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I

Report of the Study Group on Wages Policy

A Note of Dissent

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In this note I will confine myself mainly to the important Issues on which I find myself in disagreement with my colleagues. In so doing I will take into account not only the main body of report but also Dr. Lakdawala's reply to Shri D. Trivedi's note of dissent.

At the very outset, however, I would like to clarify one important point. The subject of wages policy lends itself to several possible treatments. One can approach the subject from a macro-economic angle and derive the criteria for wage policy from the overall objectives of aggregative economic policy. Thus one can assume a framework of a five year plan, with a given investment pattern, fixed capital to output ratio, and proceed on the expectation that, with these parameters taken as given, the relationship between absolute outlay and the rate of growth can be uniquely determined. Thereafter all that remains to be done is to insist that if the country wishes to grow at, say, x percent rate per annum, it must find its way in spending Y amount on investment. The economist can then very well say that it is essentially a political decision as to what rate of growth is feasible. He can also put on political shoes himself and pronounce a solemn judgement that a certain rate of growth must be achieved and find suitable justification for it. Having done so it is fairly simple to spell out logical implications for the specific instruments of

economic policy. For instance the objective of fiscal policy might be to maximise taxation, within limits of endurance and subject to such considerations of equity as might be then prevalent. Similarly the goals of wage policy can be worked out. Briefly, these might be to keep real wages down (in the interest of accelerating investment) reduce differentials (for the sake of equity and eventual socialism) and within these policy limits do all that may be possible for raising skills. An incidental purpose may be to raise employment potential on the assumption that low real wages will actuate decision makers to prefer labour using technology. I think this is roughly what my colleagues have done in drafting this report. There is an appearance of reasonableness about it and is, undoubtedly, actuated by the desire to be consistent with the logic of economic planning that may be acceptable to the government.

The second approach consists of defining the feasible goals of each policy instrument and then blend them optimally within a frame of indicative planning to achieve as high a rate of growth of output as might be feasible. In satisfying the feasibility condition it will be necessary to treat as invariant the fundamental rights of people, the federal structure of Indian State, the existing rights of the under-privileged classes and the prevailing political climate. It might also be desirable to maintain price stability, prevent further redistribution of income to the disadvantage of poorer classes, stability of external value of money and such other goals as are consistent with the political set. In such a framework there is simply no question of treating the investment pattern as given, capital to output ratios as fixed,

the necessity of expanding the public sector at a rate faster than private sector as paramount and tolerance of inflation as a necessary evil. All of these assumptions are not only highly questionable but perfectly open to variation and adjustment.

For wage policy the second approach throws open a wide range of choices. This is unlike the first approach in which all options are eliminated and the decision is firmly swerved against the long term interests of labour. For instance if real wages are found to be stagnating at the 1939 level it does not cause concern. It was probably unavoidable in the past; but under the despensation of Soviet style economic planning it is inevitable in future. On the other hand, under the second approach, one or more goals can be set for wage policy. For instance the authorities could decide that the goal of need-based minimum wage is deserving of not just sympathy but practical support. In the latter event a broad time span may be mapped out for the gradual realisation of this goal. This in turn will have practical implications. The plan will have to change to ensure greater supply of wage-goods. Greater stress will be necessary on family planning programme, raising the skills of workers and productivity of enterprises in general, etc. The fiscal policy will also be required to support this goal by maintaining price stability rather than deliberately generating inflation as has been the case so far.

The implications of the above statement is that stagnation in real wages cannot be accepted as either pre-ordained or the inevitable outcome of economic planning.

It is so only if we accept that there is just one kind of planning, and, that is the one we have followed so far. Once the basic premise is questioned the entire superstructure stands exposed.

The third approach to wage policy is micro-economic. This requires looking into the wage question at the level of firm and the individual workers. The policy makers ask questions, reminiscent of neo-classical economists, as to what wage an enterprise can give ?, how to differentiate compensation for work of one group of employees from others ?, how to blend the principle of attendance with that of productivity in a well designed wage payment system ?, what is the ideal mix of principles of seniority and merit ?, what should be the composition of an employee pay packet ?, etc., etc. These are old questions and have been tackled variously in different countries, and within India, by different enterprises in different ways. Despite its ancient vintage the wage problem, viewed in its micro-setting, remains ever fresh demanding unceasing attention. It has enormous potential for upsetting industrial relations, lowering productivity, inflicting losses on the erring managements and causing grave political consequences. This problem can be neglected by a government only at its own peril. And yet the wage question has received scant attention in the report.

