government, during the continuance of such approval.

**(IV) The total amount of deductions in any wage period from the wages of any employed person shall not exceed:**

- (i) In cases where such deductions are wholly or partly made for payment to co-operative societies, 75% of such wages; and
- (ii) In any other case, 50% of such wages.

**(V) Any loss of wages resulting from the imposition upon an employee, for good and sufficient cause, any of the following penalties shall not be deemed to be a deduction from wages, if imposition of any such penalty is in conformity with Rules/Standing Orders applicable to the concerned employee.**

(i) Withholding of increment or promotion (including stoppage of increment at efficiency bar);

(ii) Suspension, and

(iii) Reduction to a lower post or time scale or to a lower stage in a time scale.

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## 14.5 COMPULSORY CONCILIATION AND ARBITRATION OF WAGE DISPUTES

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The Industrial Disputes Act, 1947 provides for the constitution of various authorities for the purpose of prevention and settlement of industrial disputes connected with the terms of employment or with the conditions of labour of any person. The Act makes conciliation compulsory in all disputes in all public utility services and optional in other industrial establishments. Conciliation or mediation is a procedure which endeavours to settle a controversy by assisting parties to reach a voluntary agreement and the ultimate decision is made by the parties themselves.

Article 136 of the Constitution gives the Supreme Court power to entertain appeals from the decisions of any court or tribunal in India. This has resulted in the creation of a vast volume of case law on wage fixation binding on all tribunals and subordinate courts. The Act empowers the appropriate Government to constitute one or more Industrial Tribunals or national Tribunals and to refer to these Tribunals a wage dispute for adjudication.

A National Tribunal can be constituted only for the adjudication of industrial disputes involving questions of national importance or industrial disputes affecting industrial establishments situated in more than one State. The reference to a National Tribunal can be made only by the Central Government.

### **We give below a brief summary of some important rulings on the subject:**

- ✚ While the financial position of the employer and the State of the national economy have their say in the matter of wage fixation, the requirements of a

workman living in a civilized and progressive society also come to be recognised (Standard Vacuum Refining Co. of India Ltd. vs. Its Workmen, 1961).

- ✚ While fair wages should be given to labour, the inroads made on the profits should not be as unreasonable as to drive capital away from fruitful employment or to affect prejudicial capital formation itself.
- ✚ The capacity of the industry to pay is one of the essential ingredients in the fixation of wages except in cases of bare subsistence or minimum wage where the employer is bound to pay the same irrespective of such capacity (Express Newspapers Pvt. Ltd. vs. Union of India).
- ✚ A fair wage is a wages above the minimum and limited by the capacity of industry to pay, the actual level being determined by- (i) The productivity of labour, (ii) The prevailing rates of wages in the same or similar occupations in the same or neighbouring localities, (iii) The level of the national income and its distribution, and (iv) The place of the industry in the economy of the country.
- ✚ Comparisons should be both intra-industry, i.e. among units in the same industry or line of business and inter-industry, i.e., among units in other industry or line of business. When units in the same industry are of distinctly unequal size, profitability, standing, etc., they must be divided into appropriate classes, so that comparison is made as between “comparable” concerns, a small unit being compared only with other small units (French Motor Car Co. Ltd. vs. Their Workmen).

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## 14.6 SETTING UP WAGE BOARDS

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Prior to the advent of Wage Boards, the Tribunals set up under the Industrial Disputes Act played a significant role in the resolution of wage disputes. But it was soon realised that in the organised industries, the number of frequency of wage disputes could not be reduced unless the parties themselves had the ultimate say in reaching decisions. The desire for enabling the parties to resolve disputes on wages

themselves found its first positive expression in the Second Five-Year Plan which recommended the establishment of wage boards on an industry-wide basis.

In pursuance of the recommendations of the Second Plan which were further reiterated by the Third Plan, a large number of tripartite Wage Boards have come to be established in different industries during the past 20 years. It should be noted that there is no law in India providing for the establishment of these Boards.

These are appointed by the Government of India purely on an adhoc basis on the demand of trade unions and employers. A Wage Board consists of an impartial chairman, 2 other independent members and 2 or 3 representatives of workers and employers each.

***The board is required to take into account the following points in determining the wage structure of an industry:***

- (i) Need-based minimum wages,*
- (ii) Industry's capacity to pay,*
- (iii) Productivity of labour,*
- (iv) Prevailing rates of wages.*
- (v) Level of national income and its distribution,*
- (vi) Place of industry in the economy of the country,*
- (vii) Needs of industry in developing economy,*
- (viii) Requirement of social justice, and*
- (ix) Adjustment of wage differentials in such a manner as to provide incentives for skill formation.*

***The efforts of Wage Boards in fixing wage differentials have primarily remained limited to:***

- (a) Standardisation of occupational nomenclature, and
- (b) Classification of various occupations into different types and prescribing wage rates for each of the broader classes or occupations.

The wage boards, in general, have not found it possible to adopt job evaluation for the re-fixation of differentials or for removing anomalies from the existing wage structure.

**The relevant observations of the wage board for cement industry regarding the feasibility of adopting job evaluation are given below as instance:**

“Now in the cement industry, if differentials have to be fixed by job analysis and evaluation, it would have to be done factory-wise. There are wide variations in factories in the layout, capacity of mills, types of machinery installed, process of manufacture—dry or wet, etc. Moreover, the same designations do not have the same job content in all factories. Practical considerations do not call for such a detailed and minute analysis. If the board were to attempt to do this, it would take a very long time; a large number of experts would be needed to go round every factory in India to finish the work in any reasonable time. The board which has to make its recommendations about the wage structure in a reasonable time cannot do this. Even if such a scientific analysis were possible changes in the rating of jobs would have to be done gradually. For all these reasons, this board has not considered it expedient to embark on job analysis and evaluation for the re-fixation of differentials.”

Finding it impractical to determine wage structure on the basis of job evaluation, the Wage Boards have looked into other possible alternatives as justification for existing differentials.

Thus, the Cement Wage Board presumed existing differentials, “which were determined by custom and usage, local circumstances, experience in working over a number of years, awards and agreements” to present ‘a rough job evaluation and preferred to disturb them as little as possible.’

The recommendations of the Jute Wage Board were based primarily on what was established by the awards of Tribunals. The Iron and Steel Wage Boards also decided to base its recommendations on the existing differentials which are the product of hard collective bargaining in some of the plants and which have stood the test of time.



In consequent, there has been a heterogeneous growth of wages in different industries for same skills. But there are some notable exceptions. Thus for example, point rating method of job evaluation is used by aluminium manufacturers in India. A job is analysed into 11 factors (viz., experienced responsibility, intelligence, mechanical ability process knowledge, motor accuracy and dexterity, education, social physical effort, hazard and working high and maximum).

Similarly, factor comparison method is used by tobacco manufacturers and manufacturers of industrial chemicals. The former rank job under the following five factors are mental requirements, skill, physical requirements, responsibility and working conditions. The latter rank jobs under four factors only, i.e., mental requirements; Physical requirements acquire skills and knowledge (education, training, and experience) and working conditions.

