INTRODUCTION

The Study Group on Wages Policy was appointed by the National Commission on Labour on June 22, 1967 under the Chairmanship of Prof. D. T. Lakdawala, University of Bombay. The other members of the Study Group are :

1.	Dr. F. A. Mehta, Tata Industries, Bombay House, Fort, Bombay 1.	Member
2.	Dr. C. K. Johri, Shri Ram Centre for Industrial Relations, 5 Pusa Road, New Dehli 5.	Member
3.	Dr. D. R. Khatkhate, Economic Department, Reserve Bank of India, Post Box No. 1036, Bombay 1.	Member
4.	Shri Dinoobhai Trivedi, Textile Labour Association, Gandhi Majoor Sevalaya, P. B. No. 110, Bhadra, Ahmedabad.	Member
5.	Shri Mahesh Desai, All India Khan Mazdoor Federation, Hind Mazdoor Sabha, National House, 2nd Floor, 6 Tulloch Road, Bombay 1.	Member
6.	Shri S. D. Punekar, Tata Institute of Social Sciences, Sion-Trombay Road, Chembur, Bombay 71 (AS).	Member-Secretary

By the letter dated 7th of February, Shri Mahesh Desai resigned his membership due to his inability to attend the meeting. His resignation was accepted most regretfully at the meeting held on April, the 6th, and the Study Group wishes to put on record its appreciation of the benefit members derived from his association with the Group. Meanwhile, by the letter No. 3(5)/68 NCL dated 17th February 1968, Dr. L. K. Deshpande was appointed an Associate Secretary of the Group.

The Group is required to suggest, in the light of the emerging facts, solutions to the various problems pertaining to wages policy for consideration of the Commission. The Group formulated its own terms of reference in the light of certain issues raised by the Commission on the Wages Policy in its questionnaire issued to the public and other allied problems referred to in Section V of the same. The questions which provide the background for the terms of reference are given below :

1. How could the criteria of fairness to labour, development of industry, capital formation, return to entrepreneur etc., be taken into account in wage fixation ?
2. It is said that in the balance between fair wages to workers, fair profits to entrepreneurs and fair returns to treasury, the consumers are often left behind. How far is that criticism valid ? How best can the situation be remedied ?
3. In the context of planned development, the question of taking an integrated view of policy in regard to wages, incomes and prices is often emphasised. What should be the objective and scope of such a policy ? Indicate the guidelines for such a policy in the light of the perspective for the growth of the economy. Change in the existing institutional arrangements for implementation of such a policy may also be indicated.
4. Do you suggest a policy of 'wage freeze' ? If so, how can it be implemented under the existing system ? What are the implications of this policy for other incomes ?
5. Is there a need for sectoral balance in wage structure between the public and private sectors ? If there is, how should it be achieved ?

In addition, the questionnaire raised issues regarding minimum wage, need-based wage as emphasised by the 15th session of the Indian Labour Conference, dearness allowance and wage differentials.

The Group formulated the terms of reference to cover above issues. They are as follows :

1. To indicate the economic context in which the wages policy has to be viewed and formulated and to provide a background for initiating an integrated approach to policy in regard to wages, incomes and prices ;
2. To study and analyse the facts relating to unemployment, wage levels and wage differences as between sectors, industries, etc. and
3. To suggest, in the light of the above analysis, the appropriate guidelines in regard to formulation of wages policy in the perspective of the growth of the economy, policies in regard to the norms about wage level, minimum and need-based wages, fixation and adjustment in dearness allowances and policies regarding wage differentials and dearness allowance.

The Report of the Group which was finalised after holding eight meetings is divided into six sections. Section I deals with the approach to the wages policy in the context of planned economic growth of the Indian economy ; this section also deals with various aspects of the incomes policy of which wages policy is only a part. Section II analyses the trends in employment, unemployment, money and real wages. The question of minimum wages and its implications for the wages policy are discussed in some detail in Section III. The complexities of the problem of dearness allowance are dealt with in Section IV. Wage differentials are discussed in Section V. The final section sums up the main conclusions emerging from the analysis in earlier sections.

Section 1

WAGES POLICY IN THE PERSPECTIVE OF PLANNED ECONOMIC GROWTH

The problem of framing and implementing a wages policy which would be universally accepted is an extremely difficult one. The impediments in the way of evolving any such policy in India are compounded further by the population pressure, considerable inequalities of income, pervasiveness of dualism in the economy, the increase in unemployment from Plan to Plan and the resultant political and social tensions. The wages policy, whatever its content and shape, operates in an area where emotive forces overshadow rational judgements. For one thing, workers are apt to view their claims on the product in the creation of which they participate as unrelated to the growth of the product. They regard it as a matter of the highest importance that their just share of the product should be considered as a prior charge ; and to each worker his share looks small compared to that of the employer. For another, the employers' attitude are often opposite to those of the workers. They are naturally anxious to reduce their costs, and to them wages form a substantive cost element. Both these view-points, though perhaps justifiable taken in their limited context, tend to create difficulties in a developing country with its manifold, multi-dimensional problems.

When these two approaches to issues involved in wages policy are seen in juxtaposition to each other, one almost despairs of an acceptable solution. When the trade unions clamour for a wages policy, they do so mostly to alleviate grievances of workers in a particular firm or an industry or at most organised industry as a whole. And the wages policy formulated is resisted likewise by the employers in the same firm or industry. 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 national economic policy towards growth of the economy, the distribution of the national product and other concomitant issues.

All these points to the need for avoiding analysis of the problems of wages policy in isolation. Admittedly there are variety of objectives before the community. Each objective by itself may be desirable and consequently maximisation of what that objective implies has to be achieved but the maximisation in one direction tends to clash with the maximisation indicated by another objective. The question then is to hit upon one dominant objective which would subsume the achievement of other subsidiary objectives, albeit without violating the dominant objective. That dominant objective is the advancement of the economy where the interest of groups, be they social, economic or even communal, are in harmony and where the climate is created for a steady but rapid growth of the national product with as equitable distribution of income as is consonant with a desirable rate of saving for economic progress.

The Prevalence of 'Dualism'

Many of the distinguishing characteristics of the economy of an underdeveloped country like India would disappear if one ignored the 'dualism' that prevails in such economies. This dualism is the result of meagre inter-communications, reactions and inadequate mobility of human and capital resources between sectors. The problems of wage policy would have been in a way simpler if no inter-relations were contemplated between these sectors. However, this is not the case. Under the impact of general economic planning, the erstwhile demarcations tend to get blurred. Comparisons among sectors become common. Economic development demands integration in the long run. 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 tempting but erroneous to treat each of these sectors in isolation and devise 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.

We may speak of three kinds of dualism in the context of a wages policy. First, the dualism that characterises the economic activity in agricultural sector as distinguished from that in the modern industrial sector.

Second, within the industrial sector, the activity in the small-scale industrial sector and the large-scale industrial sector. The former is more akin to the agricultural sector in point of technology, attitudes and the characteristics of employment.

Third, the dualism that is brought about by the disparity in regional growth. Let us examine each of these in turn and then proceed to analyse the implications of these for the wages policy.

The most important type of dualism characterising an underdeveloped economy like India flows from the nature of its agricultural activity. There is a large mass of people subsisting on this sector. The productivity is abysmally low. Techniques are backward and the elasticity of supply low. Rising population, lack of employment opportunities elsewhere, and the largely self-employed characteristics have led to the phenomenon of disguised unemployment and very low wages for rural labour compared to industrial labour. A wages policy has to be formulated keeping in view its repercussions on agricultural labour, production and marketed surplus. It has also distributive significance in as much as it may widen or narrow the disparity in living standards between the two sectors. Take, for instance, the simple case of wage rise in the industrial and trade sectors and its consequences for the labour in the agricultural sector. If average real wage in these sectors is 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 *ceteris paribus* 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 of the State 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.

The second type of dualism that thwarts the formulation of wages policy is the existence of the small-scale and cottage industries. This sector resembles more the agricultural sector than the industrial one. The techniques employed are antiquated, conditions of employment primitive, and so on. It also harbours more labour than required for precisely the same reasons which account for the phenomenon of disguised unemployment in agriculture. Though this sector emerges out of the womb of agriculture, workers are apt to be more influenced by what transpires in the industrial sector. This further detracts from the ability of this sector to generate adequate amount of surplus for reinvestment.

The third kind of dualism is reflected in the widely varying productivities and living standards in different regions. Pressures for a higher standard of living are already intense, but they are heightened by the glaring region-wise differences. The standards of consumption vary very widely, and at the same time widely different standards for different regions are difficult to apply when modern communication and transport conduce to demonstration effect, and firms with plants in different regions become common.

The difficulties created by dualism of the nature we have discussed above are aggravated by the norms that are adopted to determine the wage level in the industrial sector. By and large three principles rule the field.

1. Except for stated, justifying circumstances, the minimum wage for industrial labour must at least satisfy the norms as defined in the Tripartite Agreement arrived at the 15th Labour Conference.
2. Since in practice few industries or firms are in a position to pay this minimum, much lower wages have been justified in relation to the ability to pay in a particular firm or industry. The ability to pay is a difficult and unsatisfactory criterion to apply under Indian conditions The inter-industry differentials assume an irrational character.
3. Since prices have risen rapidly and different compensatory principles are followed, real wages move in

an unplanned way. Wages in different industries and regions get out of line and differentials for skills get narrowed down. Wages increase without regard to changes in productivity in the economy or to differential labour productivity considerations.

The main objective of the worker is to achieve a rise in his standard of living. A proper wages policy must ensure that he gets such increases as are conducive to economic growth and represent a fair share of the permissible increase in consumption of the nation as a whole. But the main aim is likely to be defeated by bargaining for wage rise based on chance ability in particular industry. Generally speaking, (except in the case of the poorest) if the wage rise does not lead to more production and reduces savings and investible surplus, it would mean a smaller volume of employment. Moreover, once wages rise, the tendency to use a greater degree of capital intensity in the modern sector gets fortified. This implies that the volume of employment per unit of investment declines and consequently the pool of the unemployment swells.

In considering the question of wage rise, an exception has to be made in cases where a rise in productivity depends on a rise in wage rate. Such areas have to be isolated and the wages policy has to be so fashioned that the community would derive benefit in terms of productivity from a given wage rise. However, such areas are likely to be limited and careful investigation and controlled experimentation are needed to locate them.

Reduction of job opportunities in the industrial sector adds to the burden of disguised unemployment in the agricultural sector. If this interrelationship is ignored, the efforts made to improve the living standards of workers in the organised and unorganised industries as well as those of agricultural labour will fail. Any appreciable increase in the wages of the organised industrial labour demands a rapid growth in agricultural productivity. So long as it remains low, it will limit the scope of improving the real wages not merely of labour in agriculture, but also of that in industry.

Implications for Wages Policy

After this diagnosis, let us turn to the prescription. 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. It is, for instance, suggested, in the context of the advanced economies like the U.S.A. and U.K., that the wage changes should be linked up with the changes in labour productivity in the private economy, i.e. productivity in the economy *excluding* Government services. If productivity in the private economy grows at 3 per cent, wages, under non-inflationary conditions, should grow at 3 per cent per annum. While this condition is germane to advanced countries, there are certain qualifications which have to be introduced in developing countries. The rate of growth of real wages should be less than the rate of growth of productivity in the private economy to allow for a certain margin for saving. Since the underdeveloped countries have a lower saving ratio, one of the major objectives of economic policy is to raise it to a higher level. Apart from this, these are the economies which are characterised by a rising capital-output ratio; with the structural transformation capital per unit of output tends to increase at the initial stages. This suggests that a substantial slice of the increase in national product has to be diverted towards saving. The object of this is that real wage rate should not rise at the same rate as the rate of increase in labour productivity in the private economy.

The next question is about the desirable distance between these two rates. Here the most important consideration is the extent of rise in per capita consumption that the country desires in a particular economic context. To take a purely arithmetical example, if population increases by 2 per cent total national income is projected to rise by 8 per cent and the desired marginal saving-income ratio by 50 per cent, it follows that per capita consumption should increase by 2 per cent per annum. This is in fact a desirable or a planned increase in per capita consumption permissible in the given context. Since wage incomes are in general consumed (apart from increases in compulsory provident fund savings due to extension in coverage in earlier years), one can take desired consumption changes as a norm for determining the upward change in average wage rates in the economy, allowing for the change in the earner-population ratio.

While the above norm might be generally helpful, it implicitly assumes that the productivity in agriculture would increase at commensurate rate. In point of fact. the rate of growth of agricultural productivity will set a limit to the rate of real wage increase. To start with, the rate of growth of real wage rate in the non-agricultural sector can increase without lowering employment opportunities only if the rate of marketed surplus increases. Actually, the rate of growth of marketed surplus has to be significantly higher than that of the labour force. If this does not happen, there would be a larger volume of unemployment.

For the marketed surplus to increase significantly, the productivity in agriculture has to increase substantially too. Given the proportion of marketed surplus to the total agricultural production, it is imperative that this rate of growth of agricultural productivity has to be higher than the rate of growth of labour force, if the wage rates in the industrial sector have to be raised concurrently.

Thus, as long as the productivity of the agricultural sector remains low or stagnant, there would be a basic constraint on the upward change in the real wage rate in the industrial sector. One can, of course, opt for raising the wage rate in the latter, but there should be corresponding willingness to be confronted with a rising volume of unemployment and a likely deterioration in the living conditions of the labour in agriculture. In other words, the wage level, whether of agricultural labour or industrial labour, and the changes therein have to be seen largely as two different sides of the same coin, i.e. the productivity in agriculture. If this analysis is correct, certain implications for economic policy, of which wages policy is only a part, follow.

Wage rate determination in any major industry or industries is not merely a problem facing the industry, but it is pervasive enough to affect many other decisions. If the Government aims at raising the real wages of industrial labour, it should move with necessary speed and efficiency to raise labour productivity in agriculture at the maximum possible rate. Some beginning, spectacular in some spheres, has been already made. But if these achievements are not to remain mere 'islands', effort is necessary to spread it all over the agricultural sphere. The required investment in irrigation, power and chemicals has to be made the first priority in years to come to convert what seems to be an aberration into a trend.

While it is imperative to raise agricultural productivity, this is to be achieved more through cost reduction per unit than through raising the prices of agricultural goods. After all, what matters to make agriculture profitable is not higher prices *per se* but the margin between total revenue and total cost which can be widened by technological and technical innovations. Because of the fundamental need to revolutionize agriculture and turning it from a way of life into an industry, in the short run, higher farm prices may be unavoidable, but that should be only a tactic to be substituted by the long-term strategy.

The question of laying down broad guidelines for wage determination is very important. As mentioned earlier, the wage increases should be governed by the rate of increase in per capita consumption planned during any specific Plan period. Normally there need not be any particular institutional mechanism to enforce it because being only a broad guideline, it will need to be considered along with other criteria in wage determination. In a developing economy, specific considerations are likely to prove quite important. In the interest of better industrial relations, collective bargaining needs to be encouraged and much freedom will have to be allowed. Further, the proportion of income subject to such regulation will remain a small portion of the national income and it may not be advisable or possible normally to subject other categories of income to any direct discipline. However, where the machinery of the State is used in wage fixation, the State would have an opportunity and the duty to lay this as one of the important principles in wage fixation.

The situation would be very different were the nation to be confronted with a war or a sharp contraction of national income due to natural calamities, etc., in which periods national consumption would have to decline. In such cases, a ceiling on wages as on other incomes may become imperative and the necessary support from the people, we believe, would be forthcoming.

There is one rider that needs to be added to the foregoing. The analysis so far is in terms of a rise in the wage rates, but in times of rising prices, there is also the important question of maintaining the existing level of real wages. It is necessary to restore it through suitable adjustments in money wages, at least at the lower level. While this is being done, measures be devised to contain the upward movement in prices. The should justification for it stems from the need to maintain social cohesion and political stability and equity in economic relationship. This is more desirable in a poor economy where the large mass of people has a slender margin of income to sacrifice in a period of rising prices. Another issue is the structure of wages. While in the industrial sector the basic wage rate would be determined in the manner indicated above, the wage differentials should be influenced by the relative scarcity of personnel and the need for promoting and retaining the required types of ability and skills. This also applies to other categories of income such as salaries. As between sectors such as agriculture and industry or large organised industries and small-scale and cottage industries, the wage differentials should be such as would conduce to the shift of labour of given skills from less productive sectors to the more productive ones, and maintain them in optimum efficiency.

Policy towards Wages and Salaries in the Public Sector

We may now pass on to the problem of fixing wages and salaries in Government-owned concerns. In the developmental strategy, the role of public sector as a pace-setter and creator of social over-heads is unavoidable. It can be a valuable instrument in redistributing incomes and eradicating social inequality. There has been an attempt over the past few years to follow and uphold different wage and salary policies in this sector. The primary consideration in this regard should be that the Government should try to draw towards itself the right type of skill and talent for performing the variegated functions. A job with the Government affords greater security than a job in private sector. As a general guideline, therefore, the wage and salary scales in the Government enterprises should be comparable to the scales in the private sector for similar types of work and/or similar requirements of skill and talent after making allowance for greater job security. This is the principle of "fair comparison" as enunciated by the Royal Commission on Civil Service (1955) in the U. K. and which forms the basis of the Federal Salary Reform Act, 1962 in the U. S. The same principle is also expounded in the Presidential pronouncements in the U. S. This sort of balance between wage and salary scales in the public enterprises and those in the private sector is of material significance in the Indian economy and any distortion there would affect the efficiency and morale in the public sector.

Policy for Regulation of Profit and Other Non-functional Incomes

This brings us now to the question of types of incomes other than wages. Of all these incomes, profits are an important category. If the economy has to advance, savings have to increase faster than consumption and since the savings emanate from the accumulation of profits, the latter have to increase. However, what is required is not profits *per se* but the accumulation of profits for saving and not for conspicuous consumption. It is necessary that profits which have to increase are those which have a functional role. Profits can also rise as a result of price rise which is facilitated in a shortage-affected economy through the protected markets. In these circumstances, irrespective of the level of efficiency, the producers of commodities can ensure their profit margin through raising their prices. Profits thus tend to be non-functional in character in so far as they are divorced from any link with risk or innovation. There is also a tendency amongst some profit-earners in the country to spend their incomes in meretricious consumption. For this reason, there is need for a well-articulated fiscal policy which can relate profits accrued to productivity effort, and control unnecessary expenditure out of them. There are a variety of fiscal instruments by which this can be done. For instance, it will be possible to set certain constraints on the non-functional type of incomes such as interest, rents etc. However, care should be taken, if these regulatory measures are to be effective, to limit the area to manageable proportions. The most practicable instrument, as the Steering Group on Wages, Incomes and Price Policy has put it, for dealing with such high incomes of non-functional nature will be "the effective enforcement of a progressive tax system, supplemented by adequate system of taxation of capital gains and an expansion of public control over the material means of production."

While devising a policy regarding regulation of profits, the question of defining the rate of return on capital, particularly in industries where the prices of products are controlled, assumes over-riding importance. Price controls serve a certain purpose in basic industries where production cannot be increased in a short time. Attempt, therefore, should be to indicate the norms of fair return on capital in the light of the nature of industry, its place in development activity and the expectation of the capital market. In 1955, when the concept of capital employed (that is, net block plus working capital) was introduced, a 10 per cent return was deemed fair. Since then, the rate has varied between 10 per cent and 14 per cent. As regards public sector enterprises, the Draft Fourth Plan, for example, mentions a desirable rate of return of 12 per cent on invested capital. There cannot be, however, a presumption in favour of a categorical answer as regards the appropriate level of rate of return, for the rate has to vary with the needs of the particular industry on account of factors such as risk involved, need for expenditure on research and development, priority industries etc. But as a general guideline, all that we can say is that the rate of profit that should be permitted in the industries with controlled prices should be enough to allow for the self-sustaining growth of the industry concerned and the reward for the risk involved in running those industries.

All that emerges from the foregoing discussion is that the wages policy, if it is to mean anything, has to be viewed in relation to the overall economic context. Wage incomes and profit incomes have to be fitted into a scheme of things to smoothen the process of economic development.

Section II

TRENDS IN EMPLOYMENT, UNEMPLOYMENT & WAGES

Despite the heavy investments during the past decade and a half, the problem of unemployment has remained as acute as ever. Table 1 gives the changes in the volume of unemployment during the three Plans.

TABLE 1

Estimated Unemployment, Employment Potential & Employment Generation shown in successive Plans (in millions)

	Plans			
	1st	2nd	3rd	4th
1. Back-log of Unemployment at the start of the Plan	3.0—5.4	5.3	7.0—9.0	9.0—10.0
2. Net additions to Labour Force during the Plan period	9.5	10.0	7.0	23.0
3. Employment potential of the Plan :				
(a) Total	5.3*	10.7	14.0	18.5—19.0
(b) Non-agricultural	3.0*	8.0	10.5	14.4
4. Employment generated by the Plan :				
(a) Total	4.5*	8.0	14.5	—
(b) Non-agricultural	N.A.	6.5	10.5	—
5. Unemployment as per cent of Labour Force at the start of the Plan	2 0—3.4	3.4	4.1—5.3	4.8—5.3

* Exclude indirect employment.

Source : Dr. P. M. Visaria, Employment and Unemployment in India during Three Plans, Mimeographed Paper, Dept. of Economics, University of Bombay ; see also successive Five Year Plans.

While the Plans have added to the volume of employment, this has not been on a scale adequate to absorb the growth in labour force. The new industries set up in both the private and public sectors have been capital-intensive ; in addition the capital-intensity in established industries has increased. Consequently, the growth of employment is less than what it would have been had the pattern of investment been different. It has been argued that this policy is not entirely disadvantageous, because, although employment is reduced in the short-run, it ensures a higher rate of employment in the future.