The reasons for this neglect are not difficult to assess. Much as the economists may find it hard to accept, there appears to be no way of marrying this problem, at the unit level, with the macro-approaches, particularly the first. Having chosen to follow in the footsteps of

Soviet type economic planning the authors of the report simply could not work their way into the wage question as it is asked by every manager and trade union leader. On the other hand, if they had started at the lower end of the scale the conclusions reached in the report would have been substantially changed. These remain excluded territories, and the state of economic theory, such as it is, does not help in finding pathways that connect one with the other. Indeed, as I perceive it, the problem lies outside the narrow boundaries of economics. It is essentially a problem of choice in political values and depending upon one's preferences one can put on the appropriate political garb and find the right answer.

Unfortunately the question is not an academic one; the manner in which it is answered will depend whether or not the wage question will be resolved through a process of collective bargaining, in India, interspersed with adjudication, or some other voluntary process of dispute settlements, such as, the wage boards, or alternately through administrative fiat. The first option requires that the institution of collective bargaining be strengthened through legislation, political suasion, education and administrative action. It, in turn, necessitates the accretion of strength in trade unions, decentralisation of decisionmaking, greater permissiveness in the settlement of wage and other industrial disputes, and higher tolerance of work stoppages. All of these rest on the premise that the climate of liberty is reinforced and the assumption of social responsibility by individuals, particularly those wielding considerable power, is strengthened.

Such a policy orientation has not been advocated by the authors of the report. It has not even been explicitly considered; hence one cannot, perhaps, say in all reasonableness that they have rejected it. And yet this is precisely what they have done by recommending a course of action that essentially subserves the requirements of Soviet style planning. My colleagues have simply excluded the alternative sketched above. Indeed they have come perilously close to recommending wage-fixation through administrative fiat on the ostensible ground that individual wage rates must conform in a planned economy with the predetermined norms of a national wage policy.

This is, then, the source of my basic disagreement with my colleagues. If it had been merely a matter of working out the logical implications of a given alternative it might have been easier to reach an agreement. We might still have differed in places, on points of emphasis, in the statement of qualifications, in the arrangement of empirical data, in the formal statement of a logical argument and, may be, even in deriving conclusions. Viewed as a logical exercise I am close to my colleagues; but then, I do not view the report in this light. I think important issues of considerable social and political importance are involved here. I disagree with my colleagues on the basic approach. However, if I were to make a full statement of my views it would require writing another report. I must, therefore, be content by expressing my substantive differences by citing paras and sentences that are open to question.

II

My substantive comments cover a wide range of issues. These do not include all the subjects that have not been satisfactorily dealt with in the Report. By necessity these follow the Report in sequence and general style and as such, are confined to statements made in it.

1. In section 1, under the title "Wages Policy in the Perspective of Planned Economic Growth", page 3, para one the following statement is made:

> " The touchstone against which the relative claims and counter-claims are judged and decided is the ability of a firm or industry to pay, or, at the most, the comparative position of workers. While these considerations may be justifiable in a particular context in their overall effects, in many situations they go against the dictates of rationality that should govern the formulation of a national economic policy towards growth of the economy, the distribution of the national product and other concomitant issues."

Again on page 7 the Report says:

> " When a point was made earlier that the profitability of production per worker in any one industry or sector is a misleading yardstick the objection is not against the norms of wages increased in proportion to increases in national production in general or to differential labour productivity in an industry, but against the wage increases related to increases in profits or production in a specific firm or industry"

I think these are important statements with serious implications. In a mixed economy, such as ours, wherein the decision making in the area of employment, wages and profit is essentially done at the enterprise level, it is but inevitable that the particular conditions of the firm or industry should weigh most heavily in the settlement of claims and counter-claims

of workers and employers. The judiciary at the highest level has also taken the position that the ability to pay of the firm or industry in question should largely from the basis for adjudging upon the claims of workers. The report makes an assertion that has been neither demonstrated to be logically true nor with the support of data, shown to be an acceptable hypothesis. There appears to be no evidence that, in practice, the principle of wage determination in the context of the particular needs of industry or firm has emperilled economic growth. Moreover, is it not proper in framing wage policy, to accept the prevailing legal-cum-institutional framework as a constant?