In a study of 30 companies in India (of which 15 were American subsidiaries) carried out by Anant R. Negandhi and Y. Krishna Shetty in 1970 it was found that in 53% of the companies (60% of the American subsidiaries and 46% of the local firms) compensation and employee benefits are based on job evaluation and wage surveys, in 36% they are based on wage surveys only and in 11 % there is no identifiable basis.

**The Committee set up by the National Commission on Labour identifies three major problems from which the Wage Boards suffer:**

- (1) Majority of the recommendations of the wage boards are not unanimous;
- (2) Implementation of the recommendations of the wage boards has been difficult as they are non-statutory; and
- (3) The time taken by the wage boards to complete their task has been rather unduly long. It has been varied from 3 to 5-1/2 years.

**The National Commission on Labour (NCL) therefore recommended that:**

- (i) The wage boards should normally be required to submit their recommendations within one year of their appointment;
- (ii) The recommendations of a wage board should remain in force for a period of 5 years
- (iii) Unanimous recommendations of a wage board should be made statutorily binding; and
- (iv) A manual of procedure for Wage Boards should be prepared.

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## **14.7 PAY COMMISSIONS**

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A Pay Commission is an administrative system and mechanism of the Central Government that reviews and examines existing salary structure and recommends changes (in pay, allowances, benefits, bonuses and other facilities) for civil employees and military forces. Additionally, a Pay Commission reviews rules regarding bonuses after assessing performances and productivity of employees. The activity of the Pay Commission also includes examining existing pension schemes and other retirement benefits.

The Pay Commission makes a recommendation only after evaluating the economic condition and accessible sources of our country. This Commission primarily focuses on the Central Government employees. As already stated, around 7 Pay commissions have been set up since 1947. The latest, i.e., Seventh Pay Commission, was set up on 8th February 2014. The Central Government forms a Pay Commission after every 10 years to revise pay structure of Central Government employees. Wages of Central and State Government employees are determined through the mechanism of Pay Commissions.

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## **14.8 SUMMARY**

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The various methods which the government has adopted to regulate wages in India are the following: (1). Prescribing Minimum Rates of Wages; (2). Preventing Discrimination in Remuneration on the Ground of Sex; (3). Regulating Payment of

Wages; (4). Compulsory Conciliation and Arbitration of Wage Disputes; (5). Setting up Wage Boards; (6). Pay Commissions.

The Minimum Wages Act, 1948, is a direct State measure for the regulation of wages in the country. The Act empowers the Central and State Governments to fix minimum rates of wages in respect of certain sweated and unorganised employments specified in Part I or Part II of the schedule appended to it.

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### **14.9 SELF-ASSESSMENT QUESTIONS**

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1. Explain what is Regulating Payment of Wages?
2. What are the various ways Preventing Discrimination in Remuneration on the Ground of Sex?
3. Examine the Prescribing Minimum Rates of Wages.

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### **14.10 FURTHER REFERENCES**

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- DeSilva, S. R. Issues, Problems and Trends in Performance and Skills Based Pay Systems (ILO, 1994).
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## UNIT 15: WAGE DIFFERENTIALS & NATIONAL WAGE POLICY

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### Structure

- 15.1. Introduction
- 15.2. Classifications of Wage Differentials
- 15.3. Description of each Wage Differential
- 15.4. Factor Responsible for the Differences in Wages and Occupation
- 15.5 Wage policy: meaning
- 15.6 Objectives of National Wage Policy
- 15.7. National Wage Policy
- 15.8. Methods to Regulate Wages in India
- 15.9. Wage Board
- 15.10. Objectives of Wage Board
- 15.11 Pay Commission
- 15.12 Dearness Allowance (DA)
- 15.13. Summary
- 15.14. Self-Assessment Questions
- 15.15. Further References

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### LEARNING OBJECTIVES

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After completion of this lesson the student will be able to understand:

- To learn the meaning and definition of wage differential.
- To understand the concept of wage differential.
- To understand the reasons for wage differential.
- To evaluate the Wages Policy, Wage Board and Pay Commission.

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### 15.1 INTRODUCTION

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Wage differentials are a necessary concomitant of the wage system in modern industrial organization. They are directly related to the economic resources of a country, including manpower, growth of national; income the pace of economic development. The economic and social welfare activities depends on a large major on such wage differentials. *Wage differentials reflect differences in physical and mental*

*abilities of workers, in productivity and efficiency of management and in consumer preferences.*

. Wage differential is an element of location selection that is a wage scale reflecting the average schedule of workers' pay in an area that takes into account the performance of related tasks or services.

Wages differ in different employments or occupations, industries and localities, and between persons in the same employment or grade. One therefore comes across the terms as occupational wage differentials, inter-industry, inter-firm, inter-area or geo graphical differentials and personal differentials.

*Wage differentials bear a direct relationship to the diversity in occupation and industries that exist in the economic sphere of activity in a country.* A certain job requiring a certain skill is paid more or less than another job requiring a different skill either in the same or some other industry. There are a variety of contributory factors. There is a need to understand the reasons for these differences as in many cases there is a constant adjustment taking place in order to maintain the existing disparity, for instance, between the skilled and unskilled or semiskilled workers; between the officers and the supervisory or clerical staff and so on.

When there is a variation in workers' skills, i.e., highly skilled, skilled, semi-skilled and unskilled, their wage rates will differ. The variance is due to the complexity of the skill acquired, its scarcity, and the time taken in training to acquire it. The unskilled category which requires none of these is relatively less well paid.

There are certain jobs which involve physically heavy work, others which are strenuous but may not require very high degree of other skills, and yet again, there are certain jobs which require the workmen to work in unpleasant and dangerous conditions, like coal, miners, who have to work underground with poor ventilation and safety hazards. Yet they may not get high rates.

The economic factors or abundance of such workers may alter their bargaining strength. When the coal industry was replaced by oil, because of its lack of

modernization, the wages of the coal-miners were depressed. Two factors need to be taken into account, the demand and supply for a particular category of skills and the state of prosperity of an industry or unit.

If it is depressed, this will have some effect on wages and consequently on the grades. The rate of dearness allowance (DA) depending on the index chosen will affect wage differentials. In many situations, arbitration or judicial pronouncements have favoured a higher quantum for the lowest category of workers. On a wide scale, there has not been a systematic attempt at job evaluation – an exercise which would have identified the differences in terms of skill training experience, etc. between jobs and provided for relative weightages which could lead to standardization and eradication of distinctions for the same type of jobs.

In the modern organized sector, where collective bargaining is prevalent, there is a trend towards job evaluation schemes. The influence of collective bargaining in terms of pushing up wages in some industries and regions has been quite significant, especially in situations where collective bargaining is coupled with union strength. Finally, the difference in terms of a unit's level of productivity and profitability and its influence differentials has to be considered. If both productivity and profitability are high, then the wages sought and given are correspondingly bound to be high.