Although in future new industries may be started in rural areas in response to economic and governmental pressures, in the past, organised industries have been largely concentrated in urban areas. Hence, the level and rate of change of urban unemployment could be expected to be the more important variables affecting the level and changes in both money and real wages in the organised sector about which some reliable information is available than unemployment and underemployment in rural areas. In Table 2 an attempt is made to put together information available from various sources.

TABLE 2

Unemployment & Indices of Money & Real Wages in India (1952—1961)

Year	Unemployment as % of urban labour force	Index of Money earnings 1951=100	Index of real wages 1951=100
1952	1	107.1	109.2
1953	5	107.7	106.6
1953-54	4	107.7	109.3
1955	6	113.1	123.7
1955-56	6	114.2	119.5
1956-57	7	118.1	114.8
1957-58	6	119.8	110.9
1958-59	4	120.2	106.5
1960-61	2	134.3	112.8

Notes : Col. 2 is derived by applying N.S.S. Participation and unemployment rates to mid-year estimates of urban population after adjusting for the change in definition of urban areas in the 1951 and 1961 censuses. Col. 3 and Col. 4 give earnings and real wages of workers drawing less than Rs. 200/-. Indices for 1953-54, 1955-56, 1956-57, 1958-59, 1960-61 are averages of indices for 1953-54, 1955 and so on. N.S.S. data on unemployment are not available for later years.

Due to differences in reference periods of different N.S.S. rounds relating to unemployment, figures in Col. 2 are not strictly comparable. The data of unemployment are meant to indicate direction of change rather than exact magnitudes. Between 1952 to 1955, unemployment as a percentage of labour force increased from 1 to 6, but the index of money wages increased from 107.1 to 113.1 and that of real wages rose from 109.2 to 123.7 due to a fall in price level. Throughout 1955 to 1958, unemployment continued to be at 6 to 7 per cent of the labour force and money wages increased, but real wages declined from 123.7 to 110.9. Between 1957-58 and 1960-61 unemployment declined and money wages rose, but real wages continued to be below the 1955-57 level.

From Table 2, it can be inferred that the excess labour supply is not a major factor affecting money wages. The factor that governs the money earnings of workers in the organised sector is the consumer price index. The coefficient of multiple correlation between money earnings on the one hand and the degree of unionisation, consumer price index and productivity on the other is +0.84. The simple correlation coefficient between money earnings and consumer price index is +0.88, but it drops to +0.69 when the effect of degree of unionisation is cancelled out.*

The effect of excess supply of labour cannot be fully understood only by comparing the movements in wages and unemployment as we have done so far. The rise in demand for labour resulting from investments in the past has reflected itself in increases in employment.

The increase in money earnings and to some extent in real wage of factory labour in periods of rising unemployment may be explained mainly due to two factors : (a) work in organised industry needs special attitudes, discipline and strength and (b) that there are institutional factors affecting wages differently in different sectors. Among the institutional factors, the role of the government and the unions is the most important and pervasive, while trade unions touch only organised labour. The Union and State Governments enact and enforce minimum wage laws in a number of employments in the unorganised sector. The public sector in India is the largest employer accounting for approximately 61 per cent of the employment in the non-agricultural sector.** At the instance of the union, the Union Government have so far appointed 22 wage boards in respect of 19 industries.*** Governments have also provided for an adjudication machinery which has by now affected wages of all major plants in most of the industries in India.

* Dr. C. K. Johri, *Unionism in a Developing Economy*, Asia Publishing House 1967, p. 91.

** Employment Review, D.G.E. & T, Ministry of Labour, Employment and Rehabilitation, New Delhi, page 29.

*** Employers' Federation of India, Handbook of Central Wage Boards' Recommendations (see preface).

All institutional factors do not operate equally strongly in different sectors and they have to operate under different constraints. The unions, which have as their predominant motive the protection of workers from the operation of economic forces of demand and supply, derive their strength from the organisation and discipline of their members, which are likely to be inadequate in unorganised industries. The State's actions are less subject to restrictions of this character but it cannot be entirely oblivious of pulls and pressures which are a function of political and economic strength. The State has however to pay greater regard to equity among various groups and the needs of the economy.

TABLE 3

Indices of Production, Employment, Productivity, Money and Real Wages, and Consumer Prices

Year	Production (factory)	Employment (factory)	Production per worker	Money Earnings	Real Wages	CPI
1	2	3	4	5	6	7
1951	100	100	100	100	100	100
1952	103	103.7	99	107.1	100.2	98.1
1953	105.8	102.1	104	107.7	106.6	101.0
1954	113.2	104.2	109	107.7	112.0	96.2
1955	125.6	106.9	171	113.1	123.7	91.4
1956	137.2	117.8	116	115.4	115.4	100.0
1957	141.7	121.6	117	120.8	114.3	105.7
1958	145.7	123.4	118	122.3	110.7	110.5
1959	167.7	125.1	126	120.4	109.7	115.2
1960	175.3	129.5	135	134.4	113.8	118.1
1961	185.0	134.8	137	138.6	115.5	120.0
1962	201.1	141.4	142	144.0	116.3	123.8
1963	210.2	150.2	144	145.2	113.8	127.6
1964	233.5	157.3	148	150.8(E)	140.1(E)	144.8

Source : Table Nos. 12, 13, 15 in Dr. C. K. Johri's Unions in a Developing Economy, Asia Publishing House, 1967.

Table 3 shows that in 1964 factory production more than doubled compared to 1951, while employment increased by 57 per cent Production per worker increased by 48 per cent over the same period Money wages increased also by nearly the same per cent. Real wages fluctuated and showed no distinct trend, but throughout the period they were higher than in 1951. It may be noted that simultaneously the capital-labour ratio in industry increased significantly. The following statement shows the increase in capital-intensity that has taken place in some selected years.

Statement of Index of Fixed Capital per worker (1951—100)

Year	Index
1956	121
1959	172
1960	170
1961	185

Source : H. B. Shivammgi, N. Rajagopalan and T. R. Venkatachalam, "Trends in Wages in Relation to Trends in Labour Productivity and Costs of Production in India : 1951-1961", Economic & Political Weekly, May 4, 1968.

Note : The index may be taken to represent the trend in the manufacturing sector although it is based on the data for the following seven industries which cover 50% of employment in CMI & ASI. (1) Cotton Textiles, (2) Jute Textiles, (3) Paper and Paper Board, (4) Sugar, (5) Cement, (6) Chemicals and Chemical Products, and (7) Iron and Steel (Metal).

Table shows that money earnings increased at an average annual rate of 3 per cent between 1951 and 1964. At times the average earnings in industry increase because of shifts in employment among industries without any increase in wages within the same industries. In order to find out whether wages increased within the industries or not, the effects of shifts in employment would have to be eliminated. Lack of comparable data for the entire period under review forced us to restrict ourselves to a very short period, namely, 1960-63 for which comparable data are available for large number of industries. In 1963 the average annual earnings of workers covered by the ABI (census) amounted to Rs. 1662. When employment shifts between 1960-63 were excluded, the earnings amounted to Rs. 1645. From this it appears that the benefits of money wage increases have accrued to large segments of labour population. This does not preclude the possibility of wages in some industries increasing at a much faster rate and thereby rendering the concept of average rate of increase of dubious value. In India, the inter-industry wage structure has become skewed to the right between 1951 and 1961. The coefficient of skewness which was —5.50 in 1950-52 has changed to +66.67. The median earnings of workers in 1959-61 were below the mean whereas in 1950-62, they were above, indicating that although the average earnings have increased over 1950-52, for more than 50% of the workers the average increase was less than the increase for the workers as a whole.*

The increase in the average annual money earnings of workers must really be compared with similar changes for all the earners in the community to get an idea of how the organised worker fared vis-a-vis the earning community. In the absence of any data on the latter aspect, these can only be compared either with changes in net national output at current prices, or since the number of earners increases with population growth, though not proportionately, with changes in per capita output. Comparison of Table 3 and Table 4 shows that during the period, increases in money wages have been more than those in per capita output but less than those in net national output. It may be added that workers received some increased amenities in kind not recorded in their wage earnings.

TABLE 4
Net National Output, Net Output Per Capita and Their Indices for Selected Years

Year	Net National Output in Rs. Crs. at Current Prices	Index 1950-51=100	Net Output per Capita in Rs. at Current Prices	Index 1950-51=100
1950-51	95.3	100	266.5	100
1960-61	141.4	148	325.7	122
1961-62	148.0	155	333.6	125
1962-63	154.0	162	339.4	127
1963-64	172.1	181	370.9	139

Beginning from the year 1964, real wages show a distinct fall as seen from Table 4 A which gives the indices of money and real earnings of workers getting less than Rs. 400/- p.m. and employed in manufacturing industries.

* Dr. C. K. Johri, "Inter-industry Wage Structure in India, 1950-61", Indian Journal of Industrial Relation, Table-5.

TABLE 4A

Indices of Net National Product, Per Capita Net Product, Money and Real Earnings (1962 to 1966)

Year	Net National Product @ (constant prices)	Per Capita Net Product@ (at current prices)	Money Earnings‡	Real Earnings‡
1	2	3	4	5
1962	112.8	107.4	105.6	102.3
1963	130.6	121.3	108.9	102.4
1964	151.8	137.8	114.4	94.9
1965	156.6@@	138.7@@	127.5	96.8 (P)
1966	179.6@@@	155.3@@@	131.1 (E)	89.8 (E)

@ C.S.O. Estimates of National Product, 1960-61 to 1966-67. The figures in these columns relate to fiscal years 1962-63......etc.

@@=Preliminary Estimates

@@@=Quick estimates

‡=Col. 4×5 are from Indian Labour Statistics 1967, Table 4.5, p. 89.
P : Provisional, E : Estimate

It can be seen from the above table that per capita net product at current prices also increased more during the period. In order to get a clearer picture of the movements in money earnings of workers, it will be necessary to study them at the micro i.e. at the industry level. Table 5 gives the percentage changes in money wages in 1964 as compared to 1951.

TABLE 5

Average Annual Money Earnings of Factory Workers Drawing less than Rs. 200 p.m. by Industries

Name of Industries	1961	1964	Difference	Percentage
1. Cement	919	1938	1019	110.88
2. Leather & Leather Product	752	1465	714	94.95
3. Process allied to Agriculture	155	298	143	92.26
4. Chemicals & Chem. Products	868	1497	629	72.47
5. Food except Beverages	480	796	316	65.83
6. Wollen	988	1627	636	64.68
7. Jute	815	1336	521	63.93
8. Manufacture of Pottery	654	1060	406	62.08
9. Wood & Cork	654	1055	401	61.31
10. Footwear	989	1541	552	55.81
11. Manufacture of Glass & Glass Products	692	1072	380	54.91
12. Cotton	1178	1808	630	53.48
13. Tanneries & Leather Finishing	749	1145	396	52.87
14. Products of Petroleum & Coal	1132	1728	596	52.65
15. Non-metallic Mineral Products	699	1065	366	52.36
16. Paper	997	1496	499	50.05

	Name of Industries	1961	1964	Differ-ence	Percen-tage
17.	Fine Chemicals & Pharm-aceutical Products	978	1453	475	48.57
18.	Paper and Paper Products	958	1413	455	47.49
19.	Silk	991	1459	468	47.23
20.	Metal Products	917	1346	429	46.78
21.	Transport Equipment	1171	1690	519	44.32
22.	Machinery (except electrical)	998	1407	409	40.98
23.	Water and Sanitary Services	908	1277	369	40.98
24.	Printing, Publishing and Allied Industries	1052	1443	391	37.17
25.	Miscellaneous Industries	1087	1458	391	36.64
26.	Furniture and Fixtures	940	1253	313	33.30
27.	Ship Building and Repairing	1337	1731	394	20.47
28.	Electrical Machinery	1238	1557	310	25.76
29.	Rubber and Rubber Products	1325	1658	333	25.13
30.	Recreation Services	969	1200	231	23.84
31.	Electricity, Gas and Steam	1229	1517	288	23.43
32.	Beverages	960	1146	177	18.27
33.	Matches	842	940	107	12.71
34.	Basic Metal Industries	1368	1477	109	7.96
35.	Tobacco	392	409	17	4.34
36.	Personal Services	153	859	6	.70

From Table 5 it can be seen that for 20 industries the increase in average money earnings was more than the increase in the consumer price index. For the remaining 16 industries, the increase in prices was more than the increase in money earnings. The case of these industries, where in spite of thirteen years of planning, real wages went down (if a continuing phenomenon) needs a detailed analysis to locate the causes, and suggest possible remedies.

Section III

MINIMUM WAGE

The concept of minimum wages first evolved with reference to remuneration in some sweated industries where the general level of wages was substantially lower compared to the average wage for similar types of labour in other industries or in the industry as a whole. It was realised that because of peculiar conditions of trade or labour in those industries, the abnormally low level of wages was likely to perpetuate itself and no self-corrective forces were likely to work. The Trade Boards constituted in England by the Trade Boards Act of 1909 were restricted to employments where the prevailing wages were exceptionally low as compared with those in other employments. The Act of 1918 extended wage regulation to cover trades where no adequate machinery existed for effective regulation of wages throughout the trade. Although the Trade Boards Act gave no guidance for laying down wages, the Boards were guided in practice by three important considerations:

a. Securing to every normal worker at least a maintenance wage.

b. Rates offered to workers in comparable occupations.

c. Rates which the market conditions of the trade permitted to pay.

In fixing the minimum wage, care was generally taken to ensure that the wages fixed were neither higher than what a larger number of units were paying nor more than what a large part of the workers were receiving. The result was that employment in these industries was hardly affected adversely. While a few firms paying low wages closed down or reduced the scale of operation by decreasing employment, others expanded their employment and overall effects were negligible. This, combined with the drive towards better management and organization methods, and greater labour efficiency, enabled the higher wage costs to be met without price increases. Minimum-wage legislation of this kind did not lead to industrial closures, nor to substantial price increases. The attempt by the wage regulators to find some basis for wage other than that offered by the existing market situation has led to the emergence of three basic concepts of wages—the subsistence wage, the fair wage and the living wage. The content of these terms is elastic and varies not only from one country to another but also within the same country from time to time. The size and composition of the basket of goods and services corresponding to each of these concepts would depend on the stage of economic growth of any country. At the present stage of the Indian economy, it is the concept of the minimum subsistence wage that is more relevant than the other two.

Minimum Wage

In determining the minimum wage that a unit must pay, three factors need to be taken into account. They are:

1. The needs of the worker and his family
2. Capacity to pay
3. Standard of living of other social groups.

The recommendations of the 15th session of the Indian Labour Conference on this subject considered only the first of the three factors, excluded the third entirely, and allowed the second factor some scope in exceptional circumstances. They were based on the absolute as contrasted with relative approach to minimum wage-fixing. The absolute approach requires an agreement on the part of the nutritional experts as to what constitutes the physical minimum calorie, and the nutritional food needs, and similar agreements in other spheres. In practice, experts differ even on food need. The Nutrition Advisory Committee in their recommendations in 1944 had suggested that a man weighing 55 kg. doing sedentary, moderate and heavy work would require 2400, 3000 and 3600 calories respectively. In the light of the norms prescribed by the F.A.O. and the accumulation of additional scientific data, the N.A.C. revised their estimates in 1958 to 2400 and 3900 calories for a man doing sedantary, moderate or heavy work. Dr. Jivaraj Mehta estimated the need at 2100/2200 calories, whereas Dr. Patwardhan put it as 2300 for sedentary work. There is some ambiguity about what type of diet prescribed by Dr. Aykroyd the Conference had in mind. Moreover, the nutritive values of different prescribed minimum diets differ as shown in Table 6.

TABLE 6

Nutritive Value of Different Diets

Nutrients	Balanced diet	Improved diet	Pay Commission diet
Calories	3000	2500	2645
Protein (gs.)	90	70	73
Calcium (gs.)	1.4	0.8	1.0
Iron (mg.)	47	40	51
Vitamin B (mg.)	2.1	1.8	1.6
Fats (gs.)	90	50	66
Phospherous (gs.)	2.0	1.4	—
Riboffavin	1.8	—	1.1
Nicotinic Acid (mg.)	22	—	18.6

Source : Report of the Sub-committee of the N.A.C. on Nutritional Requirements of Working Class Families, 1965.

The costs of different types of diets with the same calorific and nutritional contents vary widely. In India, both vegetarian and non-vegetarian diets are common, and the former is generally cheaper. It may be argued that in a poor country the cheapness of the diet, its calorific and nutritional content remaining the same, should be the preponderant consideration. Dietary habits which differ widely over different parts of India and partly reflect the prevalent standard of living die hard and the question of what importance to attach to them becomes difficult. Table 7 below gives the costs of two types of diets in different regions as worked out by the Sugar Wage Board.

TABLE 7

Costs of Diets

State Centre	Cost of Balanced diet (2850 calories)	Cost of Improved diet (2850 calories)	Absolute difference between Col. 2 & 3	Percentage difference $\frac{\text{col. 4}}{\text{col. 3}} \times 100$
(1)	(2)	(3)	(4)	(5)
Uttar Pradesh:				
Meerut	78.66	50.60	28.06	56
Gorakhpur	87.85	56.99	30.85	54
Lucknow	81.24	52.35	28.89	56

(1	(2)	(3)	(4)	(5)
Bihar				
Muzaffarpur	81.71	49.10	31.61	67
Madhya Pradesh :				
Gwalior	70.12	44.57	25.55	58
Rajasthan :				
Ajmer	78.90	54.27	24.63	46
Andhra Pradesh :				
Hyderabad	89.27	61.89	27.38	43
Mysore :				
Bangalore	90.59	66.89	23.73	36
Madras :				
Madras	91.27	58.12	33.15	57

Source : Central Wage Board for Sugar Industry, page 45.

The difference between the costs of balanced and improved diet varies from 36 per cent in Bangalore to 67 per cent in Muzaffarpur.

The difficulties in evaluating the costs of the need-based minimum are not restricted to the norms relating to food only. The type of clothing required would depend on the climate of the region, and provision of woollen clothing for workers' families in cold parts of country would be more costly than providing them with cotton material. Moreover, the cost of the latter would depend on the variety which workers prefer to buy. Like food habits, the habits relating to clothing vary widely in and among different regions. As to housing, mere specification of the rental allowance corresponding to the minimum area provided under Governments' Industrial Housing Scheme would hardly enable the workers to get the living area implicit in the norm recommended by the Conference. The calculated cost of fuel, lighting and other miscellaneous expenditure which the Conference recommended as 20 per cent of the total minimum wage will reflect the variations in the cost of other items. Increases or decreases in the prices of food, clothing etc., would automatically affect the amount admissible for miscellaneous expenses irrespective of the price changes of miscellaneous items. The size of working class family to supported from thew orker's earnings, though specially mentioned in the resolution. also gave rise to controversy.

The great contribution of the 15th Labour Conference was its attempt to concretely define the contents of a need-based minimum which should prevail in the whole of organised industry. From the view-point of workers' physical and social needs, its demands were reasonable. But the state of the Indian economy is such that whatever way the differences mentioned above are settled, most of the wage-fixing authorities have found the cost of the minimum beyond the pale even of organised industries. As the First Textile Wage Board put it, "whether we take the improved or the balanced diet in our calculations or whether we take the figures of the vegetarian or of the non-vegetarian diet, there is considerable gap between the figures found under the formula of the resolution and the existing wages."* The Central Wage Board for Sugar Industry after declaring that "nothing would have pleased the Board more than to have been able to recommend minimum wages admitting of food with approximately 2850 calories together with other consumption articles of the standard as recommended under the conference norms" remarks that "only blind adherence to idealistic pattern of diets would seem highly unrealistic in the present-day situation of the country."** As to the difference between the minimum wage calculated according to the norms of the 15th session and the actual wages prevailing in different centres, the Board found that the former varied between Rs. 60 to Rs. 97 at different centres, while the latter varied between Rs. 33 to Rs. 84. The Board recommended minimum for different zones which varied from Rs 60 for the Central Region to Rs. 87 for Maharashtra. The Central Wage Board for the Cement Industry which had some advantage in this respect as the cement prices were controlled and differential prices were paid to each concern on the basis of its costs, found that the farthest it could go in this direction was to give minimum wages based on an improved vegetarian diet.

The Second Pay Commission examined the financial and physical implications of extending the norms widely. In a letter the Finance Ministry had clarified that the Government of India did not consider the 15th Labour Conference resolution binding in this regard. The Pay Commission poin-

* Report of the Central Wage Board for Cotton Textile Industry, . a 32.

** Report of the Central Wage Board for Sugar Industry, para 135, . 46.

ted out that a minimum wage of Rs. 125 p.m. arrived at on this basis was rather high when on the basis of the per capita national income, the average earnings of a standard family of four would be Rs. 97 a month. The needs of savings and investment and legitimate differentials of the economy had also to be provided for. On the physical side, the country did not produce or even hope to produce in the near future the amount of milk, fruits, fish, eggs or meat that would be required for satisfying the norms of a balanced diet. It may be pointed out that as seen from Table 4 only in 2 of the 37 industries the per-worker earnings were Rs. 150 p.m. or more—the 1963 equivalent of Rs. 125 at the time of Pay Commission. Even in these two, the minimum would be lower.