I would normally suppose that the frame of economic policy should be cast within the mould of the Constitution and the democratic institutions it has created. Instead the entire approach of the Report is to do exactly the opposite. For instance, the Report in its opening passage has virtually eliminated collective bargaining as a method of wage settlement. Likewise the employers both in private and public sectors, have been denied any worthwhile choice in respect of hiring workers on terms and conditions that are within the paying capacity of the firm and opportunities of negotiating with their employees on their economic demands. Thus, directly as well as indirectly the Report appears to reject a great many institutions, law and practice in our country.

2. On page 4, para one, the Report says:

> "That dominant objective is the advancement of the economy where the interests of groups, by they social, economic or even communal are in harmony and where the climate is created for a steady but rapid growth of national product with as equitable distribution of income as is in consonence with the desired rate of sustained economic progress."

This otherwise fine statement is deficient in one important respect. It is that the advancement of the economy has to be within the framework of our democratic constitution. Moreover, is there reason to suppose that the interests of groups are necessarily in harmony in our type of economy ? Indeed it is more realistic to postulate that inter-group relationships are characterised by a high degree of tension, mainly due to conflicting economic interests, and that the function of the State is to regulate them so as to maintain a measure of stability in the society. The Report gives the impression that the dominant objective of economic growth can be pushed so far as to generate untolerable pressures and strains in the economy, which in turn cannot but weaken the democratic government and jeopardise social stability. Is it necessary to proceed on the assumption that the most satisfactory growth rate is one that will also produce the greatest amount of tears and sufferings in the society ? A presumption to this fact is not warranted by the experiences of other under-developed countries that have experienced higher growth rates than India.

3. On page 4, para two, it is said in the report that:

> "It is the essence of developmental process to multiply the points of contact and interaction among these various parts of the economy so as to lead to their integration and a wages policy must not run counter to this end. It would be tempering but erroneous to treat each of these sectors in isolation and device different policies for them without taking into account their effects on the creation of a unified modern economy which must be our goal. This will however be a long process and till it is completed the pervasive existence of dualism has to be taken into account for the evolution of a proper wages policy."

I think the Report errs in subordinating wages policy, to the goal of eliminating the so-called 'dualism' in the economy. While there can be no two opinions on the desirability of creating an integrated modern economy in the long run, I cannot suppose that this can be done by manipulating wage structure. Indeed what goes under the term "dualism" is a characteristic of uneven development of different parts of the country. This essentially expresses the uneven spread of the market nexus, the varying degrees of response of our people to the opportunities created by investment, feudal social structure and traditional values. It would be naive to suppose that the kind of socio-economic structure India inherited from the British would respond to wage policy any more than it would to fiscal or monetary policy. Unquestionably these problems should be fought, but, through other means, such as, modernised education, land reforms, improvements in agriculture, spread of new ideas through the mass media, extension of democratic rights to the under-privileged classes, creating employment opportunities to the

tribal and untouchable masses and setting up new industries in the more backward regions. Changes in wage structure will follow the gradual transformation of agriculture and the reduction of regional inequalities. It cannot become an instrument for doing this.