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## 15.2 CLASSIFICATIONS OF WAGE DIFFERENTIALS

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**First :** The differentials that can be attributed to imperfections in the employment markets, such as the limited knowledge of workers in regard to alternative job opportunities available elsewhere; obstacles to geographical, occupational or inter-firm mobility of workers; or time lags in the adjustment of resource distribution and changes in the scope and structure of economic activities. Examples of such wage differentials are inter-industry, inter-firm, and geographical or inter-area wage differentials.

**Second:** The wage differentials which originate in social values and prejudices and which are deeper and more persistent than economic factors. Wage differentials by sex, age, status or ethnic origin belong to this category.

**Third** : Occupational wage differentials, which would exist even if employment markets were perfect and social prejudices, were absent.

***In other words, wage differentials may be:***

*(i) Occupational differentials or differentials based on skill;*

*(ii) Inter-firm differentials;*

*(iii) Inter-area or regional differentials;*

*(iv) Inter-industry differentials; and*

*(v) Differentials based on sex.*

*(vi) Sector differential*

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### 15.3 DESCRIPTION OF EACH WAGE DIFFERENTIAL

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#### i. Occupational Differentials

These indicate that since different occupations require different qualifications, different wages of skill and carry different degrees of responsibility, wages are usually fixed on the basis of the differences in occupations and various degrees of skills. ***The basic functions of such differentials are:***

- a) To induce workers to undertake “***more demanding,***” “***more agreeable or dangerous***” jobs, or those involving “***a great chance of unemployment, or wide uncertainty of earnings.***”
- b) To provide an incentive to young person to incur the costs of training and education and encourage workers to develop skills in anticipation of higher earnings in future.
- c) To perform a social function by way of determining the social status of workers. In countries adopting a course of planned economic development, skill differentials play an important role in manpower and employment programmes, for they considerably help in bringing about an adequate supply of labour with skills corresponding to the requirements of product plans.

Inter-occupational differentials may comprise skilled, unskilled and manual wage differentials; non-manual and manual (white and blue-collar); and general skill differentials. Occupational wage differentials generally follow the changes in the relative supplies of labour to various occupations.

ii. **Inter-firm Differentials**

Inter-firm differentials reflect the relative wage levels of workers in different plants in the same area and occupation. *The main causes of inter firm wage differentials are:*

- a) Difference in the quality of labour employed by different firms;
- b) (b) Imperfections in the labour market; and
- c) Differences in the efficiency of equipment, supervision and other non-labour factors.

Differences in technological advance, managerial efficiency, financial capacity, age and size of the firm, relative advantages and disadvantages of supply of raw materials, power and availability of transport facilities - these also account for considerable disparities in inter-firm wage rates. Lack of coordination among adjudication authorities, too, is responsible for such anomalies.

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### iii. Inter-area or Regional Differentials

Such differentials arise when workers in the same industry and the same occupational group, but living in different geographical areas, are paid different wages.

Regional wage differentials may be conceived in two senses. In the first sense, they are merely a part of inter-industry differentials in a particular region.

The industry mix varies from one area to another, and for this reason alone, the general average of wages would be expected to vary. In the second sense, they may represent real geographical differentials, resulting in the payment of different rates for the same type of work. In both cases, regional differentials affect the supply of manpower for various plants in different regions.

Such differentials are the result of living and working conditions, such as unsatisfactory or irksome climate, isolation, sub-standard housing, disparities in the cost of living and the availability of manpower. In some cases, regional differentials are also used to encourage planned mobility of labour.

### iv. Inter-industry Differentials:

These differentials arise when workers in the same occupation and the same area but in different industries are paid different wages. Inter-industry differentials reflect skill differentials. The industries paying higher wages have mostly been industries with a large number of skilled workers, while those paying less, have been industries with a large proportion of unskilled and semi-skilled workers.

Other factors influencing inter-industry differentials are the extent of unionization, the structure of product markets, the ability to pay, labour-capital ratio, and the stage of development of an industry.

### v. Personal Wage Differentials:

These arise because of differences in the personal characteristics (age or sex) of workers who work in the same plant and the same occupation. *“Equal pay for equal work”* has been recommended by the I.L.O. Convention (No. 100), as also by

Industrial Courts, Labour Tribunals, the Minimum Wages Committee and the Fair Wage Committee.

But in practice this principle has not been fully implemented because in occupations, which involve strenuous muscular work, women workers, if employed, are paid less than men workers.

Lack of organization among women employees, less mobility among them, their lower subsistence and their weak constitution are other reasons which bring them lower wages than their male counterparts receive.

vi. **Sector Differentials:**

Wage differential between agricultural sector and industrial sector is generally a characteristic of underdeveloped countries like India. The main reasons for such sectoral differences in wage rates are the nature of the workers groups whether they are an organized group or a un-organized group. And the level of economic development of the sector. Agricultural labour in India belongs to the unorganized sector of the economy. Agricultural workers are not able to better their living conditions as organized effort is lacking among them where as workers in the industrial sectors have their own unions to fight for them.

Unlike industrial sector no industry cum region principle is followed while fixing wages in the agricultural sector. It is the strength of the industrial unions that gives them a higher level of wages as compared with their counter parts in the agricultural sector. Elements or Ingredients of a good wage plan. Before going ahead with the plans and elements of a good wage plan, first let us discuss why a good wage plan is required? Ans. A good wage plan is a more or less a mandatory requirement by the operating firms in order to attract the most creamy work force. Also it helps in tackling retention management and employee motivation problems to a great extent.

***Features of a Good Wage Plan:***

- (i) It should be easily understandable, i.e., all the employees should easily understand what they are to get for their work.
- (ii) They should be instructed in how the wage plan works.

- (iii) It should be capable of easy computation, i.e., it should be sufficiently simple to permit quick calculation. Mathematical tables may be supplied, be reference to which calculations can be quickly made.
- (iv) It should be capable of effectively motivating the employees.
- (v) It should provide an incentive for work.
- (vi) If both the quality and quantity of work are to be stressed at the same time, a plan should be selected that will not unduly influence the worker to work too fast or to become careless of quality.
- (vii) It should provide for remuneration to employees as soon as possible after the effort has been made.
- (viii) Daily or weekly payment of wages would be preferable to induce employees to work.
- (ix) It should be relatively stable rather than frequently varying so that employees are assured of a stable amount of money.

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#### **15.4 FACTOR RESPONSIBLE FOR THE DIFFERENCES IN WAGES AND OCCUPATION**

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*The following important factors are responsible for the differences in wages between occupations:*

**Factor # 1. Difference in Efficiency:** All persons are not equally efficient. They differ in abilities. Some are more efficient and some are less efficient. Some others are not efficient at all. An efficient worker gives better output. Hence, he is paid higher wages than others. Moreover, the efficiency requirement in different jobs varies. A doctor requires more skill than a nurse does. A district collector is entrusted with heavy responsibilities and the job necessitates ability and intelligence. On the contrary, the job of a sweeper does not require them. Hence, wages differ between occupations.