In the light of these facts, the recommendations of the 15th session of the Indian Labour Conference have to be viewed as an ideal which should be achieved for organised industry within reasonable period, the length of which will be determined by the rate of growth of the economy as a whole and specially of agriculture. The other sectors may take more time to come up to this level. The general approach outlined in our wages policy would go some way towards shortening the period within which the goal could be achieved. Moreover, since that approach is designed to improve the standard of living would not be at the cost of others.

Capacity to Pay

The concept of capacity to pay is important in wage fixation as it is recognised that if wages are fixed at a level which strains the capacity to pay, unsettling consequences would arise. It has hitherto been largely applied to the level of an industry. The concept can be applied at the level of a firm, of an industry or of the economy as a whole. The Fair Wages Committee, applying the concept at the industry-level observed that, "we have all along held the view that an industry which is incapable of paying the minimum wage has no right to exist. But an industry may be such that its continued existence is imperative in the large interest of the country, whether or not it is in a position to pay the minimum wage. In such a case we feel that it is the responsibility of the State to take steps to enable that industry to pay at least the minimum wage"*. Any effective minimum wage legislation is likely to imply the closure of a few marginal units, and in an extreme case, of substantial proportions of any industry existing by substandard labour conditions. But if the individual industry

* Report of the Committee on Fair Wages, para 25.

minima are so high that a substantial portion of a few important industries has either to be closed or subsidized, the proposition is likely to be dangerous. Therefore, in fixing a minimum, the capacity of the economy to pay has to be kept in mind. This has been recognised even in developed economies with great labour mobility and liberal social security provisions. In India, consequence of large-scale closures would be serious.

In practice, the capacity of the industry to pay is regarded as very crucial criterion for minimum wage fixation. In our opinion, its application, except in a marginal way, was 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 no immediate possibility of its expansion 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 escalator 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 test of capacity to pay becomes more difficult to apply in the case of public corporations and Central and State Governments. The Central Government have large tax powers and can raise more revenue if needed; moreover they can economize on optional expenditure. Although the State Governments are generally faced with more inelastic tax revenues, all of their expenditures are not unavoidable. The comparison there has really to be between the relative claims of developmental expenditures and the sections that benefit therefrom as against the rights of the employees. It is obvious therefore, that the limitation of minimum wages by the test of ability to pay is not likely to mean much in a rapidly expanding economy where the public sector plays an important part and the private sector is largely controlled. The arguments mentioned above are not intended to entirely refute the applicability of the criterion of capacity to pay at the industry level. There are occasions like bonus payment when capacity to pay is a relevant consideration. In collective bargaining it will have an important say. But when recourse is taken to the machinery provided by the State, the question of how the ability to pay arises has to be considered. An industry because of its position may be able to shift the incidence of higher wage costs to the consumers, to the unemployed or to the suppliers of factors other than labour. But shifting the burden does not make it disappear and it is only at the national level that the full effects of wage increases can be seen and assessed. We then come to the question of national capacity to pay and the relative claims of a sector on it. A minimum wage not excessively higher than the prevailing wage granted as a strategy of breaking the vicious circle of "low wages and low efficiency" under appropriate conditions and safeguards in industries in a comfortable financial position would have the welcome effect of changing labour attitudes and improving labour productivity so that the unit labour costs go down. Such experiments should be encouraged. Apart from this exception, the minimum industry wage would have to be determined with reference to the prevailing wage rates in the locality for similar type of labour and could only be much higher than the latter if determined on differential considerations. It is at this point that data fail us and only impressionistic judgements are possible.

Relative Living Standard

Arthur Levis has suggested that the starting wage rate in industry should be about 50% higher than the average agricultural income.* The criterion does not help us much because of the pluralism and the non-availability of data on agricultural incomes.

The Second Agricultural Labour Enquiry Committee compared the wages of casual male worker in agriculture with those of the unskilled workers in the cotton textile industry in various centres. This comparison is given below in Table 8.

TABLE 8

Unskilled Rates of Agricultural & Textile Workers (Paise. p.d.)

Name of State/ Centre	Wage of casual agricultural worker	Daily wage of cotton textile worker	% of column 2 to column 3
1	2	3	4
Bombay State			
Bombay	87	401	21.7
Ahmedabad	87	382	22.8
Sholapur	37	244	35.7
Baroda	87	347	25.1
Nagpur	37	298	29.2
Madhya Pradesh			
Indore	76	328	23.2
Madras State			
Madras	84	312	26.9
Uttar Pradesh			
Kanpur	92	330	27.9
West Bengal			
West Bengal	143	233	61.4

Source : Agricultural Labour in India, Report on the Second Enquiry, Vol. 1, p. 127.

Barring West Bengal and Sholapur, the agricultura wage rate is less than a third of the daily wage rate in the cotton textile industry. This is not a very helpful comparison, as the wages in cotton textile industry are comparatively high. A better comparison would be between the average wage rate in agriculture and the starting wage rate in comparable industry.

*Quoted by N.N. Franklin in Minimum Wage Fixing and Economic Development—Sympsium on Wage Policy Issues in Economic Development, Denmark, 23–27 Oct., 1967. International Institute for Labour Studies, mimeographed. p. 12.

It was not possible to work out even a crude comparison of these two wage rates for India as a whole. The nearest we can get to this concept is the wages of rural skilled workers in Maharashtra and those of workers in processes allied to agriculture. This comparison is given below.

Average Wage Rate in Maharashtra 1962	*Hourly Wage Rate* Rs.
1. of directly employed workers in processess allied to agriculture	0.67
2. of contract labour	0.56
3. skilled rural wage rate	0.44

Although unskilled rural wage rates should have been taken to make the comparison, the variations in these wagerates between districts and seasons are such that the concept of average wage rate becomes less meaningful. The rural skilled rates are obtained from Agricultural Wages in India (1962)* after taking a simple average of skilled rates in all the districts of Maharashtra. The hourly wage rates of workers employed directly and through contractors are obtained from the ASI (1962). The differential in the wage rates of directly employed workers and the rural skilled workers amounted to 50% of the latter and that between the wage rates of contract labour and the rural skilled workers amounted to 27% of the latter.

The Second Agricultural Labour Enquiry Committee felt that a more relevant comparison would be between the wages of agricultural labour and the minimum wage rates fixed for Rice, Flour and Dal Mills. Table 9 gives the agricultural wage as a percentage of the minimum wage rates in the latter.

TABLE 9

Agricultural Wage as % of Minimum Wage in Rice, Flour, Dal Mills

State	Percentage
Andhra Pradesh	81
Assam	93
Bihar	57
Bombay	31
Kerala	67
Madhya Pradesh	58
Madras	81
Mysore	66
Punjab	63
Rajasthan	77
Uttar Pradesh	74
West Bengal	161

Source : Agricultural Labour in India, Second Report Vol. I, p. 129.

* Published by the Directorate of Economics and Statistics, Ministry of Food & Agriculture.

Out of the 12 States mentioned in Table 9, in 3 States the wages of agricultural labour were less than 60%, but more than 50% of the minimum in rice, flour and dal mills. In Assam they were 93%, whereas in the Punjab they were 63% of the minimum fixed in rice, flour and dal mills ; in West Bengal they were higher than the minimum rates for the latter. The cautious conclusion that emerges from this limited data is that the difference between the average wage rates for agricultural labour and the starting wage rate in the nearest industries is not excessive.

The differences in annual earnings could be expected to be higher than those in wage rates because the industrial worker on an average would be employed for a greater number of days in a year than his agricultural counterpart. In 1956-57 the average annual income of an agricultural labour household was Rs. 437*, whereas the average annual earnings of factory workers drawing less than Rs. 200 p. m. collected under the Payment of Wages Act come to Rs. 1,210 (average of annual earnings for 1956 and 57). Thus the annual earnings of an industrial worker were 177% higher than the annual earnings of an agricultural labour household in 1956-57. It may be pointed out that the productivity of the industrial worker who works with a greater complement of capital is much higher and the skills required of the two set of workers differ widely.

It must also be borne in mind that wages in organised industries are not uniform. They differ substantially by the size of unit as measured by the number of workers employed. In 1955 the wages of workers employed in firms which employed between 10 to 19 workers were 47% of the wages of those employed in units employing 1000 or more workers. In 1960, the average annual earnings of workers employed in the Census Sector of the ASI (i.e. in establishments employing more than 50 workers and using power) were Rs. 1350, whereas those of the workers covered under the Sample Sector (which may be compared with the urban unorganised sector) were Rs. 619 which indicates that earnings in the sample sector were 46% of the earnings of workers in the census sector.

Wages in the unorganised sector are difficult to obtain on an all-India basis. Under the Minimum Wages Act of 1948, the Central and State Governments prescribed minimum

* Agricultural Labour in India, Second Enquiry, Vol. I page 139.

wages for scheduled employments and these may be taken to represent earnings in unorganised sector. Table 10 gives the wages of unskilled workers in some employments in the unorganised sector in Bombay City.

TABLE 10

Wages in Selected Unorganised Trades in Bombay City

Employment	Year	Wages of the unskilled Rs. per month	Minimum Wage in Cotton Textile
Tanneries & leather manufacturing	1964	80.00	154.79
Employment in potteries	1964	84.50	
Public Motor Transport	1964	95.00	
Printing & book-binding	1965	85.00	167.08
Hotel workers	1966	75.60	188.62
Shops & Establishments	1966	90.00	
Maintenance of roads	1966	71.50	
Rice mills, flour mills and dal mills	1966	70.00	
Road construction & building in local authority	1966	90.00	
Oil mills	1964	70.00	
Bidi factories		75.00	
Glass industry	1964	80.80	

Comparing the minimum wage in the textile mills in Bombay with the minimum wage in the scheduled employments, we find that the latter is approximately half of the former.

We have so far observed that there are differences in wages within the organised industrial sector; depending on size of the unit, they vary widely among industries as seen from Table 4 earlier. Secondly, there are the differences within organised and unorganised sectors. The question is with which of these agricultural wages or earnings are to be compared. In order to find whether the differential between wages of labour employed in organised industry and that employed in unorganised industry is excessive or not, the comparison should be done with respect to the particular size group in which most of the new entrants to the industry are absorbed. We have no data to lead us to any definite conclusion.

It may be reasonable to assume that a rural labourer may start his industrial life by taking up some job in the nearest industrial unit, move on to a city to be absorbed in unorganised industry, and having worked there and got used to urban way of life, seek employment in small-sized industrial establishments; from there he can hope to move into a large sized unit. In the absence of data on job history of urban workers and their mobility, we can only start with some reasonable hypothesis.

While determining the minimum wage in any industry in the organised sector, the comparisons that would be of relevance would be between wages prevailing in the size group that dominates in terms of employment and the wages in the unorganised sector. Minimum wages in the latter would have to be determined with reference to prevailing wage rates in agriculture and the wage rates in smaller units in the organised sector. In both cases, the question not only of attracting the right type of labour but of retaining it and maintaining it at the optimum level of efficiency is very important.

National Minimum Vs. Industry Minima

Several nations have now gone beyond the idea of fixing different minimum wages in a small number of industries. Instead of individual minima for low-wage industries, they have adopted a minimum wage common to a wide range of economic activity, or even a national basis minimum wage below which no remuneration is allowed to fall. Such a minimum is preliminary to the adoption of a minimum standard of living for all the citizens; besides a very wide coverage of minimum wage level, many other steps like the unemployment insurance, health insurance, old age pensions, poor relief and family allowance would be needed. Income from work is, however, generally the most important source for the poorer strata of the society. In a country like India, the large number of self-employed people both in agriculture and non-agricultural sectors constitute a severe limitation to the achievement of any national minimum through a minimum wage policy. In fixing a national minimum wage or a minimum wage with a wide coverage, two considerations have to be borne in mind.

(a) The minimum is normally so fixed that at the time of wage fixation, only a small section of the employees is getting less than the minimum wage. In other words, only a small percentage of the people can derive immediate benefit from a national minimum wage. For example, in the U.S.A., as a part of the late President Roosevelt's anti-depression policies, minimum wages for employees engaged in inter-State Commerce, or in the production of goods for inter-State commerce, were prescribed. They were so determined as to raise wages only for the lowest 5 to 10 per cent of the workers covered. Then in 1938-1939, the Fair Labour Standards Act provided for a minimum hourly rate of 25 cents and 30 cents respectively; about 10 per cent of the covered workers were earning less than this minimum. In 1949, when the minimum rates were 75 cents an hour, 6 per cent of those covered needed a wage rise to come upto the minimum. In 1955 when the national minimum was increased to $ 1 an hour, less than 8.7 per cent affected obtained an increase thereby.* As a result, wages were raised only in low-wage manufacturing firms, mostly in the south aud largely in textiles, garment making, lumber mills etc. Because of these realistic considerations and rising demand in general, in spite of their wider coverage, the wage fixation in the U.S.A. did not have adverse effects except in a few local cases like the needlework industry in Puerto Rico where the minimum wages had to be lowered at the request of the Union labour. It must be mentioned that F.L.S. Act does not apply to persons engaged only in intra-State industry like retail trade, laundering and dry-cleaning, hotels and restaurants, hospitals, beauty parlours and other service establishments. Many of the States have minimum wage laws applying to workers in these industries. The minimum wage is usually not specified in these acts, but is left to be determined for each industry by the administration on the basis of recommendations of the industry wage boards or committees. When the F. L. S. A. had prescribed the minimum wage at 75 an hour, only Connecticut had the same statutory minimum wage rate; most of the other States had issued orders providing for rates of more than 50 cents an hour. There was considerable variation from 45 cents in Wisconsin canning industry to 75 cents in Connecticut cleaning and dyeing industry. But the State minima were prescribed on the same considerations according to the existing wage structure prevalent in their industries and localities. Hence, no adverse consequences were noticed.

(b) Unless the category of workers covered by the minimum wage legislation is rather narrow, and there are special fun-

*Reader M.P., Labour in Growing Economy, p. 500.

ctional reasons for paying them more, the minimum must bear close relation to the per capita income of the nation and must not be above the standard of living of parallel classes in the nation. Any society, democratic or totalitarian, will have to recognize the need for differential for semi-skilled, skilled and highly skilled categories of workers. In fact, wage-fixing authorities often lay down minimum skill differentials. Many societies will have to provide for some return to capital and entrepreneurial ability. This obvious truth is likely to be missed if an attempt is made to arrive at a minimum wage purely from the side of needs of workers. For instance, a Royal Commission was appointed in Australia in 1919 to inquire into the cost of living according to reasonable standards of comfort for a family consisting of man, wife and three children. Though the commission had no power to fix wages, its findings were to be used for the determination of basic wage standards by wage-fixing bodies. The Commission, on the basis of the family budgets that it collected, built up a budget which it considered desirable for Australia. When the question of fixing wages at this standard came up, the Commonwealth statistician stated that even if the whole income of Australia including the revenues of the government were divided equally among employed persons, it would not yield the necessary weekly amount to satisfy this standard. The advantage of a wide basic minimum wage system is that the defects are easy to point out and are likely to be quickly understood. When the coverage is limited, the temptation to fix an unduly high minimum wage may be great and the defects may come to the surface when an attempt is made to extend the coverage. Actually, such a higher minimum for a selected class, unless justified by special reasons for the privilege, is likely to set up trends which may upset the whole economy.

In the light of the difficulties attending prescription of a minimum wage for the economy as a whole, it would be better to prescribe different individual minimum wages for a large number of industries on a regional basis. This would differ from the British Trade Boards approach in so far as many industries and trades would be covered. It would differ from a national minimum wage approach, because the minima prescribed would be different for different industries and the

Richardson—*An Introduction to the Study of Industrial Relations* P. 273.

coverage would probably be more selective. The main advantage of this approach would be its flexibility and suitability to the existing situation in India in which labour in most industries, being either unorganised or weakly organised, needs State assistance. Also, the conditions in different industries and regions differ so widely that a national minimum wage would not be of much relevance. There is need for large-scale wage fixation, but a uniform minimum would have the disadvantage of being so low as to benefit only the worst paid of the entirely badly paid lot of workers. It would be more profitable to adopt a selective approach and probe at strategic points according to the circumstance of each industry.

From the viewpoint of national wage policy, wide differences 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 discriminatory 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.

Section IV

DEARNESS ALLOWANCES

As workers are ultimately concerned with their real earnings rather than their money earnings, fluctuations in prices of commodities they consume are of vital importance to them. Since they have no control over the real value of their pay packet, they try to adjust their wages to changes in consumer price index in various ways. "In most of the foreign countries such adjustments are made by upward or downward revision, as the case may be, of wages themselves, but in India a somewhat peculiar system of making a separate payment known as dearness allowance has come into vogue."* In a similar vein, the Gajendragadkar Commission observes that, "the expression (dearness allowance) does not belong to the corpus of economic terminology and does not appear to form a necessary adjunct of the salary structure in any country, with the possible exception of Pakistan."** The practice originate in the Cotton Textile Industry in Bombay and Ahmedabad during the World War I, was given up during the inter-war period and revived during the World War II. During the post-war period, it spread to a number of other industries. In the absence of any settled and guiding principles, the decisions of the adjudicators to whom industrial disputes were referred, generally rested on their assesment of the facts of the case. This led to the emergence of a variety of scales and rates of dearness allowance which differed widely not only from centre to centre but also among different industries within the same centre.

In a period of rising prices and more especially when prices rise fast, some flexibility in money wages is needed. This flexibility can be brought about either by frequent negotiations or by an automatic formula lasting

* Labour Bureau, Industrial Awards in India, 1959, p.37

** Report of the Dearness Allowance Commission on the Question of Grant of Dearness Allowance to Central Government Employees, Ministry of Finance, 1969, p. 6.

for some time. The latter has the advantage of avoiding tensions and pressures which would arise if bargaining were to take place every time prices rose. The disadvantage, however, of an automatic formula is that some sort of a vicious circle is introduced whereby money costs go up, prices are increased and the latter in turn lead to wage increase.

Despite the importance of dearness allowance both to the employee and the employer, adequate and up-to-date information relating to the changes in the size, formulae and industry-wise distribution of D. A. for the economy as a whole is not available. The information contained in the Occupational Wage Survey (1958-59) relates to the year 1955 for factory industry and to the year 1956-57 for mines and plantations. According to this report, 38 per cent of the factories paid a separate D.A. Of the total number of workers employed in factory industry, 76.5 per cent received dearness allowance. In textile industry, 47.9 per cent of the units paid D.A. and 95.3 per cent of workers employed in the industry received a separate D. A. The percentages for engineering industry were 41.8 and 85.4 respectively; and for the rest of the factory industry 33 and 40.4 respectively. With the exception of Matches, Bidi and Cashewnut factories, the proportion of workers getting separate D. A. far exceeded 75 per cent in most other industries.

Some information about the distribution of workers by system of D.A. is available for the year 1955 for the Occupational Wage Survey. This is given in Table 11.

TABLE—11.

Distribution of Workers by Systems of D.A.

Industry Group	%age of Workers getting D.A. according to			
	CPI	Flat Rate	Income Group	Others
	1	2	3	4
Factory Industries	40.9	27.3	30.7	1.1
i) Textiles	53.5	37.5	8.9	0.1
ii) Engineering	11.0	2.1	85.8	1.1
iii) Others	32.1	21.7	41.6	4.6

Source : Occupational Wage Survey, General Report (1958-59), Labour Bureau, Ministry of Labour and Employment, Government of India, p. 38.

As can be seen from the Table 11, only 40.9% of the workers were getting D.A. that was linked to the cost of living index in 1955. However, there are no data to show the changes that may have taken place in the last 10 years. Because of the inflation, and to some extent, the increase in unionisation that has taken place since 1955, two important changes could be expected to have occurred. First, the number of workers getting a separate D.A. could be expected to have increased. Secondly, the extent of neutralisation of cost of living would have increased as inflation became more pronounced. Simultaneously, some of the workers whose D.A. was not linked to the CPI would have changed from their old system of D.A. to that in which their D.A. was directly linked to the CPI. Although it is not possible to substantiate these changes directly, some indirect evidence is available. Most of the wage boards have linked the wages to the CPI and also given greater neutralisation of increases in the cost of living. Thus, the automatic response of wages to changes in CPI which was restricted to 41 per cent of the workers employed in factories in 1955 must have now come to characterise a much larger proportion.

For our study, the extent of D.A. is more relevant than the coverage in terms of units paying D.A and workers receiving D.A. Reports on the Annual Average Earnings of workers employed in Manufacturing published in the Indian Labour Journal contain some information relating to the size of D.A. in relation to the basic wage. Table 12 gives these proportions for some years for which data are available.

TABLE 12

Proportion of D.A. to Gross Wages in Manufacturing

Year	D.A. as per cent of Wages
1958	41
1959	41
1961	34
1962	32
1963	31

Source : Indian Labour Journal, November 1960, October 1961, November 1964, January 1966 and April 1966 respectively.

Contrary to the general impression that D.A. as a proportion of gross wages would increase with the rise in the price level, these figures show a declining trend. This may be explained in several ways. If the system of linking D.A. with the cost of living index ere to be restricted to a few industries only and further if the employment in the industries in which D.A. was not linked to cost of living became relatively more important, then the D.A. as a percentage of gross wages could be expected to fall. In addition, if the wage revised that took place during th flationary period in the past revised basic wages rather than the system of D.A. applicable to units or industries, then also it would be possible to expect the percentage of D.A. in gross wages to fall. In the absence of data on these vital points, it is difficult to assess the significance of the trend shown in Table 13.