The Report is silent on the methods the government will have to use to achieve this end nor does it cite any evidence to support the belief that these have worked satisfactorily in any other country. In this connection, I may cite the conclusion of a research paper pertaining to the U.S. experiences. The author G.C. Bjork writes:

> "The most important conclusion of this paper is that much of the migration which has taken place within the United States can be explained by the different rates of growth in demand for andsupply of labour in agricultural and non-agricultural sectors and the initially unequal proportion of agricultural employment in the various States. Migration is the mechanism for equilibrating unequal rates of growth of supply and demand for labour in different areas. The mechanism worked well enough in the United States from 1880-1920 to decrease differences in relative wages between areas but between 1920 and 1950 the dispersion of interestate wage differentials actually increased, in part, because of the failure of internal migration to take place at a fast enough rate to compensate for disequilibrium rates of growth in the demand for and supply of labour force. Migration has not been successful in substantially decreasing the initial disperson in relative wages".
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> Oxford Economic Paper, March, 1968 (Page 96-97)

If in the United States, with her high mobility of resources, wage dispersion continues undiminished after sustained economic development over the last 80 years, is there any reason to suppose that in our country,

with its polyglot population concentrations, it will be possible to eliminate socio-economic demarcations through a purposive wage policy? I think not.

4. On pages 5-6 the Report discusses the relationship between agricultural labour, marketable surpluses and industrial wages. There is a lengthy statement which reads as follows:

> " Take for instance the simple case of a wage rise in the industrial and trade sectors and its consequences for the labour in the agricultural sector. If real wages in sectors are to rise, given all other things. (including imports) the marketed surplus of food from the agricultural sector should rise. If it does not -and in the absence of commensurate increase in productivity in agriculture it would not -the rise in industrial wage rate <u>ceteris paribus</u> would curb the future growth alike of industry and agriculture. The rise in industrial wage rate would then mean only rise in food prices. Given the limited ability to procure and distribute food on a rigidly equalitarian basis. If an attempt is made to maintain the increase in real industrial wage rate, it will reduce the employment potential in the industrial sector. In so far as agriculture is concerned, the effects are even more harmful. For one thing, the standard of living of labour force in the agricultural sector, low as it is, would be depressed further, when the avenues of employment in non-agricultural sector diminish. This would add to the misery of the people in areas where social tensions are already acute. For another, the disparity between wages in the agricultural sector and those who continue to be employed in the industrial sector would widen thereby accentuating political and economic conflicts."

I think this is an extremely complex statement of theoretical relationships. With unstated assumptions, static analysis and half-spelled logic it is very difficult to either accept or reject the statement. First of all there is a problem of definitions. Is the Report concerned with money or real wages ? If it is the latter, and by definitions these are

dependent upon marketable surplus then it is a tautology to assert that real wages will rise only with growth in agricultural productivity. I suppose what the Report wants to say is that real industrial wages are dependent upon agricultural productivity and the marketable surplus because a large portion of the take home pay is spent on food items; and so in the long run there is no use clamouring for higher real wages. In real terms, real wages will rise, pari passu with agricultural productivity.

It should be easily recognised that the above assertion is a partial truth. In India agricultural productivity has risen during 1951-1965, on an average, by about 3.5 per cent per year, but real wages rose only marginally or not at all. This is because real wages are only indirectly determined by agricultural productivity. The method of calculating real wages shows this. All the factors, and not just the marketable surplus, that govern the behaviour of the Consumers Price Index determine the behaviour of real wages. One of the most important among them is the rate of monetary expansion consequent upon the growth in budgetary deficits. The second is the volume of food imports. The third is the state of distribution of foodgrains among the working population. It should also be recognised that in the long run, changes in the consumption pattern of workers are likely to reduce the dependence of real wages on marketable surplus. In fact this particular relationship may be expected to decline secularly. Moreover, there is no reason to suppose that real wages in some industries cannot rise even though the level may stagnats. If wages are dependent upon the

productivity of workers and the profitability of the enterprises concerned, earnings can rise at faster than the average rate. In fact this has happened in India as an analysis of interindustry wage structure will bring out. Labour unions can also join hands with employers, sometimes with the support of the government, to carve out islands of full employment wherein employment and wages can be fully secured from labour market pressures. The cotton textile industry in Bombay is an example of this kind. The Ports and Docks are another. In the latter case this has been statutorily done. It is also undeniable that unions have some role in wage determination. The more powerful unions in the progressive sectors of the economy can achieve for workers better wages and working conditions than in industry and trade as a whole. Besides, the process of industrialisation generates different paces of growth for most industries. The more rapidly advancing industries, even in a labour abundant economy, can satisfy their hiring needs by enticing workers away from existing enterprises. This factor will be the stronger the greater the thrust of industrialisation. It is bound to raise some wages disporportionately. We may thus find that under conditions of a demand-pull inflation, while real wages stagnate generally, in some industries their spurts are quite remarkable. The relationship of sectoral real wages, as is evident now, may not have any observable correlation with the supply of marketable surplus.