**Factor # 2. Presence of Non-Competing Groups:** Society is divided into a number of working groups, which are noncompeting. Caste system creates such groups in India. As a result, a child born to a sweeper will most likely be a sweeper just as a black smith's son will be a black smith. Besides, the chances of receiving training for

better-paid occupations depend on the resources of the family. Thus, inheritance, environment, training and sex are some factors, which create noncompeting groups in the society. Hence, workers belonging to different groups are paid at different wage rates.

**Factor # 3. Immobility of Labour:** Labour is not perfectly mobile. They are normally shy to move. It has inertia to stick to one job. Sometimes, people are not prepared to accept higher wages if it necessitates a change of place. This accounts for difference in wage in different places. The presence of noncompeting groups in society makes labour more immobile. Political barriers against the free movement of labour from one country to another result in the difference in wages in different countries.

**Factor # 4. Nature of Employment:** The nature of work also influences wage rates. Dangerous and disagreeable work brings higher money wages to attract larger supply of labour. For example, a coal miner gets higher wages than a clerk in the office. High money wages act as compensation.

**Factor # 5. Training and Qualification:** Jobs requiring special qualification and apprenticeship generally command higher wages than jobs learnt easily and for which no special training is required.

**Factor # 6. Productivity:** This differs in different occupations. The Cobbler's job is not as productive as that of a skilled motor mechanic or of clerk as that of a principal of a college.

**Factor # 7. Regularity of Employment:** If there is regular employment in a job, one may demand lower wages. If the job is irregular or seasonal, wage has to be higher. In case of India, young men prefer low paid jobs under government due to security and regularity of employment to irregular and insecure private jobs with more remuneration.

**Factor # 8. Future Prospects:** There are some jobs where promotion prospects are better than other jobs. Even if initial salary is low, if promotion prospects are there people prefer these jobs to others jobs.

**Factor # 9. Scope for Extra Earning:** If a job has scope for extra earnings, the regular wage may be lower. A doctor may start with a lower salary than a lecturer but the former can make up the deficiency by private practice.

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### **15.5 WAGE POLICY: MEANING**

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The term “Wage Policy” refers to legislation of government action undertaken to regulate the level or structure of wages or both for the purpose of achieving specific objectives of social and economic policy. The social and economic aspects of wage policy are normally inter-related measure inspired by special considerations; inevitably have economic effects and action designed to achieve specific economic result has social implications.

Principles which act as guidelines to determine a wage structure are called as wage policies. In the beginning as an economic issue it was primarily the concern of the employer while state was adopting laissez faire policy. But, with the industrial progress and subsequent industrial balance between employers, employees, wage bargain has become a matter for three folds concern of the employer, employee and the state.

The pressures of rising prices have encroached on the living standards of employees; the demand for higher wages and better working conditions create prices, market and production problems for the management; and the final burden of finding a solution to the problems of wage policy ultimately falls on t Some rational wage policy has to be woven into the socio-economic texture that reflects the objectives and aspirations of the people of a particular country. It cannot be dealt with on purely economic considerations in isolation from the social policy and political culture of that particular community.

Although an organisation can take some guidelines from the public policy, while formulating its wage policy and subsequent strategy, an organisation has to take care of a number of factors such as ongoing rates of wages in the market, its ability to

pay, internal and external relativities, controlling of labour costs, motivation of workers and rate of productivity.

*In this regard, the major factors that may affect the wage policy of an organisation and which need to be paid due attention at the time of formulation of organisational wage policy are as follows:*

- 1. Internal Equity*
- 2. External Equity*
- 3. Productivity*
- 4. Cost of living*
- 5. Motivation Level of Workers*
- 6. Pay vis-a-vis Performance*
- 7. National Wage Policy*
- 8. Statutory Obligations*
- 9. Labour Market Conditions*
- 10. Present Rate of Attrition of Employees.*

Wage Policy – National Commission on Labour (NCL) on Wage Policy

*According to the NCL, “The main aim of a wage policy, as we envisage it, is to bring wages into conformity with the expectation of the working class and in the process seek to maximum wage employment”.*

**To achieve this, the NCL’s following observations may be noted:**

- a) Wage policy should aim at the progressive increase in real wages. The sustained improvement in real wages can be brought about by increasing productivity.
- b) The wage levels will have to recognize that in India modern capital-intensive, large-scale sector exists side-by-side with the small and traditional labour-intensive sector.
- c) ‘Wage policy’ should therefore foster an appropriate choice of techniques so as to maximize employment at rising levels of productivity and wages.
- d) The incomes and wage policy that may be formulated has to take into account the structural feature of the national economy.
- e) In the unorganized sector adequate governmental or quasi-governmental machinery may be necessary to provide for minimum wage regulation according to conditions in different workers in weak position.
- f) In order to protect real wage from erosion the level of money wages has to be adjusted to price changes.

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## 15.6 OBJECTIVES OF NATIONAL WAGE POLICY

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The importance of wage policy is obvious as it forms a highly sensitive and complex dimension of labour policy and influences employee’s level of motivation, morale, productivity and standard of living. Its importance has been recognized by the Constitution of India. The provisions in the Indian constitution and the policy statements in successive five-year plan documents provide useful insights into the Government’s approach towards wage policy.

The second National Commission on labour recommended the appointment of a high-level committee with technically competent people including economists, trade unionists, entrepreneurs and consumers to formulate a national wage policy.

Despite several theoretical guidelines for the formulation of a wage policy, there are various concrete facts that must be considered in designing a wage policy. Accordingly, in view of the realities of the situation, there are several hurdles in the formulation of a wage policy in a developing economy like India's which adheres in a democratic system. Ideally, wage revision should be higher than the rate of growth in gross domestic product (GDP) and lower than the rate of inflation. This ensures that real wages are maintained.

The term "**Wage Policy**" refers to the legislation or Government action undertaken to regulate the level or structure of wages or both, for the purpose of achieving specific objectives of social and economic policy.

*According to ILO, the wage policy means "legislation or government action calculated to affect the level or structure of wages, or both for the purpose of attaining specific objectives of social and economic policy".*

*The ILO has enumerated the following objectives of a wage policy in developing countries:*

- (i) To abolish malpractices and abuses in wage payment.
- (ii) To set minimum wages for workers whose bargaining power is weak because they are unorganized or inefficiently organized, accompanied by separate measures to promote the growth of trade unions and collective bargaining.
- (iii) To obtain for the workers adjust share in the fruits of economic development, supplemented by appropriate measures to keep workers' expenditure on consumption goods in step with available supplies so as to minimize inflationary pressure.
- (iv) To bring about a more efficient allocation and utilization of manpower through wage differentials and, where appropriate, systems of payment by results.