The inflationary impact of dearness allowance could be considered from two view-points, namely, from the point of aggregate demand and from that of its effect on the cost of production. For the dea ess allowance to increase, the consumer price index has o go up. Hence, the system in itself cannot initiate inflation. But, it may magnify inflation initiated elsewhere or may transform a brief random or seasonal price rise into a sustained price rise. The latter objection would be more true of the systems of D.A. which allow adjustments on a monthly point-to-point basis. The propensity to consume of the workers is higher than that of the employers from whose profits the increased dearness allowance is paid. If the output of consumer goods is inelastic, their prices increase leading to further increases in dearness allowance. If the money supply in the economy does not increase to finance this spiral, the process would come to a halt by transferring incomes from non-unionised workers or other sections of population to unionised workers without leading to an increase in aggregate demands. But normally, under modern conditions, the money supply is fairly elastic. The principle of D.A. is so far largely restricted to organised labour in industry, banking, insurance and government employment. In future, it will spread to unorganised trade and distribution. When this happens, the scope for transferring the incidence of inflationary price increase to other sections of popu ation would be small as each section will try to maintain its real income.

The extent of i nitial pressure on rices of consumer goods depends on the number of worke getting dearness allowance and its amount ; and unless both happen to be large, the impact on prices of consumer goods would not be significant. But when D.A. is increased simultaneously with fall in output, which in the case of foodgrains, may mean a greater decrease in marketable surplus, the problem becomes almost intractable. The question needs to be studied in much greater detail in this context than has been done so far.

As observed earlier, information regarding the magnitude of dearness allowance is sadly lacking. A number of sectoral statements are available. It is estimated that a rupee increase in the monthly Dearness Allowance rate raises the annual wage bill in cotton textile industry by a crore of rupees*. Mr. S. Chowdhary, ex-Finance Minister, stated that every rupee of increase in D.A. per month cost the Central Government alone Rs. 3 crores each year**. From the statement made by the Minister for Railways while introducing the budget for 1967-68, half of the Railway deficit in 1965-66 could be accounted by, it appears, the increase in Dearness Allowance. Nevertheless, from all these fragments, we have no idea of the burden of Dearness Allowance for the country as a whole. It would be useful if henceforth all reporting parties, be they companies or Government departments, show separately their dearness allowance component. By culling various different sources, the total wage-bill in the economy outside trade and distribution has been found to be very roughly Rs. 4,728.43 crores in 1965-66 in the following manner.

TABLE 13

Compensation of Employees in Indian Economy 1964—65

(Wages. Salaries, Allowances, Provident Fund, Fringe Benefits, etc.).

(Rs. crores)

. Public Authorities (Central, State, Local bodies, Autonomous bodies etc.).	
1. Administration	1,218.00
2. Departmental Undertakings(Central, State, Local and Autonomous Bodies)	
3. Public Sector Undertakings(Central, State, Local & Autonomous bodies)	230.00
Public Authorities—Total	1,950.00

* Economic Times dt. 5.11.67.

** Finance Minister's statement in the Parliament pnblished in Times of India dt. 17.2.1966.

B. Private Sector

4.	Private Corporate Sector	1,276.00
5.	Commercial Banks (1966)	92.00
6.	Financial & Investment Companies (1966)	0.43
7.	Small-scale Industry (estimated)	1,160.00
8.	Miscellaneous (Guess)	250.00
	Private Sector—Total	2,778.43
	Total A+B	4,728.43

Source :— For A—(1) Brochure on Revised series of National Product for 1960—61 to 1964—65, C.S.O., August 1967, , P.95.

(2) —do— p. 97

(3) —do— p.102

Net output o public sector undertakings was Rs. 384 crores.; wages and salaries, bonuses etc. were 60% of net output (See Bank of India Bulletin, May 1966)

B—(4) R.B.I. Studies of Company Finances for Large, Medium and Small Public and Private Limited Companies and Financial and Investment Companies, R.B.I. Bulletins.

This would constitute about 22 percent of the national income of Rs. 21,064 crores. The proportion that D.A. forms of the gross wage varies among industries. At one extreme are several industries in the private sector where the D.A. is a multiple of the basic wage ; at the other are several State Governments where it is barely 15 per cent of the basic wage. On the basis of Table 13, we may say that D.A. constitutes about 30% of the total wage bill, that the total D.A. in the economy would be in the vicinity of about Rs. 1,419 crores. But the total D.A. does not matter so much in this context as the increases in D.A. over the last four years. The D.A. in textile industry in Bombay and Ahmedabad has increased 91% between 1963 and 1968 (May). By rough weightage of different sectors we estimate that the D.A. in the economy may have increased by about 50%. That is to say, of the present total D.A. of Rs. 1,419 crores, nearly Rs. 709 crores constitute the increase over the last four years. In other words, on an average, the amount of D.A. that was disbursed has increased annually by about Rs. 177 crores. The value of marketable surplus, which was estimated at Rs. 341 crores in 1964-65, declined to Rs. 165 crores in 1966-67*. This points out the self-defeating mechanism of paying D.A. to maintain real wages of workers in a period of falling output of foodgrains. In other situations, the general price increases will be less and changes in D.A. confined to workers in a vulnerable position may not have serious aggravating consequences, and the alternatives may be much worse. From the cost side, wage increases under D.A. systems can raise unit labour costs, lead to new price increases and thus cause new wage increases. Assuming that the D.A. constitutes 30% of the total wage bill and that the wage cost is about 20% of the total cost of production in manufacturing industry, a 50% increase in D.A. would lead to 3% rise in total costs. Hence, the direct contribution made by dearness allowance to raising costs and prices from the supply side may not be significant, and it may be worthwhile bearing it in the interests of equity and contentedness.

Another important consideration vital to the question of dearness allowance in the near future relates to the likely changes in terms of trade between industry and agriculture. Dearness allowance today is an urban phenomenon, but based largely on the behaviour of agricultural prices and food prices in C.P.I. and agricultural prices in W.P.I. This has posed a more serious problem to industry. Inflation in which industry can pass on its cost increases easily and one in which the terms of trade would be favourable to industry, does not constitute a similar problem.

The existence of D.A. system itself assures the agricultural sector that agricultural price increases within flexible limits will be absorbed. No sooner do food prices rise, the D.A. will also rise. The increased D.A. would then reduce profits in the industry unless increased costs could be passed on to the full extent in higher prices to agricultural sector. But this would be ruled out because it would mean shifting the terms of trade in favour of industry. Hence, only a part of the increased costs can be passed on and not the entire extent. Thus, profits would be less and investment and employment in the future would be affected adversely. Thus our analysis leads us through a different route, to almost the same conclusions that other economists interested in establishing broad guidelines for an incomes policy in a developing country have reached It is that given the fact that D. A. determines to the point of dominating the industrial wage structure, there is no

* Estimated from Table 9 in "Foodgrains Demand Projections—1961—65 to 1975—76", R.B.I. Bulletin, Jan. 1967.

escape from (a) bringing in some impact of productivity after taking into account contribution of capital and (b) correlating the rate of growth in industrial wages with that in agricultural productivity. Attempts at protecting the real wages of one segment of labour will not succeed, particularly since the key to the entire price movements in the economy lies in the sector outside industry. Superficially, the dearness allowance protects the real wages of industrial workers ; in reality it has hardly done so for *all* of them even when the terms of trade were in favour of industry, but it will certainly not do so when the terms of trade move in favour of agriculture. We urge the adoption of all such measures as will make it possible to increase agricultural and food production to the required extent without a sharp increase in terms of trade in favour of agriculture.

So far we have dealt with the broad perspective in which the entire system of D.A. has to be viewed. We now turn to issue of immediate relevance. The period from 1955 to the present has been characterised by sharp price increases. To the best of our understanding there are no signs nor any reasons to expect that prices in future would fall very much below the current index. In the light of a worker, the form of dearness allowance needs to be changed. This can be done by merging a large part of the present dearness allowance into basic wages. In order to take care of the price increases or decreases in the future, a small part of it could be kept variable. We feel that taking all the uncertainties about price behaviour into account, the prices prevailing in 1960 could furnish a fair basis for determining basic wages.

This brings us to the questions of the manner, the extent and the coverage of dearness allowance system in future. As to the coverage, it can only be decided by taking into account the basic nature of dearness allowances as observed by the Gajendragadkar Commission..."the words 'dearness allowance' primarily suggest and refer to an allowance paid to employees in order to enable them to face the increasing dearness of essential commodities".* Naturally dearness allowance is applicable to those workers whose wages are at the subsistence level. Once this level is determined, it would be socially and economically undesirable to allow it to be eroded by inflation and hence has to be maintained by full neutralisation of increases in cost of living. This is subject to some qualifications in exceptional cases. When the

* Report of the Dearness Allowance Commission, op.cit., p.17.

real income of the economy falls, as it did in the years of draught in the recent past, it would be difficult to maintain the standard of living of any important section of the community without reducing substantially the standards of other sections, and there would be a case for doing so only for the unduly depressed group. Secondly, in the face of external invasions and danger to the security of the nation, commitment to maintain the standard of living of any community, however small, may not be possible. Barring these exceptional cases of a general type, there are others which would have to be judged on the merits of each case. An industry which is experiencing chronic difficulties may have to be given temporary exemption from giving full neutralisation. For the groups earning more than the minimum and yet falling in the vulnerable class, a lower degree of compensation may be given on the lines of the Gajendragadkar Commission Report.

It was pointed out earlier that the automatic adjustment of dearness allowance to changes in consumer price index often magnifies the inflation started elsewhere or transforms a random and brief increase in price into a sustained price increase. At the same time, the adjustment of wages to increases in prices could not be bargained on every occasion or even at short intervals. In order to avoid the discontent, tension and possible loss in output due to strikes, the automatic adjustment is to be preferred. However, some scope should be given for market forces to work themselves out. Therefore month-to-month adjustments of wages to cost of living are undesirable. The management should have some resonable stability in wage costs without at the same time imposing too heavy a burden on the workers at the subsistence level. Hence periodic adjustments of wages has much to recommend itself.

An important aspect of the present practices of paying dearness alowances is their effect on wage differentials. While the broader issues relating to them are discussed in the following section, it would be relevant here to refer to the impact of dearness allowance on skill differentials. The practice of paying dearness allowance at a flat rate to workers irrespective of the income-group he falls in, has resulted in narrowing skill differentials. So also has the system of paying at rates which taper down as income increases. Our recommendations that full neutralisation be given only at the subsistance level would have the same effect. In order to avoid undesirable narrowing of skill-differentials, it would be necessary to revise the skill rates in light of availability of skills at periodic intervals. While in the past shortage of skills might not have been so pressing and there may not have been much discontent among skilled workers about narrowing that has taken place, once the tempo of investments requiring more and better skilled workers rises, the question of skill differentials would assume greater importance. While the market mechanism could not be relied on to adjust prices of various skills required by new and expanding industries immediately and rationally, a periodic review based on employment market information could lead to selective increases in wages appropriate to those levels of skill which are in short supply.

Wage Differentials

The objective of a wage policy should be not only to evolve a wage level that would be consistent with the planned distribution of consumption and savings, but also to devise a wage structure which can help to match the planned requirements of labour industry-wise, occupation-wise and region-wise, with the supply of labour.

Inter-Industry Wage Differentials

Expanding industries with generally larger productivity and profits have normally to pay higher than the prevailing wage. Most of the expanding industries are likely to be capital-intensive and may require higher levels of skill than those required in the existing industries. Because of the high cost of machinery and equipment entrusted to the workers, employers would prefer to employ experienced hands which could only be had by drawing labour from other industries. It is necessary to have favourable wage differentials in order to achieve efficient allocation of manpower among industries.

Let us first examine the inter-industry wage structure in India. During 1951-61 it has remained more or less stable as is evident from the rank-correlation co-efficient of 0.78*. 4 out of 7 low wage paying industries of 1950-52 continued to be low wage paying in 1959-61 ; and 3 out of 7 industries in high wage paying quartile in the base year continued to be high wage paying in 1959-61.

Contrary to the generally prevailing impression that all wage differentials have narrowed because of the system of

* Calculated from Table 3 in Dr. C.K. Johri's article, Inter-Industry Wage Structure in India, "Indian Journal of Industrial Relations," April, 1966.

dearness allowance, the inter-industry wage differentials have in fact widened during 1950-61, the coefficient of variation increasing from 30.1 in 1950-52 to 38.2 in 1959-61. @ The differentials, however, have not increased in favour of industries with expanding employment. The rank correlation between percentage changes in employment and average wages is negative, indicating that wages increased faster in those industries which did not increase their employment at a faster rate.

Earlier, while discussing the need for different minimum wages for different industries, we have argued that a generally prevalent wage rate or a general minimum may not able to attract the necessary labour to an industry and higher wage rate may be one of the inducements to draw or keep the necessary labour in the industry. There may, however, be several reasons why labour in sufficient numbers is not drawn to a growing industry. The industry may be new and unfamiliar, the place at which it is located may be costly or climatically, culturally and socially unattractive with little educational, medical and recreational facilities. Or simply it may be growing at a rate at which labour in it and proximate industries and localities is not found sufficient. Depending on the causes, several remedial measures may be required to draw forth the necessary labour. A higher wage by itself will not overcome all the difficulties, but it cannot be denied that it would be required to compensate the worker for the inconvenience, transport costs, and disagreeableness of the job and location. For solving satisfactorily the problem of efficient allocation of labour, more radical steps may often be required. For instance, we are saddled with many inefficient units in some industries which act as a drag on improving the prospects of workers employed in efficient ones. There are other industries in which our ability to produce cheaper and better goods for domestic consumption as well as for exports is restricted by obsolete equipment. These industries, of which the cotton textile industry, barring a few exceptional firms in it, is a prominent example, hoard labour. This could be employed more efficiently elsewhere in many of the growing industries provided these workers were given necessary training. Such a policy would enable the goal of higher wages for those who are retained to be realized without extra cost to the society because the higher wages could come from much higher productivity of the

@ Ibid, Table 4, page 369.

retained workers. The problem of initiating, training and retaining a new worker unused to the industrial way of life and discipline needs to be tackled on a long-term basis and requires time ; the need of growing industries is sometimes immediate and urgent. Workers who have previous job experience and are committed to industrial life respond quickly to the efforts directed at training them suitably to man the new job. Where such possibilities exist, they should be fully availed of before training entirely raw recruits.

Skill Differential

In most overpopulated, underdeveloped countries, although unskilled labour is abundant, skilled labour is scarce. The larger the size of investment and more biased it is in favour of heavy industries, the more acute the shortage of skills. Hence setting up appropriate skill differentials assumes vital importance in evolving a wage structure which would meet the needs of a developing economy. The history of developed countries shows a considerable narrowing of skill differential but this has occurred in response to changes in supply of skilled and unskilled labour. Full employment and difficulties in withdrawing labour from agriculture, raised the wages of unskilled labour relative to those of the skilled ; in addition due to intitial wide differential which promoted formation of skills and the availability of training facilities the supply of skilled labour increased. Hence skill differentials tended to narrow. Undoubtedly, the narrowing did take place in a fit of absent-mindedness, largely due to the practice of adding flat increases to the skilled and unskilled alike in periods of inflation but the narrowing did not pose a serious problem because of the basic changes in supply that took place.

In order to encourage formation of skills, the skill differentials have to be wide. They can be narrowed when the supply of skilled labour increases. The question is : are the prevailing skill differentials in India wide enough to encourage skill formation ? Unfortunately, information on skill differentials is available for 1955 only. There is reason to believe that inflation that took place since then must have narrowed them further but no factual evidence to prove this point is available. Table 14 gives the skill differentials that existed in various industries in 1955.

TABLE 14

Skill Differentials in Indian Industries 1955

Unskilled — 100

S. No.	Industry	Occupation	Skilled Minimum rate+D.A.	Skilled Average earnings
1	2	3	4	5
1.	Cotton Textile	A 4 loom weaver Doffer	152	171
		B 2 loom weaver boy	127	141
2.	Jute Textile	A Fitter	122	154
		B Weaver	112	141
3.	Silk Textiles	Weaver	112	137
4.	Wollen Textiles	Weaver	134	164
5.	Metal Extracting	Mill wright	197	253
6.	Metal Rolling	A Roller rougher	170	186
		B Fitter	188	222
7.	Metal Founding	A Moulder & Core-maker II	119	139
		B Fitter	122	133
8.	Nut Bolts	Fitter Gr. I	185	178
9.	Electrical Machinery	Fitter Gr. II	—	104
10.	Textile Machinery & Accessories	Machinists	149	156
11.	Shipbuilding	Fitter	123	161
12.	Railway Workshops	Fitter	151	171
13.	Motor Vehicles	Mechanic Gr. I	184	215
14.	Aircraft	Mechanic	157	187
15.	Bicycle Manufacture	Fitter Assembler	108	128
16.	Cement	Fitter	148	171
17.	Paper	Fitter Gr. I	182	228
18.	Sugar	Fitter	145	187
19.	Heavy & Fine Chemicals	A Chemist	256	282
		B Machineman	137	144
20.	Paper	A Lino Operator	264	338
		B Machineman	137	144
21.	Matches	Fitter	145	199
22.	Glass	Blower	200	237
23.	Petroleum	Fitter	135	101
24.	Soap	Fitter	205	263
25.	Hydrogenated Oil	Fitter	161	194
26.	Tanneries	Dyeing-drum-man	167	185
27.	Footwear	Fitter	139	129
28.	Artificial Manures	Operator Jr. & Sr.	284	255
29.	Cigarettes	Fitter	140	129

Source : Occupational Wage Survey, General Report, Labour Bureau, Ministry of Labour & Employment. Calculated from statements relating to the relevant industries.

The adequacy of these differentials can be judged in two ways. An indirect way to judge it would be to compare these differentials with those in some of the developed countries in their earlier, though not strictly comparable, stage of development. Skill differentials for the U.K. and the U.S.A. are given in Tables 15 & 16.

TABLE 15

Skill Differentials in the U.S.A.

Year	Differential Unskilled-100
1907	207
1915-19	175
1931-32	180
1937-40	165
1945-47	155
1952–53	137

Source : Ozanne, A Century of Occupational Wage Differentials in Manufacturings. Review of Economics & Statistics, Aug. 1962, P. 293.

TABLE 16

Skill Differentials in the U.K.

Unskilled — 100

Year	Building	Shipbuilding	Engineering	Railways
1880	156	185	166	200
1900	154	—	—	196
1920	125	130	128	123
1940	128	133	130	154
1950	119	122	119	130

Source : Knowles & Robertson—Difference between the Wages of Skilled and Unskilled Workers—Bulletin of Oxford Institute of Statistics, April 1957, p. 109.

Taking a crude average in 1880, the skilled workers in England were paid a wage rate that was 77 per cent more than the unskilled whereas in the U.S.A., in 1907, they got 107 per cent more. The frequency distribution of number of industries by skilled differential in India for 1955 is given below.

TABLE 17

Frequency D.stribution of Industries by Skill Differential 1958-59

Interval	No. of industries
Upto 24.9% more than the unskilled	5
Between 25% and 49.9% more	9
„ 50% „ 74.9% „	4
„ 75% „ 99.9% „	6
100% more and above	29

Thus in India 18 out of 29 industries were paying their skilled workers less than 75 per cent more than the unskilled; and out of these 18 industries 14 were paying less than 50 per cent more. This exercise would suggest the need for widening skill differentials in future. This argument would be stronger if we know the narrowing that has taken place in India since 1958-59 because of the inflation. Secondly, the figures given for the U.K. and the U.S. relate to wage rates only and not to earnings and when these are added to the wage rates the differentials move in favour of the skilled worker.

The case for wider skill differentials could be better examined in light of the data on "Shortage Occupations' or "Hard-to-fill Occupations". The Report on Shortage Occupations*, while discussing the shortages for the quarter ending March 1967, draws attention to the paradoxical situation of "lack of skilled personnel as demanded by employers and surplus labour". Referring to the shortages of craftsmen and production process workers, the Report points out that "Out of 913 unfilled vacancies in this division, as many as 720 were for want of suitable tool makers, machinists, spinners, weavers, knitters etc. This is followed by 75 for electricians and related workers and 30 for furnacemen, rollers, drawers etc. Further analysis reveals that 134 jobs remained unfilled for want of turners mainly at Poona (79) and Bombay (46)". Similarly, 55 vacancies of fitters, 60 vacancies of grinders and 22 vacancies of millers remained unfilled for want of suitable workers. Some idea of the shortage of skilled labour for the country as a whole can be had from a comparison of the total number of vacancies available to the employment exchanges and the vacancies cancelled by them during a given period due to non-availability of suitable applicants on the live registers. Such comparison for the quarter January-March 1966 is given in Table 18. It must be remembered that the quarter to whicn the data relate is not a normal one as the recession which affected many indus-

*Series EM (S) No. 22, March 1967, Directorate of Employmen Industries and Labour Department, Government of Maharashtra.

tries since 1966 would have some adverse effect on the demand for skilled labour.

TABLE 18

Vacancies cancelled by Exchanges—Quarter ended 31st March 1966

Occupation	Vacancies Available	Vacancies Cancelled	% of Col. 3 to Col. 2
1	2	3	4
Weaver, Powerloom	1373	88	6.4
Weaver, Handloom	203	45	22.2
Moulder, General	482	49	10.2
Fitter, General	4297	184	4.3
Turner	2414	159	6.5
Miller	400	28	7.0
Mechanic, General	371	14	3.8
Welder, Gas	649	41	6.3
Electrician, General	1995	187	9.4

Source: Manpower Shortage 1961-66 DGE&T 1967, Appendix II.