5. On pages 7-11, the Report goes at considerable length on the objective of wage policy.

I have already listed my objection to the suggestion in the Report that wage increase should be delinked with the productivity of the firm or industry and related to national norms. It has been argued in the Report that India might follow the examples of U.S.A. U.K. where governments have tried to link wage changes with the changes in the labour productivity in the private economy. Productivity in private economy has been defined in the report as productivity in the economy excluding government services. In the Indian context, I presume, it is inclusive of public sector. Now the authors of the report are undoubtedly aware that in India the increase in productivity in the industrial sector has been significantly higher than real wages. In Indian context there is just no point in saying that real wages should fall behind productivity because in fact, real wages have not risen at all over 1939 level. The point is how to bring about any increase in real wages at all within the framework of an economic policy that has rendered inflation a mandatory phenomenon.

It should also be noted that policy tools that have been acceptable to U.S.A. and U.K. are perhaps wholely unserviceable in India. Both in U.S.A. and U.K., the primary impulse to incomes policy is the balance of payment disequilibrium and the recurrent threat to their gold reserves. This flows from both the dollars and pound-sterling being freely convertible currencies. Furthermore, in both the countries, trade union movements are apparently powerful enough to be capable of generating wage push impulses in the economy. The economies are highly organised.

None of them suffers from the problem of dualism to nearly as great an extent as the case is in India and, therefore, there is a reasonable chance that, as a purely temporary measure, incomes policy will be successful. Not in India. Our trade union movement is fragmented, leading to considerable amount of tension and conflict in the industrial scene, and our government is not committed to policies of either holding the price level or correcting balance of payment disequilibrium. In these circumstances the incomes policy can serve only one purpose: to stabilise wages at the existing level and distribute the gains in productivity between the State, in the form of higher tax revenues and the employers in greater profit. This purpose, however, is unlikely to be acceptable to public; and among the trade unions it can evoke only the greatest opposition. Indeed there is already so much hostility, tension and distrust in public life that there is not the smallest chance that the government can even consider, far less implement, an incomes policy unless draconian police measures are simultaneously contemplated.

6. On page 25 there are the following passages:

> " In practice the capacity of the industry to pay is regarded as very crucial criterion for minimum wage fixation. In our opinion, its application, exception (sic) a marginal way, has severe limitation in the case of a country like India. In a laissez faire economy, if the industry made unduly high profits and the demand and supply conditions were such that there was not immediate possibility of its expension or price reduction, higher wages could be prescribed as they would be paid at the cost of profits. In a planned economy there are number of alternatives whose claims have to be considered. It may be possible and advisable to reduce prices or levy indirect taxes on the products of the industry.

More important, profits in our case would be highly dependent on state policies like import control, industrial licensing etc. which affect different industries differently. Errors in their formulation or implementation and their correlation might mean large changes in the capacity to pay. The capacity to pay will thus often be largely a decision, perhaps a fortuitous one, of policy decisions.

The test of capacity to pay is very difficult to apply in regulated and controlled industries. Once a certain wage goal has been laid down, it becomes extremely difficult to judge whether these sectors are able to meet the necessary wage claims. In such industries prices are generally fixed on some basis of cost plus formulae, so that unless conditions have radically changed or been misjudged by the price-fixing authorities, at current prices the controlled industries are not in a position to pay higher wages. This however, is no reason for refusing higher wages to labour because the price-fixing authorities would take existing wages into account without going into the question of their justification. No particular sanctity can be attached to the wages existing at a particular point of time because that was selected as the time of price fixation. Most of the controlled industries have an ascalator clause by which prices are revised upwards whenever wages are revised by wage-fixing authorities. In such cases it is difficult to ascertain the capacity of the industry to pay."