*In India, the objectives of a national wage policy may be stated thus:*

- ✓ *To provide a minimum wage to workers employed in sweated industries.*
- ✓ *To improve the existing wage-structure.*



- ✓ *To fix wage ceilings.*
- ✓ *To accelerate export promotion.*
- ✓ *To control inflationary tendencies.*
- ✓ *Other objectives.*

**a. Provision of Minimum Wages in Sweated Industries:** In a country like India, where in sweated industries employers exploit laborers, the basic need is to provide for “safety net” – wages to prevent their exploitation. According to Turnover, “the protection of workers against exploitation or unduly low wages remains the wage policy’s major pre-occupation in under-developed areas”.

The fixing of a minimum wage is also necessary to boost industrial employment, partly to smooth the flow of labor from the farm to expanding modern industries; and partly to cover the differentials in wage rates so that wages paid to employees doing identical work are rationalized. The wage policy should therefore aim at a minimum wage in sweated occupations as well as a floor for entry to industrial employment.

**b. Improvement in Existing Wage Structure:** A rational wage structure facilitates the acquisition of productive skills, serves as an incentive to higher productivity and wage income, and encourages the allocation of labor to the expanding sectors of the economy in which labor is in great demand. Justice and fairness demand that a sound relationship should exist between rates of pay for different groups in similar occupations.

The jobs that are hazardous or demand a higher degree of skill, training, experience, responsibility, mental and physical effort should be paid more than the others. *According to Clark Kerr, “Improving worker efficiency and performance, encouraging the acquisition of skills and providing an incentive for labour mobility should be the real purpose of a wage policy in a developing economy”.*

**c. Fixation of Wage Ceilings:** Ceilings on wages need to be fixed to save employees from the pinch of the inflationary tendencies that flow from uncontrolled price rise.

The workers should get a just share in the fruits of economic development and increased productivity. Productivity and efficiency can be boosted by giving incentives to them and by improving the investment capacity of industries, which can be done when they plough back a part of the profits in the industry.

**d. Acceleration or Export Promotion:** To get imports of essential capital goods, technical know-how, trained manpower and raw materials, foreign exchange must be earned by promoting exports through increased productivity of exportable goods and price stability or price reduction, wherever possible. A wage policy should help to accelerate a nation's developmental process.

**e. Control over Inflationary Tendencies:** Controlling inflationary pressures should be an essential element of wage policy, for increasing prices erode workers' real income, lower their standard of living, and ultimately cause industrial unrest. A wage policy should, therefore, aim at stabilizing prices by tying wage increases to productivity.

**f. Other Objectives: The other objectives of a wage structure are:**

- ✚ To bring social justice to workers and equal opportunities of personal development-through the development of the socialistic pattern of society as laid down in Directive Principles of State Policy in the Constitution.
- ✚ To maintain industrial peace, which cannot be achieved only through statutory measures and ban on strikes and lockouts and compulsory arbitration.
- ✚ To provide guidance to various authorities charged with the task of wage fixation and revision.
- ✚ To develop the skill of newly recruited industrial labour and other manpower resources.

A national wage policy must aim at establishing wages “*at the highest possible level, which the economic conditions of the country permit, and it also ensures that the*

*wage-earner gets a fair share of the increased prosperity of the country as a whole resulting from economic development.”*

Thus, we may say that- *“The protection of workers against exploitation or unduly low wages, improving their efficiency and performance, encouraging acquisition of skills, providing an incentive to labour- mobility, stabilizing prices and acceleration of the nation’s development process should be the real purpose of a national wage policy.”*

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## 15.7 NATIONAL WAGE POLICY

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At present no national wage policy exists in India. **However, the efforts made in this direction are worth consideration:**

- ✚ **National Commission on Labour (1969):** The commission did not go beyond recognizing the need for a national wage policy in these words. *“The wage policy has to be framed taking into account such factors as the price level which can be sustained, the employment level to be aimed at, requirement of social justice, and capital formation need for growth.”*
- ✚ **Chakraborty Committee (1974):** Recognising the need for uniformity in wage payments across regions, industries, and occupations the committee suggested that a National Wage Commission and a National Wage Board be set up to evaluate all jobs, work out a grade structure based on skill differentials and fix wages for each grade.
- ✚ **Bhoothalingam Study Group (1978):** This Group opined that the determination of a homogeneous national wage structure is very difficult. We are not beginning with a clean slate and the burden of history is with us. Disparities, anomalies and irrationalities exist and have come to be regarded as rights.

Further, there is no reasonable method of determining what should be the absolute level of wage for each category of workers and what is a right differential between different categories of workers. Even if a national wage structure is

determined, which is doubtful, or the historically determined structure accepted, which is improbable, several adjustments in wages or are required from time to time.

- ✚ A periodic increment in earnings which is merely related to time, and which has become part of our culture so today.
- ✚ Some protection of earnings against changes in the value of money.
- ✚ A correction in the relative wages of one set of workers with a certain degree of skill and onerousness of work relative to the much higher wage of another set of dissimilar workers with different degree of skill and onerousness of work.
- ✚ A correction for changes in the productivity of workers which may take various shapes.
- ✚ A correction in the relative wages of one set of workers, with a certain degree of skill and certain onerousness of work, relative to the much higher wage of another set of similar workers with the same degree of skill and onerousness of work.
- ✚ A set of corrections to reduce the disparities across industries/sectors and within industries/sectors.

**The Group tried to provide appropriate guidelines and principles:**

- i. To get such corrections and adjustments within the framework of collective bargaining,
- ii. To reduce disparities, and
- iii. To raise gradually the areas of unduly depressed wages.

The Group recommended that future dearness allowance should be linked to the cost of living on a uniform basis. It further said that the present system of bonus payment in the country which was related to profit is not suitable for organisations which do not have the profit motive, e.g. government, railways, posts and telegraphs, etc. But these views were opposed by trade unions. They argued that the D.A. payment linked to wage slabs and bonus payment linked to allocable surplus had been

customarily accepted and legally sanctified and any change in these methods would be disadvantageous to the workers. The report was therefore shelved by the government.

*In the ultimate analysis it may be said that despite a number of practical difficulties there is need for a rational wage policy in the country which may:*

- a. Link reward to effort;
- b. Encourage need-based educational system and skill-formation;
- c. Promote modern managerial practices to improve productivity;
- d. Apportion the gains of improved productivity between management, workers and consumers, and
- e. Develop an inbuilt mechanism to control wages, incomes and prices.

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## 15.8 METHODS TO REGULATE WAGES IN INDIA

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The various methods which the government has adopted to regulate wages in India are the following:

### **Method # 1. Prescribing Minimum Rates of Wages:**

The Minimum Wages Act, 1948, is a direct State measure for the regulation of wages in the country. The Act empowers the Central and State Governments to fix minimum rates of wages in respect of certain sweated and unorganised employments specified in Part I or Part II of the schedule appended to it.

Over the years, minimum wages have been fixed for an increasing number of these employments both at the Central and State Government levels.