At the same time there were more or less adequate number of workers in the same categories who were on the live registers of Employment Exchanges. The employers found them unsuitable because they lacked specific qualifications and experience. Moreover, disheartened by non-availability of suitable persons, many employers do not take resort to Employment Exchanges and their needs are not reported at all Sometimes, qualified workers do not accept these vacant jobs Reasons for non-acceptance include, among others, unattractive pay and unattractive (from their personal point of view) location of the job offered. In both cases, money required needs to be higher. Where skilled workers are refused jobs for want of qualifications, an inducement to acquire them along with necessary training would be needed. From this it may be concluded that the skill differentials in India need to be widened systematically.

Even when appropriate differentials are established, the question of maintaining them in the light of changes in other economic variables calls for some consideration. The present system of paying dearness allowance at a flat rate or that at tapering rates as basic pay increases, reduce the percentage differentials fixed earlier. If future development takes place without inflation, no complications need arise. But should it occur as a result of unavoidable circumstances, social justice demands that the low paid be protected fully, whereas those who earn more be compensated less for the price increases. Such a policy would certainly narrow the differentials. A review of differentials at reasonable intervals would be needed to stop the erosion from affecting formation of skills.

The fixing of wage differentials, especially those based on skills, has been regarded as a prerogative of management, though during the last two decades it has been considerably influenced by the unions and adjudicators. In the absence of there being any objective standard for determining what are comparable jobs, or if they are non-comparable for evaluating the difference between them, the wage structure that has been evolved can be characterised as "chaotic". Most of the developed countries have gone through this stage, but because of the spread of job evaluation, some order has now been restored. The advantages of adopting this method of rating a job and not the man are many. As an objective method of ranking jobs relatively to each other, it has great merit over the subjective decisions of managers, union officials or adjudicators. It helps in removing inequities in existing wage structures and in maintaining sound and consistent wage differences in a plant or industry. It may also result in a simpler wage structure than the existing one, more easily understood and accepted by workers. Thus by removing a constant source of disputes, and when disputes do arise, by providing some objective basis for reaching an agreement, adoption of job evaluation on a large scale will go a long way towards improving labour-management relations.

Regional Wage Differentials

Being more complex than other types of wage differentials, the equalisation of regional wage is the most difficult and hence the last to be attempted. The term "regional wage differential" refers to differences in wages of workers doing the same job in an industry located in different regions. For want of data, such comparisons cannot be made in India for most of the industries. However, we can compare average wages of all workers employed in an industry by States. No further break-down of State figures by regions is available. We may begin with a look at the average wage of all industrial workers employed in different regions. Such comparisons are made in Table 1 of the NCAER study "Wage Differentials in Indian Industry". However, a summary table reproduced below from the above source gives a better idea of the regional wage differentials. The average earnings for the period 1956-63 for Maharashtra are treated as 100 and average earnings in other States are expressed as per cent of earnings in Maharashtra in the table 19 given below :

TABLE 19

State	Index of Average Annual Earnings 1956-63
Maharashtra	100
Gujarat	98.0
Madhya Pradesh	85.0
Assam	84.6
Bihar	83.0
West Bengal	76.0
Madras	76.0
Mysore	70.6
Uttar Pradesh	69.0
Orissa	66.7
Punjab	62.0
Kerala	58.6
Rajasthan	57.6
Andhra Pradesh	54.0

Source : Wage Differentials in Indian Industry, NCAER, p. 8.

The study comments that "the differentials are very considerable in as much as the ratio between the lowest and the highest wage rate is nearly 1:2. In order to explain the existing wide differentials, it studies the effects of surplus labour and productivity on the average money earnings by States and concludes that "Considered together, the per cent surplus labour and per capita output do not satisfactorily explain wage rate"*. However, after eliminating the effect of per cent surplus labour, the per capita output satisfactorily explains the wage rate. Suprisingly, the NCAER study did not find any correlation between the average wage rate and the consumer price index number. Summing up, the above source observes, "it would appear that the level of per capita value added in the different States comes very near to explaining the phenomenon of inter-State differentials. This means that the basic influence on wages is the level of economic development in the different States and a movement towards narrowing inter-State differentials would have to wait greater regional balance"@.

Table 20 gives the average hourly wage in 58 industries, the highest and the lowest wage and the States paying them. It also gives the high/low range as well as the difference expressed as the percentage of the lowest wage.

* NCAER, Wage Differentials in Indian Industry, P. 11.
@ Ibid, p. 12.

TABLE 20

Average Wage Rate Per Hour—State & Industry-wise Differences 1963

S. No.	Name of Industry	National Av. Wage Rate	Highest Wage	State Paying Highest Wage	Lowest Wage	State Paying Lowest Wage	Highest/ Lowest Range	Difference as % of Lowest Wage
1	2	3	4	5	6	7	8	9
1.	Slaughtering, Preparation & Preserving of Meat	0.52	0.63	Maharashtra	0.22	Jammu & Kashmir	0.61	277.27
2.	Manufacture of Dairy Products	0.53	0.73	Maharashtra	0.53	Uttar Pradesh	0.20	37.74
3.	Canning & Preserving Fruits & Vegetables	0.32	0.40	Maharashtra	0.18	Kerala	0.22	122.22
4.	Canning & Preserving of Fish & Other Sea Foods	0.29	0.29	Mysore & Kerala	0.29	Mysore & Kerala	0.00	—
5.	Manufacture of Grain Mill Products	0.34	0.85	Maharashtra	0.19	Orissa	0.66	347.37
6.	Manufacture of Bakery Products	0.62	0.79	Maharashtra	0.38	M.P., Delhi, A.P., Bihar, Punjab, U.P.	0.41	107.89
7.	Sugar Factories & Refineries	0.61	0.66	Maharashtra	0.42	Gujarat	0.24	57.14
8.	Manufacture of Cocoa, Chocolate & Sugar Confectionery	0.37	0.41	M.P., W. Bengal, Bihar	0.33	Maharashtra, Madras, M.P. and Mysore	0.08	24.24
9.	Manufacture of Miscellaneous Food Preparations	0.33	0.65	Maharashtra	0.18	Tripura	0.47	261.11
10.	Distilling, Rectifying & Blending of Spirits	0.47	0.56	Maharashtra	0.45	Uttar Pradesh	0.11	24.24
11.	Wine Industries	0.41	0.45	Punjab, Rajasthan, U.P., Himachal Pradesh	0.25	Madhya Pradesh	0.20	80.00

1	2	3	4	5	6	7	8	9
12.	Breweries & Manf. of Malt	0.35	0.41	Mysore	0.32	Himachal Pradesh	0.09	28.12
13.	Soft Drinks & Carbonated Water Industry	0.66	0.88	Maharashtra	0.49	W. Bengal	0.39	79.99
14.	Tobacco Manufactures	0.59	1.31	Bihar	0.17	Gujarat	1.14	670.58
15.	Spinning, Weaving & Finishing of Textiles	0.71	0.93	Maharashtra	0.08	Himachal Pradesh	0.85	1062.50
16.	Knitting Mills	0.45	0.63	Punjab	0.22	Mysore	0.41	186.36
17.	Cordage, Rope, & Twine Industries	0.46	0.51	Maharashtra	0.34	Delhi, Kerala, U.P.	0.17	50.00
18.	Manuf. of Textiles not elsewhere classified	0.31	0.59	Delhi	0.20	Madras	0.39	195.00
19.	Manuf. of Foot-wear	0.63	0.65	Uttar Pradesh	0.57	M.P., Madras, Bihar & Gujarat	0.08	14.03
20.	Manuf. of Wearing Apprel (except Foot-wear)	0.49	0.69	Maharashtra	0.22	Madras, Delhi, A.P., Bihar, Gujarat, U.P.	0.46	209.09
21.	Saw Mills, Planing & Other Wood Mills	0.37	0.49	Gujarat	0.17	Madras	0.32	188.23
22.	Wooden & Cane containers & Cane small ware	0.51	0.56	West Bengal	0.44	Maharashtra	0.12	27.27
23.	Manuf. of Cork & Wood Products not elsewhere classified	0.43	0.51	Bihar, Mysore, Rajasthan	0.41	W. Bengal & U.P.	0.10	24.39
24.	Manuf. of Furniture & Fixtures	0.68	1.14	Maharashtra	0.12	Madras	1.02	850.00
25.	Manuf. of Pulp, Paper and Paper Board	0.63	0.70	Maharashtra	0·51	Gujarat	0.19	37.25

1	2	3	4	5	6	7	8	9
26.	Printing, Publishing & Applied Industries	0.77	1.05	Delhi, Pondicherry	0.51	Orissa	0.54	105.88
27.	Tanneries & Leather Finishing Plants	0.55	0.92	Bihar, Mysore, Punjab, Jammu & Kashmir, W. Bengal, Gujarat	0.46	Uttar Pradesh, Gujarat, Punjab	0.46	100.00
28.	Manuf. of Leather Products except Foot-wear & other wearing apparel	0.61	0.61	U.P., & Punjab	0.61	W. Bengal, U.P.	0.00	00.00
29.	Manuf. of Rubber Products	1.00	1.10	W. Bengal	0.39	Madhya Pradesh	0.71	182.05
30.	Basic Industrial Chemicals including Fertilisers	0.83	1.33	Bihar	0.61	Madras	0.72	118.03
31.	Veg. & Animal Oils & Fats (except edible oils)	0.48	0.54	Maharashtra & W. Bengal	0.35	Madhya Pradesh	0.19	54.28
32.	Manuf. of Paints, Varnishes & Lacquers	0.88	0.93	Maharashtra	0.48	Uttar Pradesh	0.44	93.75
33.	Manuf. of Miscellaneous Chemical Products	0.90	1.18	Maharashtra	0.50	Madras	0.68	136.00
34.	Petroleum Refineries	1.77	2.14	Maharashtra	1.37	A.P., Assam	0.77	56.20
35.	Manuf. of Misce. Products of Petroleum & Coal	0.71	0.72	Bihar	0.61	Maharashtra, Madras and Assam	0.11	18.03
36	Manuf. of Clay Products	0.44	0.63	Bihar	0.33	Assam	0.30	90.90
37.	Manuf. of Glass & Glass Products	0.47	0.70	Gujarat	0.31	Orissa	0.39	125.80
38.	Manuf. of Pottery, China & Earthen Ware	0.39	0.50	Rajasthan	0.34	Maharashtra, Madras, A. P., Orissa, & U.P.	09.1	47.05

1	2	3	4	5	6	7	8	9
39.	Manuf. of Cement (Hydraulic)	0.75	0.68	Gujarat	0.72	Madras, Bihar	0.16	22.22
40.	Manuf. of Non-metallic Mineral Products not elsewhere classified	0.50	0.71	Punjab	0.30	Bihar	0.41	136.66
41.	Iron & Steel, Basic industries	0.90	1.40	Bihar	0.46	Uttar Pradesh	0.94	204.34
42.	Non-Ferrous Basic Metal Industries	0.84	0.99	M.P., A.P., Mysore, Orissa, Punjab, U.P., & Kerala.	0.42	Madras	0.57	135.71
43.	Manuf. of Metal Products except machinery & transport equipment	0.69	0.82	Maharashtra	0.38	Madhya Pradesh	0.44	115.78
44.	Manuf. of Electrical Machinery, Apparatus, Appliances & Supplies	0.83	1.16	Orissa	0.53	Punjab	0.63	118.86
45.	Manuf. of Machinery except Electrical Machinery	0.76	0.93	Himachal Pradesh	0.51	Orissa	0.42	32.35
46.	Ship Building & Repairing	0.84	1.12	Maharashtra	0.39	Mysore	0.73	187.17
47.	Manuf. of Railroad Equipment	0.86	0.99	Maharashtra	0.73	Bihar	0.26	35.61
48.	Manuf. of Motor Vehicles	0.94	1.13	Madras	0.47	Gujarat	0.66	140.42
49.	Repair of Motor Vehicles	0.68	0.97	Maharashtra	0.47	Rajasthan	0.50	106.38
50.	Manuf. of Motor Cycles, Bicycles & Manuf. of Transport Equipment not elsewhere classified	0.84	1.13	Maharashtra	0.44	M.P., A.P., Assam, Bihar, Mysore, Gujarat & Pondicherry	0.69	156.81
51.	Manufacture of Air Crafts	1.98	2.13	W. Bengal, Madras, Delhi, A. P., & Assam	1.84	Maharashtra	0.29	15.76

1	2	3	4	5	6	7	8	9
52.	Manuf. of Professional & Scientific Measuring & Controlling Instruments	0.67	0.68	West Bengal	0.55	M.P. & Kerala	0.33	60.00
53.	Manuf. of Photographic & Optical Goods	0.60	0.70	Maharashtra	0.42	West Bengal	0.76	66.66
54.	Manuf. of Watches & Clocks	0.61	0.67	Maharashtra	0.57	W. Bengal, Gujarat Mysore & U. P.	0.10	17.54
55.	Manuf. of Jewellery & Related Articles	1.07	0.09	Maharashtra, W. Bengal, & M.P.	0.65	Madras	0.44	67.69
56.	Manuf. of Musical Instruments	0.49	0.49	W. Bengal, Delhi & U.P.	0.49	W. Bengal, Delhi and U.P.	0.00	—
57.	Manuf. of Industries not elsewhere classified	0.52	0.63	Maharashtra	0.23	Kerala	0.40	173.91
58.	Electrical Light & Power (general transmission & distribution of electrical energy) and Gas Manuf. & Distribution.	0.55	1.95	Bihar	0.33	Uttar Pradesh	1.62	490.90

Source: Annual Survey of Industries 1963

The highest regional differential is observed in the case of spinning, weaving and finishing of textiles. Since this group comprises of all textiles, the differences are somewhat exaggerated. At the other extreme are industries which are local and restricted to one or two States with only a few firms in it e.g. canning and processing of fish and other sea-foods. In these there are no wage differences at all. Out of the 58 industries, in four the highest wage exceeds the lowest by more than 450 per cent. In 18 industries the highest wage-paying State pays between 15 to 50% more than the lowest wage-paying State. In twenty four industries, the difference between the highest paying State and the lowest paying State is between the range of 51% to 150% more than the lowest wage. In 28 industries, the highest hourly wage rate exceeds the lowest by more than 100%.

In order to get a rough idea of the differences in average earnings in various industries, we have given in Table 21, frequency distribution of industries by hourly wage rates.

TABLE 21

Frequency Distribution of Industries by Hourly Wage Rates and By States in India

S. No.	Frequency Interval Rs./Hr.	India	Maharashtra	West Bengal	Madhya Pradesh	Madras	Delhi	Andhra Pradesh	Assam	Bihar	Mysore	Gujarat	Kerala	Orissa	Punjab	Rajasthan	Uttar Pradesh	Jammu & Kashmir	Pondicherry	Himachal Pradesh	Tripura
1.	0.15 to 0.24	0	0	0	0	4	1	1	0	1	2	2	3	1	0	0	2	1	0	1	1
2.	0 25 to 0 34	5	3	2	4	5	2	5	3	3	6	4	6	5	1	2	4	1	0	1	0
3.	0.35 to 0.44	7	4	8	15	5	5	6	4	8	11	9	6	1	4	7	9	3	4	0	1
4.	0.45 to 0.54	11	4	10	4	7	6	6	5	5	6	10	3	6	12	8	14	0	1	1	0
5.	0.55 to 0 64	11	4	10	7	9	10	7	5	7	6	6	9	2	12	3	8	1	2	1	0
6.	0.65 to 0.74	7	10	7	1	6	4	1	1	5	1	5	2	0	2	4	4	0	1	0	0
7.	0.75 to 0.84	9	7	5	3	6	6	5	1	3	3	3	2	2	4	2	3	1	0	0	0
8.	0.85 to 0.94	4	8	6	2	1	0	0	1	1	5	2	1	1	2	1	0	1	0	1	0
9.	0.95 & above	4	12	4	1	3	2	6	4	5	1	0	2	3	1	1	3	1	2	1	0
	Total No. of Industries	58	52	52	37	46	38	31	24	37	41	41	33	21	38	30	47	9	10	6	2

Source : ASI 1963. All Industries are grouped in 58 major groups.

Note : In row 1, Col. 1, there is no entry because industries included in this row have Firms in other class intervals which raises the average wage in them above Rs. 0.24 per hour.

The data relate to the census sector of the ASI (1963). For convenience all industries are reduced to 58 industry groups. By referring to the row headed total number of Industries, it can be seen that a number of industries are not located in many States. This by itself would cause differences in wage income created by manufacturing activity. We can attribute this type of difference to the differences in the industry-mix of different States as contrasted with the difference due to those in wage rates in the same industry located in different States.

As a more sophisticated measure, we have made an attempt to calculate the differences among States in average hourly earnings associated with

a. differences in the industry-mix of the State
b. differences in the wages paid to workers in the same industry.

By assuming that each man-hour in an industry in every State was paid at the all-India average for that industry, it is possible to compute the wage income of a State if the only factor making for differences among States had been their industry-mix (Table 22, Col. 5). By multiplying the total number of man-hours worked in a State by 69 paise, national average hourly wage rate of all workers, it is possible to obtain the amount of wage income a State would have if there had been no differences among States other than the amount of manufacturing activity (Table 22 Col. 4). This amounts to assuming that each State has the same industry-mix and the same wage as India as a whole. A comparison of a State's wage income computed from the national average hourly earnings and from its industry-mix provides a measure of the effect of the State's industry-mix on its wage income from manufacturing. In Table 22 this comparison is made by expressing the difference between wage income computed from national wages and from the industry-mix as a percentage of the former (Col. 6.).

It will be seen that Orissa has the most favourable industry-mix producing average hourly earnings 9.5% above the national average. The industry-mix of Kerala is the most unfavourable reducing average hourly earnings in Kerala below the national average by 37.9%. Secondly, the magnitude of differences attributable to variations in wage rates among the States is larger than the differences attributable to variations in industry-mix ranging from + 27.8 in Bihar to — 23.3 in Kerala.

Differences in wage rates of the same industry located in different States may arise due to differences in demand and supply of labour in different States. There may be sound economic justification for allowing these differences to be regulated by economic forces alone. But not all regional differences could be so rationalized. Hence the States can play some role in hastening the process of equalization which would take a longer time if left to free market to achieve. This however will have to be done at each industry level after satisfying that such equalisation would not lead to unemployment on a major scale or slowing of progress in the States concerned and would mean rise in productivity. Hence what is relevant for the present stage of our economic growth is a minimum wage for each region on industry-wise basis rather than a national minimum. Different State minima do give some advantage to the States in which they are lower ; but presently, for many of the States in which wages in general are lower, such an advantage is essential to attract more activity.

TABLE 22

Differences in Production-worker Wages by States, 1963

(cols. 3 to 5 in Rs. 000s)

Name of the States	Reported man-hours	Reported wage amount in Rs. 000s.	Amount computed from		% difference attributable to	
			National average	Industry-mix	Industry-mix	Wage Rates
1	2	3	4	5	6	7
Maharashtra	1458231	1297199	1006180	1055551	+4.9	+23.0
West Bengal	1599131	1034721	1193497	1153376	+4.5	—10.3
Madhya Pradesh	231337	147790	159623	166691	+4.4	—11.3
Madras	554540	397830	382633	396745	+3.7	+0.3
Delhi	126929	93991	87581	89597	+2.3	+4.9
Andhra Pradesh	254294	143288	175670	170198	—3·1	—15.8
Assam	145601	61595	100465	65794	—34.5	—6.4
Bihar	283764	267586	195798	209413	+7.0	+27.8
Mysore	235145	126093	162250	150000	—7.6	—15.9
Gujarat	637292	463064	439732	435947	—0.9	+6.2
Kerala	288534	94929	199089	123688	—37.9	—23.3
Orissa	100710	68002	69490	76118	+9.5	—10.7
Punjab	187104	112649	126102	134272	+4.0	—16.1
Rajasthan	111782	69237	77130	83497	+8.3	—17.1
Uttar Pradesh	856578	329397	384039	376814	—1.9	—12.6

Source : Annual Survey of Industries 1963.

Col. 2 & 3 : From ASI 1963

Col. 4 : the man-hours reported for States, Col. 2, have been multiplied by the national average hourly earnings of all production workers covered by the ASI. The average hourly earnings were computed by dividing the Indian production-worker wages by the Indian production-worker man-hours.

Col. 5 : The man-hours reported for a particular industry in particular State have been multiplied by the national average hourly earnings for that industry and the product thus obtained summed for all industries in the State.

Col. 6 : (5—4) divided by 4 expressed as a percentage. A — sign indicates Col. 4 is greater than Col. 5 i.e., State's industry mix is unfavourable.

Col. 7 : (3—5) divided by 5 expressed as a percentage. A — sign indicates that the State's wage rates are below the national average for the State's industries.

A more positive approach would, however, be for the Centre to adopt the policy of more rapid development of the low wage pockets consistent with long-term comparative cost consideration. Low regional wages are sometimes a reflection of low productivity and hence low ability to pay. Therefore, efforts to improve productivity by improving techniques and by providing training to workers so as to improve their skills should go hand-in-hand with the efforts made at raising minimum wages.

Section V

CONCLUSION

The following conclusions emerge from the reasoning and data presented in the earlier sections.

(a) In the context of rising aggregate demand, institutional factors have succeeded in raising money wages, but these have not had the effect of increasing for the period as a whole, real wages per factory worker in organised industry, for which wage figures are available since 1950. Since 1964 the institutional forces have been greatly strengthened and linking of wages to prices become more common. But also for the first time in India since Independence recession of a limited type has set in and the terms of trade have sharply moved in favour of agriculture. Real wages have gone down since 1964 and increases in money earnings per worker have lagged behind the changes in per-capita output. Wages in different industries have however moved differently, not always in consonance with the needs of expanding industries to attract and retain efficient labour.