The above passages, as indeed the entire discussion, on capacity to pay leaves much to be desired. The concept of "Capacity to pay" has relevance mainly in the context of fixation of minimum wages whether statutorily or otherwise. The employers representatives have often averred that fixation of minimum wages, even in the sweated industries, at rates above the prevailing levels, might jeopardise the existence of the industries concerned. It is evidently assumed that the firms concerned are already maximising their profits in markets where prices are competitively

determined. In other words the primary effect of higher minimum wages will be to raise the level of their marginal cost schedules since it is not just the lowest wages but the entire wage structure will move up. This leaves them with two options: One is to reduce labour cost by reducing labour strength, an option that might not be feasible either due to the state of technology involved or, where redundancy in fact exists, by the threat of work-stoppages coupled with the disapproval of the authorities. The second is to accept lower profit margins. This is clearly an anathema to most businessmen.

In either event it is clear that the future growth potential of industries concerned is lowered and some unemployment, probably of temporary and casual workers, is inevitable. Thus it is argued that by raising the wage level the government will be hurting the entire industry, and not just the employers, as well as aggravate the problem of unemployment.

In terms of this analysis the authorities are faced with a cruel dilemma. Most of the industries where wages are unconscientiously low are close to agriculture, work on a seasonal basis, employ primitive technology, have relatively unskilled workers on their payrolls and may be largely located in the more backward regions. These provide employment to a large number of workers and are often managed in styles that can best be described as semi-feudal. These industries have little market power and cannot withstand sustained rise in costs. Therefore the chances of their closing down, if wage rates rise above a certain level, are quite real. Should the government, then raise the minimum wages to a level that may seem to be reasonable to

everyone and precipitate a crisis ?

In dealing with this dilemma let us recognise that economic theory does not furnish a ready solution. The problem has to be transferred to the realm of social values and a political decision taken on the basis of what might be socially preferable and politically feasible. My personal preference is unhesitatingly in favour of the following set:

(i) the government through proper enquiry should determine a wage level for each region that will provide minimum subsistence to workers;

(2) wage rates for different industries should accordingly be promulgated under the Minimum Wages Act and enforced within a reasonable period of time;

(3) the government should announce a series of policy measures that will mitigate the effect of higher wage cost upbn the industries concerned (i.e. tax relief, loans at concessional rates for modernisation, lower railway tariffs and other economic concessions); and

(4) finally take chances with closure of some factories.

If some factories cannot function except by paying below subsistence wages it is better that they close down. A serious implication of the policy, however, is that minimum wages, so enforced will be revised upwards on the basis of 100 per cent neutralisation of the consumers' price index.

This can be done as often as the CPI increases by a predetermined number of points. The principle works in the reverse direction as well. Another important implication is that the administrative discretion provided in the rules framed under the existing legislation will have to be drastically curbed. At the same time there is practically no scope for discrimination in wage fixation as between industries except on the basis of geographical demarcation. Thus a large state may be divided into regisons on the basis of identifiable economic characteristics and different wage rates fixed in each region; but within a region two minimum wage rates cannot be fixed. This will assure consistency in compliance with the principle of minimum-wage fixation and equity in the application of principle to different industries.

The second sphere in which the question of capacity to pay has been raised is the implementation of the 15th Indian Labour Conference on need based wages. On this I share the skepticism of my colleagues that for the country as a whole the economic wherewithal for paying need-based wages does not exist at present. I am, however much less satisfied that during the last ten years the country has made any progress in this direction. In all appearance the government even now does not take this goal seriously. It is a logical imperative of the conclusions of 15th Indian Labour Conference that the government will make earnest endeavour (i) to augment the supply of wage goods, particularly, foodgrains, and (ii) stabilise prices. I have not noticed any worthwhile effort on the part of the Government to move in this

direction. Hence one is forced to the conclusion that even though the objective of providing need based wages to a majority of workers employed in large scale enterprises is perfectly feasible, and can be realised within a decade, provided the same is reflected in plan priorities and the fiscal policy of the government, to cite only two important policy instruments- the chances of this happening are altogether remote. Just as one decade passed, so may another, and so on. Therefore the problem of capacity to pay is essentially one of economic planning and the policies that emanate from it. Until the government sees the light in this way, there is no hope.