It is open to the appropriate government to refrain from fixing minimum rates of wages in any scheduled employment wherein the whole State there are less than one thousand employees engaged in such employment.

Minimum wages payable under this Act are to be paid in cash only. But where it has been the custom to pay wages wholly or partly in kind the appropriate Government may, by notification in the Gazette, authorise the payment of minimum wages either

wholly or partly in kind. It may also provide for the supply of essential commodities at concessional rates.

The Act also provides for the review and revision of minimum wages at intervals not exceeding 5 years.

Procedurally, rates can be fixed in one of the two ways. The appropriate government can fix such rates either on the recommendations of Advisory Committees appointed under Sec. 5(1) (a) of the Act, or by directly publishing the proposed minimum rates of wages in the Gazette under Sec. 5(1) (b) of the Act. Both the procedures are currently being used.

### **Method # 2. Preventing Discrimination in Remuneration on the Ground of Sex:**

Discrimination in remuneration on the ground of sex is prevented by the Equal Remuneration Act, 1976. Under this Act it is the duty of the employer to pay equal remuneration to men and women workers for the same work or work of a similar nature.

Further, no discrimination is to be made against women in recruitment and in conditions of service subsequent to recruitment such as promotion, training etc. unless it is so provided for under any law for the time being in force.

### **Method # 3. Regulating Payment of Wages:**

Payment of wages is regulated by the Payment of Wages Act, 1936. The object of this Act is to provide for regular payment of wages without any unauthorised deductions to persons who are employed in any industrial establishment or factory or by a railway contractor and whose monthly wages are less than Rs. 1,600. Following are the important provisions of this Act.

**(I) The Act lays down the time of payment of wages as under:**

- ❖ In case of railway, factory, or industrial establishment where the number of persons employed is more than 1,600 wages must be paid before the expiry of the tenth day after the last day of the wage period in respect of which the wages are payable.
- ❖ In case of railway, factory or industrial establishment where the number of persons employed is less than 1,600 wages must be paid before the expiry of the seventh day after the last day of the wage period in respect of which the wages are payable.
- ❖ In case of termination of employment of any person, the wage earned by him must be paid before the expiry of the second working day from the day on which his employment is terminated.
- ❖ In case of persons employed on a dock, wharf, or jetty or a mine, the balance of wages found due on completion of the final tonnage account of the ship or wagons loaded or unloaded, as the case may be, must be paid before the expiry of the seventh day from the day of such completion.

**(II) The Act says that the wages shall be paid in cash but the employer may, after obtaining the written consent of the concerned employee, pay him wages either by cheque or by crediting the same in his bank account.**

(III) The Act gives an exhaustive list of permissible deductions which can be made from the wages of a worker. The employer cannot make any deductions other than those mentioned in this list.

**These permissible deductions are as follows:**

- a) Fines;
- b) Deductions for absence from duty;

- c) Deductions for damage to or loss of goods entrusted to the worker for custody or for loss of money for which he is required to account where such damage or loss is directly attributable to his neglect or default;
- d) Deductions for recovery of losses sustained by a railway administration on account of (i) acceptance by the employed person of counterfeit or base coins or mutilated or forged currency notes, (ii) failure of the employee to invoice, bill, collect or account for appropriate changes due to that administrator, (iii) any rebates or refunds incorrectly granted by the employed person where such loss is directly attributable to his neglect or default;
- e) Deductions for payment of insurance premium on Fidelity Guarantee Bonds;
- f) Deductions made with the written authorisation of the employed person for contributions to the Prime Minister's National Relief Fund or to such other fund as the Central Government may, by notification in the Official Gazette, specify;
- g) Deductions made under orders of courts of any other competent authority;
- h) Deductions made, with the written authorisation of the employed person, for payment of the fees payable by him for the membership of any trade union, registered under the Trade Unions Act, 1926;
- i) Deductions for contributions to and repayment of advance from any provident fund;
- j) Deductions for payment to co-operative societies or to a scheme of insurance maintained by the Indian Post Office;
- k) Deductions made with the written authorisation of the person employed for payment of any premium on his life insurance policy, or for the purchase of securities of the Government of India or of any State Government;



- l) Deductions for such amenities and services supplied by the employer as the State Government may authorize;
- m) Deductions for house accommodation supplied by the employer;
- n) Deductions for recovery of advances or overpayment of wages;
- o) Deductions for recovery of loans made from any fund constituted for the welfare of labour;
- p) Deductions for recovery of loans granted for house building or other purposes approved by the State Government;
- q) Deductions for income-tax payable by the employed person;
- r) Deductions made with the written authorisation of the employed person, for the payment of his contribution to any fund constituted by the employer or a trade union registered under the Trade Unions Act, 1926, for the welfare of the employed persons or the members of their families, or both, and approved by the State Government, during the continuance of such approval.

**(IV) The total amount of deductions in any wage period from the wages of any employed person shall not exceed:**

- ✓ In cases where such deductions are wholly or partly made for payment to co-operative societies, 75% of such wages; and
- ✓ In any other case, 50% of such wages.

**(V) Any loss of wages resulting from the imposition upon an employee, for good and sufficient cause, any of the following penalties shall not be deemed to be a deduction from wages, if imposition of any such penalty is in conformity with Rules/Standing Orders applicable to the concerned employee.**

- (i) Withholding of increment or promotion (including stoppage of increment at efficiency bar);

(ii) Suspension, and

(iii) Reduction to a lower post or time scale or to a lower stage in a time scale.

#### **Method # 4. Compulsory Conciliation and Arbitration of Wage Disputes:**

The Industrial Disputes Act, 1947 provides for the constitution of various authorities for the purpose of prevention and settlement of industrial disputes connected with the terms of employment or with the conditions of labour of any person.

The Act makes conciliation compulsory in all disputes in all public utility services and optional in other industrial establishments. Conciliation or mediation is a procedure which endeavours to settle a controversy by assisting parties to reach a voluntary agreement and the ultimate decision is made by the parties themselves.

Article 136 of the Constitution gives the Supreme Court power to entertain appeals from the decisions of any court or tribunal in India. This has resulted in the creation of a vast volume of case law on wage fixation binding on all tribunals and subordinate courts.

The Act empowers the appropriate Government to constitute one or more Industrial Tribunals or national Tribunals and to refer to these Tribunals a wage dispute for adjudication.

A National Tribunal can be constituted only for the adjudication of industrial disputes involving questions of national importance or industrial disputes affecting industrial establishments situated in more than one State. The reference to a National Tribunal can be made only by the Central Government.

#### **Method # 5. Setting up Wage Boards:**

Prior to the advent of Wage Boards, the Tribunals set up under the Industrial Disputes Act played a significant role in the resolution of wage disputes. But it was soon realised that in the organised industries, the number of frequency of wage disputes

could not be reduced unless the parties themselves had the ultimate say in reaching decisions. The desire for enabling the parties to resolve disputes on wages themselves found its first positive expression in the Second Five-Year Plan which recommended the establishment of wage boards on an industry-wide basis.