(b) The minimum prescribed by the 15th Labour Conference with some further explanations and clarifications represents a welcome attempt at a quantitative definition of an absolute minimum that is essential for a worker. The logic of it applies equally to all fully employed workers, but looking at the present stage of the Indian economy, it may not be possible to achieve it in agriculture and unorganised industries for quite some time to come; and even for organised industry, it will be a goal to be achieved by stages. Whether the present wage differentials between organised industry and unorganised industry, between industry and agriculture and among regions are unduly high and can be narrowed down with advantage should form the subject of detailed study. A large part of these are the result of the pervasive dualism of Indian economy. The integration of these various sectors will be a function of a long-term developmental policy; wage policy can only play a subsidiary role in this desired process. In the interval, while nothing should be done in the realm of wage determination which will go against the final goal, policy decisions will have to take into account the existence of the dualism.

(c) The speed of the march towards the goal of the minimum wages laid down by the 15th Labour Conference, will depend on the rate of economic growth, which in turn will be largely determined by the size of investment and increases in productivity, especially in agriculture. The wage policy, in its own interest, must not do anything which will hamper savings and investment. In general this would mean that real wages can only increase to the limit permitted by the per capita consumption increase. This also means that the very desirable objective of increasing the real wages of the working class as a whole demands a planning and investment policy which will increase the flow of common consumption goods at a faster rate than population growth.

(d) In view of the widely varying wage levels in different regions and among different industries, most of them below the absolute minimum, the concept of an immediate universal or widely prevailing minimum has no appeal in the present context. Different minima for different industries fixed region-wise will have a greater appeal and function.

(e) In fixing these minima, two different considerations will have to be borne in mind. In rapidly expanding industries where there is difficulty in attracting labour of the requisite skill, strength and discipline, there would be a prima facie case for raising wages more than the norm suggested earlier. It would be the reverse in relatively declining industries. Further, since we need to break the vicious circle of "low wage-low productivity" in industries which are in a comfortable financial position and where there are reasonable prospects of increase in efficiency and improvement in attitudes leading to a fall in unit costs, a higher minimum may be tried by way of an experiment. We feel that except in the way underlined above, the ability or the profitability of an industry to pay is a very fortuitous and vague criterion in India and can be assigned only a marginal importance in the wage fixation.

(f) For the purpose of equity, maintenance of industrial peace and real content of the different minima fixed for different industries, it is essential that the lowest income-group workers should be given full protection against price increases. In order to give some scope for the free play of prices, the adjustment should not be month to month, but at longer intervals. Workers earning more than the minimum, but still belonging to the vulnerable group, should be compensated for price increases at lower rates on the lines indicated in the Gajendragadkar Commission Report referred to earlier in the text.

(g) The scanty data that we have on the subject of differentials within an industry seem to suggest that they are not adequate for the purpose of encouraging the requisite skill formation. It is extremely essential for a developing economy that these differentials are widened.

(h) Increases in dearness allowance on a flat basis or on a sliding scale by income-groups will have the unwelcome effect of reducing skill differentials which will need to be carefully reviewed periodically, or when dearness allowance reached a certain point, and if necessary, adjusted upwards. This need not furnish a simultaneous argument for upward increase in minimum wages.

(i) For the workers in the public sector the same policy should be followed as in private sector. Any dichotomy in this regard may adversely affect the growth and efficiency of the former which is assigned a crucial role in Indian planning.

(j) In view of the fact that wages and salaries are a small, though growing proportion of the national income and other incomes cannot be strictly controlled, as well as the fact that there has been no runaway tendency, no particular mechanism is suggested for restraining wage increases. Only, the wage-fixing authorities must keep in mind, among other considerations, the permissible increases in per capita consumption.

A NOTE OF DISSENT BY SHRI DINOOBHAI TRIVEDI

Considerations of various objectives to which wage policy should relate :

(a) It is suggested that wage policy should play its role in the larger perspective of economic growth, which it may be born in mind is itself a combination of agricultural and industrial growths. Since agricultural growth has been not up to the level, it is said that 'as long as the productivity of the agricultural sector remains low or stagnant, there should be a constraint on the upward change in the real wage rate in the industrial sector'. In other words, agricultural productivity should determine the wage policy.

To achieve a certain rate of growth, investment has to be made and for that purpose necessary resources have to be found. The failure to mobilise resources leads to failure in achieving the stipulated rate of growth. Mobilisation of resources is no doubt a difficult task. But instead of economic decisions have their say, political decisions influence the mobilisation of resources. This can be illustrated by the attitude towards agricultural taxation. The following quotation* in this connection is significant.

"What is in doubt is not whether it is economically possible to step up the rate of capital formation, but whether it is politically possible to do so within the democratic framework. The main problem is whether it is politically feasible to levy adequate taxation upon the peasants. As we have already seen (Chapter V, Section 2 (b)), it is impossible greatly to accelerate capital formation in underdeveloped countries without substantial taxation of agricultural for purposes of capital formation. Authoritarian regimes can do this, and this is essentially what they do; but they do not have to bother about the ballot box. Democratic regimes can do the same—it is currently being done both in Gold Coast and in Burma—but they can do it only if they are led

*The Theory of Economic Growth by W. Arthur Lewis, Third impression 1957, P. 408, para 2.

by statesmen who enjoy wide popular confidence and support."

The ballot box and not the economic necessity is the key to resource mobilisation. In our country, the vast majority of voters are farmers residing in rural areas and Indian political parties to capture power have to win the support of this vast mass of voters and, therefore, cannot afford to diplease them.

Another example of failure in this connection is 'Public Sector'. Hope was pinned on generation of substantial surpluses by these enterprises. However, the picture is reverse. "During the four years from 1962-63 to 1965-66, the return earned by the Central exchequer on the running economic enterprises (departmental and non-departmental) of the Central Government, small as they have been, fell steadily in each successive year. In 1966-67, these enterprises recorded a loss of 12 crores. In 1967-68, the loss incurred by 54 running enterprises (11 departmental and 43 non-departmental) increased to Rs. 35 crores. On a capital base of Rs. 4,662 crores (in running concerns only), the rate of return works out at minus 0.74 per cent.*

In this connection, the contribution of working class towards resource mobilisation may be considered. By Provident Fund alone the contribution amounts to 16% of their income. If their amount deposited in small savings and contributions towards life insurance and employees' sickness insurance scheme are considered together, then, they are saving at the rate of 20% of their income. A question may be raised: what are the savings of economically active population other than workers ? Even the target, the planners have in mind, is to reach the maximum rate of investment which is 20% of the national income.

(b) In our country, the number of persons depending upon agriculture according to 1961 census is 137,545,952 i.e. 72.9% of the economically active population. The number of persons as salaried employees and wage earners is only 12.8%. The number of persons required in agriculture for feeding the population compared to other is too high. This has resulted into very large volume of unemployment and under-employment. It is, therefore, true that without disturbing agricultural productivity, a very large mass can be made available to the industrial sector.

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*Economic Times, May 20, 1968, page 1.

The expansion of the industrial sector thus becomes a focal point as far as economic development is concerned. The industrial sector absorbs the rural population and gives it employment at better incomes. Again the industrial sector generates surpluses which create further industrialisation and the chain grows. Lastly, industrialisation generates additional demand because the masses can purchase easily cheap manufactured goods. The sphere of industrialisation thus spreads and in very few decades the country is completely overtaken by industrialisation and a sort of full employment occurs This brings out the significance of the industrial growth. The kingpin, therefore, is not agricultural growth but the industrial growth.

Some other relevant factors with regard to agricultural growth may be considered. The rate of increase in agricultural production has to cover the rate of increase in population and something more for improving the food standards. Again the rate of increase in population has certain phases. The last phase is hastened when the family planning programme is backed by the State. The rate of increase in population then falls sharply in a decade and a half. The change in food habits is also slow and all the incomes are not spent on food.

(c) An equally important factor which has been missed is that workers directly participate in the industrial growth. A question, therefore, may be raised on priniciples of justice that on what ground workers' real wages are sought to be related with agricultural productivity and not with industrial productivity ? The framers of wage policy should not forget that 14 crores i.e., 72.9% of the economically active population, is in agriculture. The share of 'agricultural' sector in the net domestic product at constant prices was 43% in 1965-66 and 42.2% in 1966-67.* The number of workers who participate in industrial activity are 2.5 crores i.e., 12.8% of economically active population while the share of industrial sector was 57% and 57.8% respectively.

The argument of linking industrial workers' wages to agricultural productivity is simply motivated by the present shortage of agricultural production. In other words, what is sought to be implied is whichever the country's difficult position that would be the proper criterion for linking workers' wages. Tomorrow it can be balance of payment position. It is not possible to agree to this logic.

*Reserve Bank of India Bulletin, February, 1968, p. 189.

It is well accepted principle that the real wages of industrial workers should move according to the productivity in industrial sphere. Such a method is also non-inflationary. This principle alone can be the backbone of sound wage policy and none else (See for details, section II).

(d) It is suggested that a wage policy has to be framed, keeping in view its repercussions on agricultural labour, cottage industries and small-scale industries. A role, therefore, is to be assigned to the wage policy in correcting the wage levels in these sectors vis-a-vis industrial sector and indirectly it is suggested that wage policy, at least, should not accentuate the differences.

Ascribing such a role to the wage policy is to ignore the basic feature of underdeveloped countries. It is mentioned in earlier paragraphs that the basic feature of underdeveloped countries is the prevalence of large unemployment and underemployment. The problem, therefore, is to remove this pressure of unemployment and underemployment which depresses the wages of agricultural labour.

To remove this pressure, jobs have to be created and jobs require investment. The present rate of investment is not sufficient to absorb even the new entrants in the labour force with the results that agriculture, in addition to the existing unemployment and underemployment, has to carry the burden of the new entrants in labour force arising in rural areas. Under these circumstances, none can expect to improve the position of agricultural labour.

It is equally necessary to know at what stage of economic development in our country, one can expect a start in improving the wage of agricultural labour. This condition can be stated to have arrived when the economically active population in agriculture is 55% of the total. When this change in economic structure of the labour force takes place, a slow pull in lift of wages of agricultural labour develops even though underemployment and potential underemployment may exist. In absence of this pull, it would be inappropriate to visualise any change in their condition. This also explains the failure of minimum wages fixed in agriculture under the Minimum Wages Act.

To achieve this stage, massive investment will be required in the industrial sector and a change in technology. For this purpose, everybody will have to contribute towards savings and conspicuous consumption will have to be severely curtailed. Our country can be considered fortunate if this change of 70% to 55% can be brought even in 1990. The problem of improving the wages of agricultural labour is therefore related to economic growth. To ascribe this role to wage policy is meaningless.

(e) Similar is the problem of workers engaged in cottage industries. The cottage industries in our country are the traditional industries and have to face the severe competition of large-scale industries. The price difference in the commodities produced by these sectors is also very substantial.

Cottage industries also do not generate surplus In absence of State help, they cannot survive the internal competition. The assistance takes the shape of preservation of markets, subsidy, loans etc. By these various devices cottage industries are made to survive. The State believes that, however uneconomic they are, their survival is a political necessity. Otherwise the State will have to face the problem of stability, i.e. its own survival will be questioned. The problem of wages of workers in the cottage industries, thus, is a political problem; wage policy cannot solve the political problems.

(f) A consideration of the position of organised working class will clear the problems of wages of workers engaged in small-scale industries. It has been shown at appropriate place in this report that the real wages of factory workers have not remained at 1939 level but have gone down further. This proves that workers have no collective bargaining power.

The collective bargaining power of workers is dependent upon a number of factors. Out of which three factors, the full employment situation, the waiting power and the mobility of workers, stand foremost and determine mainly the collective bargaining power.

If it is assumed that for the successful collective bargaining the collective bargaining power required is unity, then the above three factors alone contribute 0.75 to collective bargaining power; the rest being leadership, information, tactics etc. The waiting power and mobility of labour can be put safely at 0.25. That means that the nearly full employment situation contributes 0.50 to collective bargaining power.

Certain general principles with regard to full employment can be enunciated. When the rate of investment is insufficient to absorb the new entrants in labour force while massive unemployment and underemployment already exists, its factor contribution to collective bargaining power is negative. When the rate of investment is sufficient to absorb the new entrants in the labour force while massive unemployment and underemployment exists, its factor contribution is zero. When the gradual transfer begins of unemployed to employed position, in addition to the absorption of new entrants, then the contribution increases and in nearly full employment situation it reaches to 0 50. Our present position is negative.

The waiting power of working class is equally an essential factor, for it denotes for how many days workers can remain without wages. Sometimes this is expressed as withholding power. When workers are hardly getting enough and are in debt, the contribution by this factor becomes nil. Their labour has to be spent. The factor of mobility is applicable more to skilled, higher skilled and managerial talents. This analysis is sufficient to bring out the fact, collective bargaining power of organised workers is practically nil. That is why the organised working class prefers to go to industrial adjudication and Wage Boards.

In this context, the position of workers employed in small-scale industries should be considered. Small factories are situated generally in large cities and they employ from 1 to 10 persons. The number of factories are also large and are also spread throughout the city. The proprietors are diehards. Even though the number of factories are large, the complement of labour employed is small. It is, therefore, not possible to set up an efficient trade union because of these factors. If it exists, it is more ineffective than effective. Under such a situation, considering the position of organised working class, their situation cannot improve. The picture is no doubt dismal but true. It is, therefore, difficult to imagine what role wage policy can play in this connection, except covering such factories under the Minimum Wages Act and encouraging unions to be formed on the industry-wide basis.

(g) It is suggested that non-wage earners' income should be controlled. What is intended is an incomes policy for the country as a whole and wage policy should function in its assigned role within incomes policy.*

In an underdeveloped country, the State has to perform various functions and activities, has to maintain law and order and preserve the democratic frame-work; has to control the quantity of money, control price fluctuations and adjust the rate of interest; has to eradicate unemployment, underemployment and ensure full employment, has to influence resources, make savings and force people to save and balance its budget; it has to step up its rate of investment and also ensure that development programme is properly balanced; has to develop educational programme and see that necessary technical manpower is made available; has to finance.

Apart from this consideration, another equally important factor is of institutions. In an underdeveloped country, the civil service which bears the main burden is strained because additional functions it has to undertake. The activities are unknown and numerous and are getting added. The efficient civil service under these circumstances not only becomes weak but inefficient as well and is unable to cope up with work. There are neither strong agricultural organisations nor trade union organisations. The employers' organisations cannot enforce the necessary discipline. There is hardly worth the name consumer organisation or share-holders' association. The co-operative sector has just made a beginning. In absence of strong economic and social organisations, the incomes policy is bound to fail for it cannot be administered.

When an incomes policy for the country as a whole is to be considered, it would be better to understand its implica-

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* When this minute of dissent was sent to the Chairman of the Group, the emphasis on this aspect was very much. This whole issue has now been withdrawn and it is conceded that 'the proportion of income subject to such regulation will remain a small portion of the national income, and it may not be advisable or possible normally to subject other categories of income to any direct discipline'.

But the material is deliberately retained to warn against persistent demand of such policy from various quarters. The arguments advanced here bring out the point that such a policy is likely to fail. It might be mentioned here that report of the Steering Group appointed by the Reserve Bank of India of its own officers on wages, incomes and price policy has created enough trouble and some persons are attracted to it without understanding implications of such a policy. This situation has forced to retain the material.

An additional point has been made and that is about the narrowing the gap between the highest and lowest salaries.

tions. In the country to-day there are agricultural producers, agricultural labour, family labour, working class, workers on their own account and employers. The agricultural producers number 10 crores. They have different amounts of land, different types of land etc. They are spread throughout the country. The credit by banks to them is also negligible and much is from private resources. No surveys have been conducted about their incomes. Is it possible to bring such a large mass of persons under the coverage of incomes policy ?

An equally important group to be covered under the incomes policy is workers on their own account. The number of persons in their group is quite large. Who are these persons ? They are doctors, lawyers, retail shop-owners who do not employ any person, carpenters, masons, engineers, taxiwala, scooter-drivers etc. Their incomes are high. At present no information is available on their incomes. Apart from the very large number, they are spread throughout the country. It is possible to cover them successfully ?

In economically advanced countries the working class in the labour force is 80% and majority of it is also concentrated in large scale industrial establishments. It is possible to manoeuvre their incomes. While the picture is entirely reverse in our country, because 80% of the labour force consists of independent persons, agricultural producers, and employers who are scattered throughout the country.

Even in the economically advanced countries, the incomes policy came to be considered only in fifties. Area is also small. They have better economic tools and a vast social organisation which can respond well. The experience of these countries is too not satisfactory. The United Kingdom in spite of legislation on incomes policy could not prevent devaluation.

What is envisaged by an incomes policy is that incomes shall increase according to certain standards. Sometimes there would be no increase, sometimes marginal and sometimes at a stipulated rate. For this purpose, incomes will have to be assessed and probable profit will have to be arrived at. In future, prices of commodities will be so arranged that they will lead to certain incomes. This means that prices of commodities will have to be fixed and profits will have to be standardised. Can we fix the prices of commodities of agricultural and non-agricultural producers on basis of cost plus profit ? Incomes policy has to take cognizance of three factors—wages, prices and profits and a certain relation has to be established and controlled. Is this possible to achieve ? Suppose for a moment, that a radio company puts into market a new model with a ten per cent increase in prices. The only change which is made in the new model is that the push button is on the right hand side instead of on the left hand side as in the old model. This, on the basis of incomes policy, cannot be permitted. The question, therefore, arises who is going to control this aspect and watch the cost, profit and specification of the goods produced ? This is a gigantic task by itself.

How wage increases will be allowed and what changes in the prices of commodities will be allowed ? These and other similar problems will have to be considered. This will have to be done for agricultural commodities, like rice, wheat etc. Similar test will have to be applied to doctor's prescription i.e. for commodities produced or services rendered by workers on their own account. Thus commodities in agricultural sector and commodities produced or services given by workers on their own account will have to be priced and standardised. It is difficult to believe that we can undertake this task successfully in the present day circumstances. What is going to be done in the case of inflationary price rise introduced in the prices of commodities ? This pspect has defied solution. Other general economic considerations are not discussed here, but they too will have to be dealt with when an integrated incomes policy in relation to economic policy and wage policy has to be developed. Incomes policy cannot be developed and implemented by arriving at a solution of first degree and second degree equation on economic considerations in the laboratory. Under these circumstances, it is better to reject the larger area of incomes policy and limit it to a very narrow angle.

In the limited aspect of incomes policy the question of maximum income deserves attention. This point was considered by Second Pay Commission. It is true that top salaries in the civil services and public undertakings have been fixed at a certain level. This level in the present set up can be considered high. However, at present there is much heartburning among these persons (civil service) which arises from the fact that persons in similar position in the private sector are getting too much by way of salaries, bonuses, allowances and perquisites. An attack on this side is desirable and can be carried out for the persons are few in number. This task can be entrusted to the institution which is recommended by Monopoly Commission. The crux of the incomes policy and wage policy is to curtail highest incomes which is justified on the grounds of equity and social justice.

II

Trends in Employment, Productivity and Wages

While analysing trends in production, employment, productivity, money and real wages, the current position has not been pictured nor an attempt has been made to compare the Indian situation with other countries.

The period 1939-50 has been omitted though it has an important bearing on 1950-64 period. Again 1964-67 too has not been considered.

The figures of consumer price index, money and real wages have been compiled by Labour Bureau. The details are as follows :

Trends in real wages during the period 1939-1950[1]

	Index of earnings.	All-India Consumer Price Index.	Index of real earnings.
1939	100	100	100
1943	179.6	268	67.0
1950	334.2	371	90.1
1951	356.8	387	92.2

In the report, in table 3 the figures for 1951 to 1964 are as follows :

Trends in 1951—1964

	1951	1964
Production (Factory)	100	233.5
Employment (Factory)	100	157.3
Production per worker	100	148
Money earnings	100	150.8(E)
Consumer Price Index Number	100	144.8
Real Wages	100	104.1

Linking both the figures of real wages at 1951, the real wages in 1964 stood at 96 compared to 1939 level.

After 1964, there was a considerable price rise during the period 1965-67 (both inclusive). The average index stood

(1) Indian Labour Gazette Oct.1955 p.245 - Trend in the Index of real earnings of factory worker in India.

at 192.3 points in 1967[1] on 1951=100. Factory production in 1964 (1956=100) was 170.1 and increased to 187.2 points.

Considering various aspects, that linking of wages with index is less than 50%, rate of neutralisation is linked with the minimum wage earner, groups above minimum wage earner have been receiving less neutralisation proportionately and very rarely the neutralisation to the minimum wager is 100%, it may be said real wages must have gone down by 50% during the period 1965-67. Since the percentage rise in the index at the end of 1967 is 32.8, the real wages might have probably gone down by 16%. In other words the real wages in 1967 compared to 1939 level are likely to be below by 16 points i.e. to a level of 80 points. Since production has increased during the same period and allowing for the margin of increased employment, the productivity in factories must have increased at least by 2 points on a conservative estimate. The final picture, therefore, compared to 1939 level is real wages are low by 20% and productivity has increased by 50%.

An argument is advanced that persons which were previously in Rs. 200 are now in Rs. 400 group. Consequently real wages in Rs. 200 group do not give a correct picture. The argument is not convincing because the shifted groups are having declining real wages by a constant margin due to the system of payment of dearness allowance. If these groups were in Rs. 200 group, they would have continued to show declining trend.

On the other hand, there is good reason to believe that old index numbers do not show correct prices with the result that figures of real wages are vitiated. Various committees have corrected the index numbers but the correction is only for prices. Mathematically, the old index should have been corrected by current weights. Even if this error is not corrected and only price error is corrected, the correction would have to be 5% or more. This also means that real wages would go down further. The facts, therefore, emerge that productivity rise is 50% and real wages are 25% below the 1939 level, or 150 and 75 respectively.