The approach of the Report to the problem of capacity to pay is, however quite different. For the authors of the report it appears the key question is that the capacity to pay, wherever it exists, cannot be related to wages solely since there are other claims on it. In principle there can be no disagreement with the view that the government is entitled to collect taxes from an industry that has earned fortuitous profits. It is not, as the report avers, that the policy decision is fortuitous; indeed it is deliverately taken in accordance with the five year plan, but rather that it is expected that high profit will occur. The government can tax these profits provided it is the policy goal to reduce the growth potential of an industry or retard its pace. Otherwise high profits are needed to lure capital into new industries and may have to be left with their owners.

New industries generally face the problem of recruiting experienced hands and have to offer higher wages to lure them. With more than average

growth rate, and with prospects of high profits, management are encouraged to raise wages to assure industrial peace, redefine jobs, increase work load, or raise the responsibility content of jobs, introduce innovations and increase productivity. Higher wage rates provide the managements with a strong handle to subserve labour to its goals. This they can do because they have a differential capacity to pay. Why should they not exploit advantages over other firms to the hilt ? In fact this is the process through which wages in other countries have risen historically ; the rapidly growing industries gradually raise most rates in other industries across the board. This is indeed the process of economic development itself. I see no reason for curbing it.

As long as there is a measure of freedom of mobility of resources in the economy and the workers have option to change jobs, wage structure in some sectors is bound to go out of line every now and then. However if the government considers this as detrimental to economic planning then this can be stopped, provided the following conditions are met:

1. All wage rates are sanctioned by the government
2. Workers are disallowed from changing jobs except with the prior permission of the government.
3. Employers are forbidden from employing workers except at rates and in quantities supplied by the government.
4. Free trade unionism and collective bargaining are abolished.

5. Principles and procedures of wage determination at the plant and industry levels are statutorily laid down and a special arm of judiciary is created to adjudicate upon disputes and grievances of workers and employers.

In other words, unless there is a tightly controlled system of rationing of human resources it will be virtually impossible to endorce the policy of regulating individual wage rates in accordance with national norms. It is obvious that the practical problem of developing an administrative system for rationing labour in Indian conditions would be enormous, even unsurmountable. If such a course is ruled out, what is then the alternative to allowing individual enterprises to pay the rates that may be subject to collective bargaining and industry-wise negotiations under either the government auspices or directly between employers and unions ?

6. On page 33, the report makes a plea for selective fixation of minimum wages. Two reasons are put forward in favour of this approach:

" From the viewpoint of national wage policy wide difference in the industrial minima could be justified on two grounds. It may be that the generally prevalent wage rate in an industry is not able to attract necessary labour to it and a higher wage may be one of the inducements to draw or keep the labour in a particular industry. Secondly wage uniformity would mean no general rise in wages while a differential policy may make it possible to grant wage increase now in one industry, then in another and so on in a discriminary way so as to bring about desirable changes in the level of efficiency and work attitude. One industry may set an example to another. Moreover, if it can be generally demonstrated that increased wages would lead to increase in productivity of the employed workers there is no reason why such improvement in wages which pays for itself, should not be secured."

The arguments are untenable. Either it is said that the wage rise should be commensurate with the increase in productivity from which a rule can be inferred that the wage adjustments should be made at reasonable time intervals in the light of gains in the productivity or alternatively it is said that wages should be stepped up in the expectation that these will lead to productivity gains which, in turn, will justify the ex-ante increase in wages.

The report seems to be recommending both the principles at the same time. If the purpose of wage policy is to fix differentials at selected points then there must be an objective criteria for it. Ordinarily, the market furnishes the basis for determination of differentials. If, instead these have to be done by an administrative agency of the government then some clear out criteria will have to be devised.

If the argument is extended further it might be construed to imply that, in a controlled economy, employers should not worry about raising wages as sanctioned by the government because the higher cost is bound to be validated by the authorities through higher prices. The justification for this being that but for the increase in wages the industry in question will not be able to attract labour in the required numbers. Such a policy would no doubt spell ruin to many industries.