In pursuance of the recommendations of the Second Plan which were further reiterated by the Third Plan, a large number of tripartite Wage Boards have come to be established in different industries during the past 20 years. It should be noted that there is no law in India providing for the establishment of these Boards.

These are appointed by the Government of India purely on an adhoc basis on the demand of trade unions and employers. A Wage Board consists of an impartial chairman, 2 other independent members and 2 or 3 representatives of workers and employers each.

**The board is required to take into account the following points in determining the wage structure of an industry:**

- + Need-based minimum wages,
- + Industry's capacity to pay,
- + Productivity of labour,
- + Prevailing rates of wages.
- + Level of national income and its distribution,
- + Place of industry in the economy of the country,
- + Needs of industry in developing economy,
- + Requirement of social justice, and
- + Adjustment of wage differentials in such a manner as to provide incentives for skill formation.

**The efforts of Wage Boards in fixing wage differentials have primarily remained limited to:**

- (a) Standardisation of occupational nomenclature, and

(b) Classification of various occupations into different types and prescribing wage rates for each of the broader classes or occupations.

The wage boards, in general, have not found it possible to adopt job evaluation for the re-fixation of differentials or for removing anomalies from the existing wage structure.

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## 15.9 WAGE BOARD

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A Wage Board is a tripartite body with representatives of management, and workmen, presided over by an independent person nominated by the Government. The Board is required to fix wages in accordance with the principles of wage fixation.

The Wage Boards help to resolve the disputes in a democratic manner by bringing the parties together, without compulsion on either side. It may, however, be pointed out that a Wage Board can only make recommendations, as there is no legal sanction behind it. But for all practical purposes, a Board's recommendations are regarded as awards, and if unanimous, are made binding on the parties.

The first wage board was set up in 1957 in the Cotton Textile Industry. Following this, Wage Boards were set up for working journalists, sugar, cement, jute, tea plantation, rubber and coffee, coal mining, iron and steel, road transportation and electricity undertakings.

**The wage boards while determining the wage structure for a particular industry, uses the following factors:**

- (i) Need-based minimum wage
- (ii) Industry's capacity to pay
- (iii) Productivity of labour
- (iv) Prevailing rates of wages
- (v) Level of national income and its distribution
- (vi) Place of industry in the economy of the country
- (vii) Needs of industry in developing economy
- (viii) Requirements of social justice; and
- (ix) Adjustment of wage differentials in such a manner as to provide incentives for skill formation.

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## 15.10 OBJECTIVES OF WAGE BOARD

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*To achieve the following objectives the Wage Board was set-up:*

- a) To align the wage settlements with the social and economic policies of the Government.
- b) To represent consumers/public the interests.
- c) To standardise wage structure throughout the industry concerned.
- d) To provide better climate for industrial relations.
- e) To work out wage structure based on the principles of fair wages as formulated by the Committee on Fair Wages,
- f) To work out a system of payment by results.
- g) To evolve a wage structure based on the requirements of social justice.
- h) To evolve a wage structure based on the need for adjusting wage differentials in a manner to provide incentives to workers for advancing their skill.

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## 15.11 PAY COMMISSION

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A Pay Commission is an administrative system and mechanism of the Central Government that reviews and examines existing salary structure and recommends changes (in pay, allowances, benefits, bonuses and other facilities) for civil employees and military forces.

Additionally, a Pay Commission reviews rules regarding bonuses after assessing performances and productivity of employees. The activity of the Pay Commission also includes examining existing pension schemes and other retirement benefits.

The Pay Commission makes a recommendation only after evaluating the economic condition and accessible sources of our country. This Commission primarily focuses on the Central Government employees.

As already stated, around 7 Pay commissions have been set up since 1947. The latest, i.e., Seventh Pay Commission, was set up on 8th February 2014. The Central Government forms a Pay Commission after every 10 years to revise pay structure of Central Government employees.

The Government provides 18 month's window (from the date of its constitution) to submit a recommendation via report. This Commission may send interim reports on any matter after the finalization of recommendations. Since this is not a constitutional body, the Central Government may accept or reject recommendations. However, the State Government usually adopts recommendations and implements them after certain modifications.

### **Importance of Pay Commission:**

Pay commission is important as it operates keeping in mind all monetary requirements of an employee. This Commission takes care of basic salary as well as dearness allowances, house rent allowances, travel allowances etc. For instance, if a soldier is operational in a snow-clad mountain, he will receive an additional salary for working in a harsh climate. On the other hand, a pregnant Government employee will get 26 weeks of maternity leave, and a male central Government employee will get 15 days of paternity leave.

### **Objective of 7th Pay Commission:**

The primary objective of the Pay Commission is to ensure salary hikes, maximum employee benefit and protect the rights of an employee.

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## **15.12 DEARNESS ALLOWANCE (DA)**

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Dearness Allowance (DA) is paid by the government to its employees as well as a pensioner to offset the impact of inflation. The effective salary of government employees requires constant enhancement to help them cope up with the increasing prices. Despite several measures by the government to control the rate of inflation, only partial success has been achieved because the prices move according to the market. It, therefore, becomes essential for the government to shield its employees from the adverse effects of inflation. As the impact of inflation varies according to the location of the employee, dearness allowance is calculated accordingly. Thus, DA

varies from employee to employee based on their presence in the urban, semi-urban or rural sector.

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### 15.13 SUMMARY

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Wage differentials bear a direct relationship to the diversity in occupation and industries that exist in the economic sphere of activity in a country. A certain job requiring a certain skill is paid more or less than another job requiring a different skill either in the same or some other industry. There are a variety of contributory factors. There is a need to understand the reasons for these differences as in many cases there is a constant adjustment taking place in order to maintain the existing disparity, for instance, between the skilled and unskilled or semiskilled workers; between the officers and the supervisory or clerical staff and so on.

In other words, wage differentials may be: (i) Occupational differentials or differentials based on skill; (ii) Inter-firm differentials; (iii) Inter-area or regional differentials; (iv) Inter-industry differentials; and (v) Differentials based on sex. (vi) Sector differential.

In India, the objectives of a national wage policy may be stated thus: (a) to provide a minimum wage to workers employed in sweated industries; (b) to improve the existing wage-structure; (c) to fix wage ceilings. (d) To accelerate export promotion. (e) To control inflationary tendencies. And other objectives.

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### 15.14 SELF-ASSESSMENT QUESTIONS

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1. What are the purposes of Occupational differentials or differentials based on skill?
2. Discuss the Differentials based on sex.

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### 15.15 FURTHER REFERENCES

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## UNIT 16: SPECIAL COMPENSATION SITUATIONS: INTERNATIONAL COMPENSATION-MANAGING VARIATIONS

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### Structure

- 16.1 Introduction
- 16.2 Objectives of International Compensation
- 16.3 Elements of International Compensation
- 16.4 Approaches to International Compensation
- 16.5. Summary
- 16.6. Self-Assessment Questions
- 16.7. Further References

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### LEARNING OBJECTIVES

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After completion of this lesson the student will be able to understand:

- ✓ To understand the International Compensation.
- ✓ To discuss the elements of International Compensation.
- ✓ To evaluate the Approaches to International Compensation.