In this connection, the wage movements and other relevant figures of other countries may be considered.

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(1) The average index for 1967 on 1949 base was 209.

Trend in Production, Employment, Prices, Money and Real wages in some countries[1]
1950—1962

		France	Germany	U.K.	U.S.A.
(a)	Industrial production (i)	58-123	48-132	82-115	84-126
	(ii)	100-212	100-275	100-140	100-150
(b)	Non-agricultural employment (i)	92-101	70-112	94-105	88-109
	(ii)	100-110	100-160	100-112	100-124
(c)	Industrial productivity	$\frac{212}{110}=192.7$	$\frac{275}{160}=170$	$\frac{140}{112}=125$	$\frac{150}{154}=121$
(d)	Money wages	100-300	100-252	100-214	100-163
(e)	Consumer price	100-187	100-129	100-162	100-126
(f)	Real wages	100-160	100-195	100-133	100-129

From the above figures, it will be evident that except France, the real wages increased greater than industrial productivity. The chances of inflation in these countries are higher due to 80% of economically active population being working class. Even then, in these countries the real wages have kept pace with industrial productivity or labour productivity: It is difficult to understand in view of these facts how in a country like ours, where employees are only 12.8% of economically active population can they be considered to put pressure on prices and to them the real wage increases should be denied on the basis of increase in industrial productivity.

Three arguments have been advanced for not increasing real wages according to increases in industrial productivity: (1) The rate of growth of real wages should be less than the rate in the private economy to allow for a certain margin of savings..............this suggests that a certain slice of national product has to be diverted to saving. The obverse of this is that real wage rate should not rise at the same rate as the increase in labour productivity in the private economy; (2) It may be noted that increase in capital—labour ratio and (3) all productivity increases should not be allowed because the coverage is required for the rate of increase in population.

It has been pointed out earlier that workers are saving at more than 20% of their income. How they can now be

1. Prices, Wages and Income Policies by H.A. Turner & H. Zoeteweij, P.9 & 17, I.L.O. publication, 1966.

asked to save more ? Should they save doubly i.e. by foregoing the rightful increase in real wages in addition to his savings from the pay-packet ? The argument is not at all valid. It is also forgotten that Indian worker has no margin now to save. He has not improved his real wages since 1939 but on the other hand there is a fall. Inspite of his paying high indirect taxation, his real wages falling; and his savings at more than 20% how much a worker is expected to sacrifice vis-a-vis other sections of the population. There is no parallel in other countries to suggest such a measure. It is, therefore, not possible to agree with this logic.

The argument that production per worker is very largely due to increase in capital-labour ratio. This pre-supposes that investment had been made by employers' own contribution. This is not a correct picture. An examination of the financing of the investment made by private corporate sector business is very much revealing. Total investment in this sector was of Rs. 1724 crores during the period of 1951-52 to 1961-62 period. Out of this, savings amounted to Rs. 474 crores and net borrowings were of Rs. 1240 crores i.e. the borrowings amounted to 2.6 times the savings[1]. On the other hand, from provident fund alone Rs. 895 corers were available for investment during the same period. If small savings, life funds etc., are considered along with provident fund, the total amount available for investment is likely to be Rs. 1240 crores. Is the capital intensive contribution due to employers' own contribution or somebody else's contribution ? If a limited view is taken, it can be categorically stated that workers have financed borrowings of the private corporate sector. It may be argued that taxes paid by the private corporate sector have not been taken into account. This is correct But equally true is the fact that the indirect tax collection by the Government has not been taken into account, which is again far greater than the private corporate sector's taxes.

Increase in capital alone does not increase production. There are other factors which are also the causes of increased production. That capital formation has played a relatively less important part than other factors is evident also from the earlier experience of currently developed countries. 'It has been estimated by Professor J.J. Spengler that capital increase was responsible for only 20 to 30% of the increase in national product of U S.A. since 1870, while between 25 and

1. Reserve Bank of India Bulletin - March 1967, page 251-252.

50% was accounted for by improvements in technique and organisation'. [1]Education is also a factor. Thus on both counts : (1) that the capital intensiveness is not due to employers' own contribution and (2) capital's contribution for increased production is much less, the argument of capital-intensiveness does not carry any weight. It is difficult to agree to this view.

It is further suggested that all productivity increases should not be allowed because the rate of increase in population has to be covered. This argument is also not valid. The wage structure which is built up on the minimum wage earner is framed on the basis of the standard family i.e. husband, wife and two children. This standard family basis is operating since 1939. Even the need-based minimum wage is on the basis of this standard family. If in the wage structure, the standard family is the basis, then it automatically means that workers are already allowing the increased rate in population; otherwise they should claim on the basis of larger family. This view, therefore, cannot stand. The real wages of the workers must increase with the industrial productivity in the industry. There is also nothing to suggest that these factors have been taken care of in economically advanced countries or others.

A point about social security may be advanced to show that even though real wages are short of 1939 level, social security benefits, if considered along with real wages might suggest that workers' position has improved. Two important social security benefits are : Provident Fund and Employees' Sickness Insurance Scheme.

The argument on the first hand sounds convincing but on detailed analysis fails to carry the point. In this report, the figures of money wages used are collected under the Payment of Wages Act. Under the definition of wages, the contribution of employees towards provident fund and employees' sickness insurance scheme are included in the term wages, while employers' contribution for the same is excluded. Therefore, only 8% of employers' contribution for Provident Fund and 4% of employers' contribution for E.S.I. Scheme are not accounted under the term wages.

To put it briefly, if Rs 100 are wages, then by employers' contribution it will be Rs. 112. As pointed out earlier, real

1. Quotation of Collin Clark as reproduced by Shrikant Palekar in his book—ibid.

wages are 75 points. Therefore if social benefits are to be included in the consideration of real wages, their level would be 84 points only. Looking from this angle, the position is not satisfactory.

In this report, figures of real wages have been compared with those of other countries e. g. U.S.A., U.K., France and Germany.[1] These figures are exclusive of social benefits.

An argument is advanced that money earnings should be compared to per capita money consumption. In this report it has been stated that 'These figures show that per capita money consumption increased by 20.3% whereas the index of money earnings of workers increased by 45.2% between 1950 and 1963. The consumer price index also increased by 27.8%. From this it can be inferred that the wage earner fared a little better than the population in general' !

The picture presented is not correct. The figures of national income are available from 1948-49 onwards. Back period as well as later years' figures being not available, the picture is limited to 1950-51 to 1962-63.

The comparison of per capita money consumption with money earnings is theoretically wrong, because it pertains to consumption and the other to earning. On principle, therefore, earnings too should be converted into money consumption. To arrive at the figure of consumption, savings have to be deducted. As pointed out in earlier paragraphs, workers are contributing from their wages 10% towards P. F. and E. S. I. Scheme alone. This does not include small savings etc. If money earnings are corrected by this percentage and consumer price index number also corrected for its error, then the picture is not what is presented. It is also not known from the report whether per capita money consumption figures used are at current prices or at constant prices. The picture is as follows :—

(1) 'In particular, the existence of black-market prices and rationing in some countries throws some doubt on the precision of the estimates given for the earlier years while for later years the increases in family earnings associated with high employment levels and the growth of extensive social benefits have probably increased the living standards of working people more than the figures suggest.' (Prices, Wages and Income Policies by H. A. Turner and H. Zoeteweij P. 19—an I. L. O. publication).

	1951	1963
Money earnings of factory workers :	100	145.2 (1)
Corrected money earnings i.e. money consumption of workers :	100	130.7 (2)
Consumer Price Index Number :	100	127.6 (3)
Corrected consumer price index number :	100	134.2 (4)
Money consumption of workers at constant prices :	100	99.5 (5)
Per capita net out-put at constant prices :	247.5	293.4 (6)
Savings (at %) :	5.6	12.7 (7)
(at Rs) :	13.9	37.2
Per capita money consumption at constant prices :	233.6	256.2

(1) From the Report.

(2) Corrected by 10%.

(3) From the Report.

(4) Corrected by 5%.

(5) By deflating 130.7 by 134.2.

(6) From Report of Currency and Finance, 1965-66, Reserve Bank p.60

(7) From Report of Currency and Finance, Reserve Bank, 1965-66, p. 510.

From the above figures it can be concluded that factory workers did not improve their position while the position of the population as a whole improved by 9.94%.[1]

It might be stated here that national income figures are arrived at by taking the wholesale prices. It has been found that many quotations in the wholesale prices are reported at controlled prices. This vitiates to a certain extent the figures of national income. Again the national income figures are the aggregates of a number of commodities. Consequently they are less reliable than the money wages figures which are collected under the Payment of Wages Act i.e., the figures of real wages are more reliable.

It might be mentioned here that it is already admitted that considering the later period the position may not have improved. Bearing this fact in the mind along with above facts, it

(1) In the population, working class is included. If working class is excluded, then for the rest of the population the money consumption must have increased by 15% or so.

is more true to say that workers have not improved their position; rather their position has deteriorated.[1]

In view of the fact real wages should increase, the question of treating dearness allowance separately and the theory of agricultural surplus does not arise. It is a mere chance that dearness allowance is separate. In fact it is part and parcel of wages. In no country except India and Pakistan, this artificial line is drawn. If this is the case, then the logic of the main report is 'wages exert pressure on agricultural surplus'—the proposition becomes ridiculous.

Even if, for a moment, it is admitted that wages exert pressure on agricultural surplus, then the incomes other than of working class also exert pressure. This as the report concedes is not possible to control. So the handy man is the worker ! What a fine logic of agricultural surplus !

III

Wage Structure

There is no section regarding wage structure in the report. Only some stray remarks have been made. Development of rational wage structure is the most important as well as urgent problem.

The present wage structure consists of mainly basic wages and dearness allowance. Wage differentials framed are on basic wages.

A system is in vogue to express dearness allowance as percentage of total pay packet and by this, irrationality of wage structure is tried to be depicted. By this method dearness allowance may be 30 to 50% of the total pay packet. This method of analysis does not bring about the irrationality of the wage structure predominantly. The better method is to state how many times or in percentage the dearness allowance is higher than basic wages. In lower groups, and particularly in the textile industry, the dearness allowance is 4 times higher than the basic wage or 400 per cent of basic wage ; in few industries and civil service, dearness allowance is 100% of basic wages. This points out more clearly the irrationality of the wage structure. This irrationality is introduced because the base period of wage structure is 1939 or 1949. In very few cases, the base period is 1960.

The logic of fixing the base period at 1939 or 1949 level is the assumption that prices may fall and may stabilise at

(1) The reasons for price rise are not discussed.

certain level. This assumption is now not valid. Due to shortages in foodgrains and other consumer goods, the policy of support prices for agricultural commodities, a sort of parity between agricultural and industrial commodity prices and the persistence of demand inflation, the prices are not going to fall but bound to rise. A new feature in agricultural production is to put more inputs. This also rules out the price fall. On the other hand, due to costliness of inputs in agriculture, there will be a tendency to raise prices. The price reduction may dampen the process of increasing use of inputs in agriculture. This will go against the policy of increasing agricultural production. On these counts and others, the price fall or stability of prices must be considered an illusion.

The irrational wage structure leads to wrong comparison of wages; is a disincentive for existing systems of payment by results as well as for introduction of new ones; affects the skills due to narrowing down of wage differentials; and comes in the way of man-power distribution and has various other disadvantages.

Considering these aspects, the first objective of wage policy must be to make the wage structure rational. In a rational wage structure the component of dearness allowance in the pay packet should not be more than 5% of basic wages. This is so in various economically advanced countries. Equitable wage differentials then can be developed. In this manner, a rational wage structure can be built. However, if prices increase by more than 50%, a revision of wage structure should be undertaken to remove the distortions introduced in the wage structure.

In 1960, at various places, family budget inquiries for non-manual and manual workers were conducted. To-day, consumer price index numbers for both these group of workers (also of agricultural labourers) at various centres are available on 196 basis. Therefore, necessary data for developing rational wage structure is available. Since prices are not likely to go down below the 1965 level, a rational wage structure on 1965 price level should be framed.

IV

Perspective & Approach

In the report, to be frank enough, there is nothing like a perspective. A short-term view of whole situation is taken. In its approach to the subject matter, the thinking developed in economically advanced countries has been adopted without considering the needs of the country and specially of the working class. This shadow is seen in the first and second sections of the report as well as in section of dearness allowance. Emphasis is upon capital accumulation, investments, savings, production and curtailing consumption. There is no attempt to learn from the experience of the past. No attempt is also made to take into consideration the policy pronouncements viz., socialist pattern of society. No attention is paid to the reduction of inequalities. The dynamic wage structure responding to the needs of the economy and satisfying the expectations of the working class is not thought of. The directive principles embodied in the Constitution are forgotten. In short, the report fails to take note of things which it should have undertaken.

The country is at the threshold of vast changes in economic and social sphere. In 1990, the changes will be more pronounced. The industrial production in 1990 is likely to be trebled. The working class will be 25% of the economic active population and the agricultural producers and agricultural labour will be 55%. The working class will be quite formidable in 1990. The average worker will be S.S.C. educated, possessing all-round knowledge, will be possessing diverse and high skills, will have a smaller family and will be free from taboos and traditions. If active and dynamic wage policy is followed, he might be of a better body weight and can stand the strain of working hours. To achieve this, his consumption must be increased and this can be done by increasing the real wages as per industrial productivity. If such a wage policy is pursued, it is possible to raise the real wages by 1990 to 150 per cent. By this approach, his productivity will increase. This requires increase in consumption, for increased consumption means increased productivity. Unfortunately in the report, this aspect is forgotten. There is an urgent need to increase consumption and for this purpose we require a different approach. I am fortified in my views by the recent publication of Shri Gunnar Myrdal—Asian Drama—'An Inquiry into Poverty of National (Asians)'. His views are given below :

"Prologue—The beam in our eyes—S. 5. Another source of bias. Transference of Western concepts and theories...... That the use of western theories, models and concepts in the economic problems in the South Asian countries is a cause of bias seriously distorting that study will be a main theme of this book. For the moment a few *obiter dicta* must suffice to outline this approach. The concepts and the theory of employment and underemployment rest on assumptions about attitudes and institutions that, though fairly realistic in the developed countries, are unrealistic in the underdeveloped countries......The list could be made much longer, as will be seen in this book. Our main point is that while in the Western world an analysis in "economic" terms—markets and prices, employment and unemployment, consumption and savings, investment and output—that abstracts from modes and levels of living and from attitudes, institutions, and culture may make sense and lead to valid references, an analogous procedure plainly does not suit the underdeveloped countries. There one cannot make such abstractions, a realistic analysis must deal with the problems in terms that are attitudinal and institutional and take into account the very low levels of living and culture".[1]

"Chapter 2—The value premises chosen—S.4 Summary specification of modernization ideals—(d) Rise of levels of living—It is commonly believed, however, that substantial improvements in levels of living must be postponed for some time to come in order to permit capital accumulation and even higher productivity and levels of living in the future. This need would assume a partial conflict, at least in the short run, between higher consumption and higher production. But there is also a positive relationship between these conditions to which we shall often call attention—that improved levels of living are a pre-condition for higher labour imput and efficiency and, generally, for changes in abilities and attitudes that are favourable to rising productivity. This inter-dependence

(1) Asian Drama—Vol. 1, p. 19 and 20.

between productivity and levels of living is much stronger in the countries of South Asia than in Western countries, though the relationship is mostly obscured by application of the Western approach in the economic analysis of South Asian Development Problems"[1].

"Chapter 12—Levels of living and inequality......But in addition, a rise in levels of living has an instrumental value. By the circular causation attending changes in social conditions, a rise in levels of living is likely to improve almost all other conditions, in particular, labour input and efficiency and thus productivity but also attitudes and institutions........It is an important fact that a rise in levels of living has a much greater instrumental value in South Asia than in the advanced countries. In the latter, levels of living are so high that on the margin, the productivity effect of a change is nil or slight. Therefore, the income of an individual, a group, or a whole nation can be divided, with reasonable accuracy, into two parts, one used for consumption and the other for savings, which is to say investment. Normally, then, the levels of living when measured as consumption by 'final' purchasers, is obtained by subtracting 'savings' from income. These 'savings' correspond to the tangible assets accumulated through the non-consumption of some part of current output. But in the underdeveloped countries of South Asia, levels of living are so low as seriously to impair health, vigour and attitudes towards work. Consequently, increases in most types of consumption represent *at the same time investment.*[2]

It has been shown that real wages have gone down by 25% compared to 1939 level, in spite of the fact that productivity has increased by 50%. The worker, therefore, suffers from malnutrition, lives in most unhygienic conditions and has no stamina to fight the diseases. His expenditure on food was less than 50% in 1933[3] and to-day it is more than 55%. This affects his productivity. (The Western countries, when they bgan their economic development, a worker was spending 4e0% on food). The situation is most discouraging when it is known that working class is saving at the rate of 20% of its income and by these savings is capable to finance the borrowing requirements of the private sector. He has lost and the other sections of the society have improved their money con-

(1) Asian Drama—Vol. 1 p. 59.

(2) Asian Drama Vol. 1p. 530.

3) See Family Budget Inquiries for Bombay and Ahmedabad for the years.

sumption by 12 to 13% even though their savings are less. This has all happened because of wrong approach, failure to have a perspective, failure to control prices and mobilising the resources from the political angle. If this picture is to be reversed, then there is no alternative but to lay down firmly that real wages be increased as per industrial productivity and the wage structure be immediately rationalised. By carrying out this policy it will be possible to realise the need-based minimum wage as outlined in the 15th Indian Labour Conference within a fair period, not otherwise. This will also mean an attempt to go forward to the socialist pattern of society. A failure to carry out this policy is likely to spell disastar.[1]

(1) I also differ on the remaining issues, on which the views have been expressed in the main report.

Statement I

Distribution of Economically Active Population by Status
(000s omitted)

	Number		%	
	France, Germany (FR), Italy, Sweden, U.K., U.S.A.	India	France, Germany (FR), Italy, Sweden, U.K., U.S.A.	**India**
	(1)	(2)		
1. Employers and workers on own account.	21,238	29,815	12.9	15.8
2. Salaried employees and wage earners.	130,829	24,060	79.6	12.8
3. Family workers	7,350	3,658	4.5	1.9
4. Others and status unknown.	5,026	131,143 (3)	3.0	69.5
TOTAL :	164,443	188,676	100.0	100.0

(1) France—1962; Germany (F.R.)—1961; Italy—1961; Sweden —1960 ; U.K.—1960 ; U.S.A.—1961.

(2) 1961—Census Report.

(3) Agricultural producers and agricultural labourers.

Source :—Year book of Labour Statistics, 1967. I.L.O.

Statement II

Distribution of Economically Active Population by Industry.
(000s omitted).

	Number		%	
	France, Germany (F.R.) Italy, Sweden, U.K., U.S.A. (1)	India (2)	France, Germany (F.R.) Italy, Sweden, U.K., U.S.A.	India
0. Agriculture, Forestry, Hunting and Fishing.	19,080	137,546	11.6	72.9
1. Mining and Quarrying.	2,689	918	1.6	0.5
2-3. Manufacturing.	48,664	17,906	29.6	9.5
4. Construction.	11,505	2,059	7.6	1.1
5. Electricity, Gas, Water and Sanitary Services.	1,846	632	1.1	0.3
6. Commerce	27,815	7,654	16.9	4.1
7. Transport, Storage & Communications.	9,191	3,019	5.5	1.6
8. Services (including armed forces).	37,447	16,660	22.8	8.8
9. Miscellaneous(3)	5,207	2,290	3.3	1.2
Total	164,444	188,676	100.0	100.0

(1) France-1962; Germany (F.R.)-1961; Italy-1961; Sweden-1960; U.K.-1960; U.S.A.-1961.

(2) *1961*

(3) Includes persons on compulsory military services; unemployed; statistics not adequately described; persons seeking work for the first time.

Source : Year Book of Labour Statistics, 1967. I.L.O.

Statement III

Distribution of Economically Active Population by Occupations.

(000s) omitted.

	Number		%	
	France, Germany (F.R.) Italy Sweden, U.K., U.S.A. (1)	India (2)	France, Germany (F.R.) Italy, Sweden U.K., U.S.A.	India
0. Professional, technical and related workers.	15,009	3,236	9.0	1.7
1. Administrative, executive and managerial activities.	7,986	1,811	4.8	1.0
2. Clerical workers.	18,582	3,197	11.2	1.7
3. Sale workers.	13,870	6,876	8.3	3.6
4. Farmers, fisherman, hunters, loggers and related workers.	18,271	130,590	11.0	72.9
5. Mines, quarrymen and related workers.	3,551	672	2.1	0.4
6. Workers in transport and communications occupations.	7,693	1,876	4.6	1.0
7-8. Craftsmen, production process workers and labourers not elsewhere specified.	57,527	27,407	34.5	14.5
9. Service, sport and recreational workers.	14,618	5,587	8.8	3.0
10. Miscellaneous(3)	9,387	424	5.7	0.2
Total	1,66,494 (4)	188,676	100.0	100.0

(1) France-1962; Germany (F.R.)-1961; Italy-1964; Sweden-1960; U.K.-1960; U.S.A.-1960.

(2) 1961.

(3) Includes workers not classified by occupations, number of armed forces ; persons on compulsory military service and persons seeking work for the first time.

(4) This total is slightly higher than the figure 164,444 due to discrepancy of figure in original and change of year for Italy.

Source : Year Book of Labour Statistics, 1967. I.L.O.

Statement IV

Employment and Unemployment, Employment Generated and likely to be Generated during the Plans, and Investment.

(Labour in Millions ; Rupees in Crores)

Note : Figures are from the report on page 15 unless otherwise stated. E=Estimate.

	Ist Plan	IInd Plan	III Plan	Three Annual Plans	IVth Plan	Total
	1951-56	1956-61	1961-66	1966-67, 67-68, 68-69 (All E)	1969-74 (All E)	
(A) Backlog of Unemployment at the start of the plan.	3.0-5.4 (4.15) (1)	5.3	9.0	11.5	14.5	4.15
(B) Net additions to labour force.	9.15	11.7	17.0	14.0	26.0	77.85
(C) Total.	12.15-14.55	17.0	26.0	25.5	40.5	
(D) Employment generated during the plan.	8.0 (a=6.0) (b=2.0)	8.0 (a=6.5) (b=1.5)	14.5 (a=10.5) (b=4.5)	11.0 (a=9.0) (b=2.0	19.0 (a=14.0) (b=5.0)	60.50
(E) Balance i.e. backlog of unemployment at the end of the Plan.	4.15-6.55	9.0	11.5	14.5	21.50	21.50
(F) Total investments (Rs.) (actuals upto 1966).	3,360	6,200	10,400	8,000	20,000	47,960
(G) Public sector outlay (Rs.) (actuals upto 1966)	1,960	4,672	8,608	6,600	16,000	37,840

(1) The figure of 4.15 is more correct, otherwise the figure of backlog of unemployment at the start of the Plan would not agree.

(2) a=non-agricultural; b=agricultural.

Statement V

Comparison of Economically Active Population in 1961 and 1974

		1961	1974
1.	Agricultural producers and agricultural labour	69.5	63*
2.	Salaried employees and wage earners	12.8	23
3.	Rest.	17.7	14
		100.0	100.0

*From previous chart

Statement VI

Calculation of likely distribution of economically active population at the end of year 1974

(*Figures in Brackets are %*)

(000s omitted)

	Agricultural producers & agricultural labour	Salaried employees or wage earners	Rest	Total
(a) Economically active population in 1961	131143(69.5)	24060(12.8)	33472(17.7)	188673
(b) Addition during III Plan (net)	4000*	10500*		
(c) Additions during annual Plans (net)	2000*	9000*		
(d) Additions during the IVth Plan (net)	5000*	14000*		
(e) TOTAL	142143	57560	33472	232175
(f) Backlog of un-employment at the end of 1974	17200		4300	21500†
(g) Grand Total (e)+(f)	159343(63)	57560(23)	37742(14)	253675
(h) Corrected Figures ‡				

*From previous chart.

†From previous chart

‡A crude estimate after taking into account death rate and life expectations.

Statement VII

Population and Economically Active Population Projections

(Figures in Lacs.)

	Population*	E.A.P. on 42.56%†		E.A.P. on 40%		Increase in Labour Force as given in Plan i.e., new entrants
		Total	New Entrants as per E.A.P.	Total	New Entrants as per E.A.P.	
1961	43,89	18,68		18,68		
1966	49,47	21,05	233	19,79	222	170
1971	55,96	23,82	277	22,38	259	230
1976	63,02	26,82	300	25,21	282	300
1981	69,49	29,57	275	27,80	259	

* General fertility rate to decline by 5% in 1966-70; by 10% in 71-75 and 20% in 76-80. Life expectation may increase (Vol., 5, Gujarat, Part 1¾A(i)—page 211—Appendix 1.4—Population Projections of States and Union Territories).

† as per census 1961.

Statement VIII

Trend in the Real Earnings of Factory Workers in India

Year	Index of Money Earnings	All-India Consumer Price Index Number for Working Class	Index of Real Earnings
1939	100.0‡	100‡	100‡
1940	105.3	97	108.6
1941	111.0	107	103.7
1942	129.1	145	89.0
1943 (179.6)	179.6	268	67.0
1944	202.1	269	75.1
1945	201.5	269	74.9
1946	208.6	285	73.2
1947	253.2	323	78.4
1948	304.0	360	84.4
1949	340.3	371	91.7
1950	334.2	371	90.1
1951	356.8 100.0@	387 100.0@	92.2 100.0@
1952	107.1	98.1	109.2
1953	107.7	101.0	106.6
1954	107.7	96.2	112.0
1955	113.1	91.4	123.7
1956	115.4	100.0	115.4
1957	120.8	105.7	114.3
1958	122.3	110.5	110.7
1959	126.4	115.2	109.7
1960	134.4	118.1	113.8
1961	138.6	120.0	115.5
1962	144 0	123.8	116.3
1963	145.2	127.6	113.8
1964	150.8 (E)	144.8	104 1 (E)
1965		158.1*	
1666		175.2	
1967		199.0	

‡ Figures from 1939 to 1951 are from Indian Labour Gazette, October 1955, p. 245.

@ From the Report 1951-1964.

* 1965, 1966 & 1967 figures are from Indian Labour Statistics 1968 Labour Bureau. These figures are recast in 1951 as 100. The actual figures are 166, 184 and 209.

Statement IX

Trends in Real Wages, Industrial Production, Employment in some of the Economically Developed Countries.

Note :—Figures of 1950 and 1962 are from 'Prices, wages and Income Policies' by H. A. Turner and H. Zoeteweij p. 9 and 17. The figures for 1966 are from I.L.O. Statistical Labour Year Book 1967 & United Nations Statistical Year Book.

	1958=100									1950=100								
	Industrial Production/Manufacturing Production			Non-agricultural Employees			Consumer Prices			Money Wages			Consumer Prices			Wages in Mfg. Real Wages		
	1950	1962	1966[1]	1950	1962	1966	1950	1962	1966	1950	1962	1966	1950	1962	1966	1950	1962	1966
France	58	123	150	92	101	105	64	119	135	100	300	391	100	187	223	100	160	176
Germany (F. R.)	48	132	160	70	103	106	84	109	122	100	252	345	100	129	146	100	195	236
Italy	55	156	177[2]	95	120	106	76	109	132	100	200	280	100	143	177	100	140	158
Sweden	80	122	163	100	107	110	67	112	133	100	244	335	100	169	200	100	144	212
United Kingdom	82	115	133	94	105	109	68	110	126	100	214	287	100	162	185	100	132	155
United States	84	126	167	88	109	120	83	105	112	100	163	192	100	126	136	100	129	141

(1) Figures are from Monthly Bulletin of Statistics : United Nations—December, 1967.
(2) Figure is for 1965.

A REJOINDER BY SHRI D. T. LAKDAWALA

TO THE NOTE OF DISSENT BY SHRI DINOOBHAI TRIVEDI

In his Minute of Dissent, Shri Trivedi has raised a number of important issues with far reaching implications which need careful examination. Briefly put, he differs with us on three points. He thinks that there is no need for or feasibility of an incomes policy as distinct from a wages policy, that wages in organised industry need not be influenced by changes in other sectors like those in overall production, consumption or agricultural productivity, and that industrial wages should really be governed by industrial production per worker.

On the question of the incomes policy, Shri Trivedi contends that no detailed regulation of prices, profits of various small entrepreneurs, earnings of the self-employed and wages of unorganised industrial and agricultural workers can be contemplated, but that wages of organised labour can be effectively fixed. There are many ways of indirectly, nevertheless, not ineffectively influencing some of the former which Shri Trivedi does not recognise. We do not see any need of arguing this at length because we are much nearer Shri Trivedi on this point than he is willing to concede. We have not advocated any ceiling or freeze on wages or other incomes except in wartime or a period of sharp contraction of national income, when a policy of price and profit control and allocation of resources will become imperative and when people can be persuaded to accept it. Some such policy was enforced with limited success even under alien rule. In normal times, we only recommend that where wages are fixed through some State intervention, the rate of increase in consumption per capita should be taken as a general guideline. The wage-fixing or recommending authorities will even then take into consideration other specific factors like the need of attracting and retaining requisite labour, the natue of the work, the productivity of labour, etc. Shri Trivedi rightly takes the view that under Indian conditions there is widespread need for such intervention in the interest of labour. In that case, the effects of the State adopting this general criterion in wage fixation would be appreciable.

The application of criteria derived from the behaviour of the industrial sector alone to wage fixation over a fairly wide industrial sector is fraught with difficulties. The terms of trade between this sector and others especially the agricultural sector have changed significantly in recent years. The likely consequences of failure to consider such changes are worked out in our main Report. The events of 1965-67 show that the happenings in the agricultural sector can just not be ignored. If industrial workers constituted a small proportion of total absorbers of the foodgrains surplus, and if the other purchasers could be made to suffer reduction in food consumption, the situation would certainly be happier for the industrial workers. But this cannot be done on any large scale. If it could be stipulated that workers would only spend their increased incomes on industrial goods, or even if neutralization formulae applied to the non-food part of the consumers' index, it might be possible to delink the two; but we do not think Shri Trivedi would advocate such a limitation. There is, therefore, no escape from the very real limitation of agricultural productivity. We have realised in the last few years that development programmes can only succeed if this limitation is realised and overcome. A wages policy, whose success must largely depend on a proper developmental policy must also pay heed to this. Shri Trivedi feels that we are very near the time of abundant food supplies evidently due to break-through in agriculture, or due to success of family planning, or due to workers spending a limited portion only on food. We are sorry we cannot share this optimism. We are afraid the agricultural problem is likely to stay with us for some time.

Shri Trivedi argues that the consideration of overall permissible per capita consumption or productivity of the whole economy is immaterial. The change in production in the organised industrial sector cannot be entirely ascribed to happenings in that sector only. Many others will legitimately claim a share in its fruits. Shri Trivedi agrees that savings are realy very important for growth. If these savings have to be extracted from the economy, potential increases in consumption have to be controlled. Permissible consumption increases will naturally depend on production increases and the surpluses that have to be generated. This is a common discipline which the working class must share with other working groups. Shri Trivedi would perhaps argue that this should certainly not apply to situations where real wages have fallen over a long period. The argument regarding fall or rise in real wages over a long period needs much greater elaboration because of the limitations of data, breaks in consumers' price index series, the increase in the strength of the working class, etc. Break-up of earnings by wage groups, by centres and by industries and detailed calculations regarding amenities in kind are essential to understand and analyse the phenomena in detail. The limited analysis that we have been able to make for 1951-63 brings lout the fact that different industrial workers have fared differently and sectoral wages have more meaning in this sense than general industrial wages. We were struck by the absence of any changes for the better in some industries and have, therefore, asked for detailed studies of industries where real wages show a decrease since 1951. But the general wage change can only be understood in the context of the limited overall increase in national production, the small increase in per capita production and increases in non-developmental and developmental Government expenditure and savings. The deterioration in the real wage situation since 1963 can be explained in light of the nemesis that has overtaken our economy in terms of these as well as failure of agricultural production.

Shri Trivedi has traced the history of wages before 1951 and tried to show that real wages fell between 1939-51. We have no quarrel with his broad conclusions. We thought that to carry the study of the history of wages prior to 1951 would be hardly worthwhile as the national income figures for the earlier years would be difficult to obtain. But if the statistics were available, the type of conclusions might have been very similar. With a small rise in national income, large increase in number of earners and industrial earners and substantial increase in indirect taxation, the scope for increase in real wages becomes extremely limited ; a wages policy will do well to realise this limitation if it is to avoid setting up great strains and stresses in the economy.

Shri Trivedi has argued that changes in the general wage level of industrial workers should be governed by per-worker industrial production. In other words, he would have us treat workers in the same way as we would treat the nation, except that he does not see the need for more savings at source. The increase in industrial production per worker is no measure of increase in labour productivity. It may be due to greater capital-labour ratio. Whether this greater capital is in its turn due to internal saving or external borrowing or even workers' savings is immaterial, for some productivity should necessarily be ascribed to it and a fair return given to the parties subscribing to it. In so far as increased production can be ascribed to harder work or skills of the workers, a share must go to them. This is the differential which we have advocated. We have gone further in thinking of providing for it in advance to promote better work or skill. We do not think it possible to give more importance to industrial production per worker.

It may be argued that the guideline given by us is vague, as it needs to be amplified and qualified in its specific applications. It may be interesting to compare this with the prevalent test. The general criterion hitherto adopted in fixing industrial wage is a need-based wage. While as a social goal to be achieved quickly it is unexceptionable, insistence on it for some may prove at the cost of others and at the sacrifice of rapid economic development. Hitherto, the only major factor setting a limit to the speed at which this goal was to be achieved has been the ability of the industry to pay. Besides being a highly inequitable criterion, it has been extremely difficult of application in Indian circumstances where the capacity of industry to pay hitherto seemed almost limitless, and was largely the result of industrial licensing, exchange control, etc. We think it high time that this sort of affairs should end. In its place, the general principle should be the permissible increases in consumption. One does not know why Shri Trivedi regards this as a restraining factor ; it can be helpful in raising real wages once the economy grows rapidly.

We entirely agree with Shri Trivedi that industrial expansion is of vital importance and needs large investments. That is why increased savings have to be provided for. Shri Trivedi thinks this does not constitute a constraint in raising workers' wages, because he estimates workers' savings at 20% of their income and, therefore, as already fulfilling the national target. We wonder how these calculations of workers' savings are made. Perhaps, he is already including therein the employers' contribution to the Provident Fund, etc. and ignoring all the spendings from these funds. This is not justifiable. It is hardly to be expected that the workers would save as much of their incomes as companies whose savings are much more than 20 per cent of their incomes.

Shri Trivedi makes the interesting point that in developed countries money and real wages have increased faster than industrial production. He should have taken the general context in which this has been possible. How have national incomes and agricultural production fared in these countries ? If they had been noted, there would not have been much cause of astonishment at the present state of India.

In his section on Wage Structure, Shri Trivedi complains that the Report contains only stray remarks on the subject. He has voiced grave objections against the present method of treating an unduly large portion of the pay packet as dearness allowance, which has a specially deliterious effect on wage differentials. We share his logic and anxieties on both these counts. A careful reading of the Report will show that we have asked for a merger of the dearness allowance at the 1960 price level with basic wages. Shri Trivedi would like us to accept 1965 price level for this purpose. Which period to take for fixing basic wages depends on one's judgment regarding the price trends, and one has to be careful to ensure that the date is so fixed that there is little likelihood of any fall in the price level as of that period. Shri Trivedi thinks that there is no prospect of any decrease in the 1965 price level, not even of stability. We are more conservative in this matter. But this is a matter of detail, as 1960 is far off from 1939 or 1949, round which most of the basic wages are fixed. The interests of the lowest-paid workers are safeguarded by a full neutralisation of increases in consumers' price index at stated intervals. This would leave the better-paid labour with less real rewards on every price rise. It is not possible to ensure that his real remuneration is fully safeguarded. As the next best step, we have suggested a review of the differentials periodically or when the dearness allowance exceeds a certain point. We have been deeply conscious of the need for differentials, and have devoted a whole section to it. We fail to understand what further topic Shri Trivedi wants us to cover in this regard.

Shri Trivedi feels the absence of a perspective in our Report, in which he thinks concepts developed in Western countries have been used without taking Indian needs into account. The only instance he cites is our emphasis on savings and capital accumulation without our recognition of "productive consumption". Shri Trivedi's earlier remarks show that he is happily conscious of the need for the former. Our Report recognises the possibility of a rise in wage level being sometimes necessary for keeping workers in a state of proper efficiency, ability and attitude; and where such an increase is likely to lead to more efficiency, we are in favour of it. We, however, think it is not possible for the economy in its present stage to take the risk of a general wage increase in the hope that it will lead to more production without a detailed examination.

Our first section is precisely intended to introduce a proper perspective of the problem of wage policy in the general setting of planning in a developing economy. It is easy and attractive to translate this on assumption of continuous growth of various national aggregates into the happy and attractive prospects by 1990. The magic of compound growth can work miracles in course of time. The achievement, continuance and sustenance of these assumed rates provides the real key to a reasonably comfortable standard of living for the wage-earners. Their discussion belongs to the realm of growth policies. But one cannot base a wage policy on the assumption that this growth rate has already been achieved. Shri Trivedi raises the question of the failure of planning and and who is to be blamed for the present low state of resource mobilisation, low profitability of the public sector, inadequate agricultural taxation, etc. Interesting as these questions are, it is more interesting and useful to ask the questions as to how wage policy could subserve, or at least not obstruct the need of development in the present state of affairs. This is the limited question to which we have addressed ourselves and tried to find an answer.

Sd/— D. T. Lakdawala

A NOTE OF DISSENT BY DR. C.K. JOHRI

I

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 wage 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 maker s 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 dispensation 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 implication of the above statement is that stagnation in real wages cannot be accepted as either preordained 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 priniciple 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 essentilly 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 on 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 decision making, 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 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 I, under the title "Wages Policy in the Perspective of Planned Economic Growth", page 4, para 2 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 pages 8-9 the Report says:

> "When a point was made earlier that 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 largly form the basis for adjudging upon the claims of workerse The report makes an assertion that has been neither dem.onstrated 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 imperilled 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 5, para 1, the Report says:

"That dominant objective is the advancement of the economy where the interests of groups, be 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 consonance 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 intolerable 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 5, para 2, 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 tempting but erroneous to treat each of these sectors in isolation and devise 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 and supply 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 inter-state 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 dispersion in relative wages."

Oxford Fconomic 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 6-7 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 *ceteris paribus* 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 definition 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 stagnate. 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 inter-industry 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 disproportionately. 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 8-14, 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 payments 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 pages 29-30 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, except in 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 expansion 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 difficul tto judge whether these sectors are able to meet the necessary wages 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 escalator 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 pay-rolls 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 ;

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

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

(iv) 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 regions 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 recommendation 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 atisfied 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 wage 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 deliberately 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 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 endorse 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 insurmountable. 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 38, 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-cut 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 able to attract labour in the required numbers. Such a policy would no doubt spell ruin to many industries.

Sd/- C. K. Johri

A REJOINDER BY SHRI D. T. LAKDAWALA TO THE NOTE OF DISSENT BY DR. C. K. JOHRI

We have carefully gone through the Minute of Dissent of Dr. Johri. We find that we can add little to what we have already said before to clarify our viewpoint further. We would, however, like to correct some wrong impressions that Dr. Johri's note may create. We do not plead for any wide extension of wage fixation powers of the Government in normal times. In the first section of our Report, we have tried to set out a general guideline in the light of which the wages policy should be framed, but we have not pleaded for its automatic extension to all wage increase demands, nor for its mechanical application to the process of wage fixation through State machinery. The likely increase in per capita consumption is only a general criterion, and decisions on wage fixation will depend on many other circumstances specific to the concerned group of workers. There is, thus, no intention or attempt to prevent the full play of voluntary collective bargaining, and no question of violating the frame of the Constitution or interfering with the democratic framework. When the State uses its power or influence to raise wages, it has to take into account the interests of planned development and the remuneration of other working groups. It cannot adopt a test which will increase the relative share of a group (except the poorest) in national consumption without regard to its differential productivity. As more groups organise and agitate for a betterment of their conditions, the community has to become increasingly conscious of this limitation. The rules of wage fixation at the micro-level, useful for management policy at the plant level, or the interpretation of the market situation provide no fair way of proceeding in the matter. Dr. Johri's formula for determining a minimum subsistence wage for each region and promulgating wage rates for different industries under the Minimum Wages Act by subsidising firms in economic difficulties will certainly not lead to better results from the viewpoint of the community nor prove more acceptable to labour.

Our colleague, Dr. Johri, does not agree with the relationship outlined by us among "agricultural labour, marketable surpluses, and industrial wages." At the same time, he thinks it a tautology to assert that real industrial wages are tied up with agricultural productivity. It is instructive and interesting to see how the obvious relationship is brought about, and the simple two-sector model (Industry and Agriculture) Dr. Johri objects to is just meant to do this. The fact that real wages are calculated by dividing money wages by cost of living index of which food price index is an important component proves nothing, because what we are striving for is a theoretical relationship between real industrial wages and agricultural productivity, not between money wages and real wages. Dr. Johri thinks this is only indirect ; we think as the events of the last few years show this is a very important strategic relationship. Introduction of monetary expansion in our model would, in our opinion, introduce an unnecessary complication.

Dr. Johri rightly points out that in the long run the dependence of real wages on marketable surplus of food will diminish with changes in the consumption pattern. The relationship we have outlined above is only meant to apply at the present juncture and for some time, and not hold good in the long run. It is much less meant to trace the inter-industry wage relationships or intra-industry wage differentials which can vary widely within the same average real wage.

Dr. Johri has a few harsh comments to offer on Indian planning. He seems to think that the stagnation in wages witnessed in the last few years is the inevitable outcome of the Plans which paid no regard to the need for increase in the production of food and other wage goods, and set up a tightly controlled system modelled on the Soviet pattern. One has to distinguish in this respect between the Plans and their failure, between the targets and the end results which were different from what the planners visualised. The differences could be due to one or more of a variety of reasons like a faulty investment pattern, inconsistency in the Plans, failures of implementation and organisation and unexpected increases in the non-Plan expenditure. The Plans did provide for a sizeable increase in mass consumption and thought it would be possible to increase real wages, but these hopes did not materialise. We have no special case to plead for in this regard. It requires a detailed study to locate where exactly things went amiss and whether the responsibility for failure can be laid definitely on any one. Such a study is worthwhile, but we doubt whether its conclusions will be as simple as Dr. Johri thinks. We have not thought it possible as a group to embark on such a study, and would not like to indulge in any *obiter dicta*.

Sd/- D. T. Lakdawala.