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### 16.1 INTRODUCTION

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International compensation can be defined as the provision of monetary and non-monetary rewards, including base salary, benefits, and perquisites, long- and short-term incentives, valued by employees in accordance with their relative contributions to MNC performance.

Compensation is a key economic issue, which continues to assume an increasingly large share of its operating expenses. HR executives in global firms spend a great deal of time and make a lot of effort in designing and managing compensation programmes, because of their high cost and impact on corporate performance, employees commitment and also their retention.

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### 16.2 OBJECTIVES OF INTERNATIONAL COMPENSATION

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- ✚ Attract employees who are qualified, experienced and interested in international assignments



- ✦ Facilitate the movement of expatriate's from one subsidiary to another, from home to subsidiary, and back from subsidiary to home.
- ✦ Provide a consistent and reasonable relationship between the pay levels of employees at headquarters, domestic affiliates and foreign subsidiaries.
- ✦ Be cost effective by reducing unnecessary expenses Should be easily understood and easy to administer.

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### 16.3 ELEMENTS OF INTERNATIONAL COMPENSATION

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There are many complexities in the international compensation programme as all the objectives are difficult to meet and require a high degree of expertise. The main elements are discussed as follows:

**Base pay:** Base pay is the primary component of a package of allowances and may be paid in-home or local-country currency. The base salary is the foundation block for international compensation whether the employee is a Parent Country or from any other country. It is the main element in the compensation structure that decides the status, rank or grade. This is the basic element upon which all the other components are built and retirement benefits calculated both in domestic and international compensations.

**Incentives:** Incentives are used to motivate employees for higher performance and to undertake foreign assignments. Latest trends in total compensation package has seen a rise in monetary benefits.

**Retention and Referral Bonuses:** Almost every organisation faces the issue of turnover of employees at some point or the other. Referral bonus is paid to employees who bring qualified new employees who meet the selection criterion.

This reduces recruitment cost and time of the organisation and hence referral bonus is paid. There are many factors leading to retention of employees apart from money such

as quality of work-life, flexibility at work timings, challenging assignments, transport and other benefits and rise in career graph.

## Allowances

- ✦ **Foreign Service premiums:** most common for employees on long-term assignments (over one year). More often paid to parent country nationals (PCNs) than to third country nationals (TCNs).
- ✦ **Hardship:** in consideration of isolation, crime, natural hazards, political violence, based on government data upon which rates can be provided by consulting organizations such as International SOS, a global medical and security assistance company.
- ✦ **Relocation:** compensation for costs such as transport, storage, temporary accommodation, purchases of appliances and vehicles, associated with moving to the host country.
- ✦ **Education:** for assignees' children. This may involve compensation for language classes, books, and school fees. Home country boarding school fees may also be involved for assignees who opt not to take their children to isolated and or politically violent locations.
- ✦ **Home leave:** provision for the assignee and family to return home periodically during the length of the assignment.

## Benefits

These are also known to be indirect compensation and their purpose is to minimise the payments and enhance quality of life. Benefits could include use of health clubs, medical treatment to family, upkeep of house, servants etc.

## Taxes

These take a substantial part of the salary to governments of both host and home countries. Hence, MNCs follow tax equalisation policy, according to which the expatriates pay only the taxes required to be paid in the home country and what is

required to be paid to the host country is paid by the country. Expatriates are required to obtain tax clearance certificate from the host country before they are allowed to leave the country.

### **Long-term Benefits**

- ✚ **Employee Stock Option Plan (ESOP)**- a certain nos. of shares are reserved for purchase and issuance to key employees
- ✚ **Restricted Stock Unit (RSU)** –Units of stocks are provided with restrictions on when they can be exercised. It is usually issued as partial compensation for employees
- ✚ **Employee Stock Purchase Plan (ESPP)** –Company sells shares to its employees at a discount. Company deducts the purchase price of these shares every month from the employee’s salary

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## **16.4 APPROACHES TO INTERNATIONAL COMPENSATION**

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There are *two main approaches* of international compensation, such as follows:

### **Going Rate Approach**

*The key characteristics of this approach are summarised:*

- Based on local market trends and rates
- Relies on survey comparisons
  - Local nationals (HCNs)
  - Expatriates of same nationality
  - Expatriates of all nationalities
- Compensation based on the selected survey
- Base pay and benefits may be supplemented by additional payments for low-pay countries

In this approach, the base salary for international transfer is linked to the salary structure in the host country. The multinational usually obtain information from local

compensation surveys and must decide whether local nationals (HCNs), expatriates of the same nationality or expatriates of all nationalities will be reference points in terms of benchmarking.

*For example*, an Indian bank operating in London would need to decide whether its reference point would be local U.K. salaries, other Indian competitors in London, or all foreign banks operating in London. With the Going Rate Approach, if the location is in a low-pay country, the multinational usually supplement base pay with additional benefits and payments.

### **Balance-Sheet Approach**

Many multinational companies commonly apply the balance-sheet method for determining expatriate compensation. The balance-sheet method provides a compensation package that attempts to equate or balance an expatriate's purchasing power in his or her home country.

To balance the compensation received for the international assignment with compensation received in the home country, multinational companies usually provide an additional salary. This increased salary includes adjustments for differences in taxes, housing cost, and the cost of basic goods and services. Goods and services include items such as food, recreation, personal care, clothing, education, home furnishing, transportation, and Medicare (*Dowling and Schuler, 1990*).

*There are four Balance Sheet approach categories:*

- ✚ Goods and services –home-country outlays for items such as food, personal care, clothing, household furnishings, recreation, transportation and medical care.
- ✚ Housing –the major costs associated with housing in the host country.
- ✚ Income taxes –parent-country and host-country income taxes.
- ✚ Reserve –contributions to savings, payments for benefits, pension contributions, investments, education expenses, social security taxes, etc.

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## 16.5 SUMMARY

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International Compensation can be defined as the provision of monetary and non-monetary rewards, including base salary, benefits, and perquisites, long- and short-term incentives, valued by employees in accordance with their relative contributions to MNC performance.

Further, the objectives of International Compensation such as follows: (a) attract employees who are qualified, experienced and interested in international assignments; (b) facilitate the movement of expatriate's from one subsidiary to another, from home to subsidiary, and back from subsidiary to home; (c) provide a consistent and reasonable relationship between the pay levels of employees at headquarters, domestic affiliates and foreign subsidiaries; (d) the cost effective by reducing unnecessary expenses Should be easily understood and easy to administer.

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## 16.6 SELF-ASSESSMENT QUESTIONS

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1. What is International Compensation?
2. What are the various objectives of International Compensation system?
3. Examine the Approaches of International Compensation system?

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## 16.7 FURTHER REFERENCES

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