

# **Report of the Expert Committee on Determining the Methodology for Fixing the National Minimum Wage**



सत्यमेव जयते

**MINISTRY OF LABOUR AND EMPLOYMENT  
GOVERNMENT OF INDIA**

January 2019



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January 2019



संतोष कुमार गंगवार  
Santosh Kumar Gangwar



श्रम एवं रोजगार राज्य मंत्री (स्वतंत्र प्रभार)  
भारत सरकार  
Minister of State Labour & Employment  
(Independent Charge)  
Government of India

## **MESSAGE**

I am delighted to convey my best wishes to the expert Committee as it has come up with a technical report on methodology for fixation of national minimum wage/wages. I wish this report will enable to create a national level debate among academicians, policy makers and other stakeholders. It will also be helpful for Central Advisory Board on Minimum Wages to take some firm decisions for the larger benefit of wage earners in the country, especially workers in unorganized sector.

The report examines in details a need based as well as evidence based subsistence level minimum wages for wage earners to support their family irrespective of their skills, occupations, sectors and geography in our country. The committee while recommending National Minimum Wage has kept in mind the global practices, ILO Conventions, Reports of other Committees and Commissions on minimum wages.

I once again congratulate the Chairman and all members of the Committee, Senior Officials, officers and staff of this Ministry and all others who have extended their support while preparing the Report.

  
(Santosh Kumar Gangwar)





## Preface

As a labour market instrument, a “minimum wage” has an important role to play in improving the living standards of wage earners and their families; it is also an important indicator of economic progress and social justice. One of the Government of India’s key priority areas since independence has therefore been to try and ensure minimum wages to the vast segment of informal economy workers. Accordingly, in 1948, the government enacted the Minimum Wages Act to ensure that workers in low-paid informal jobs were paid the minimum wage. In 1996, it went on to introduce a uniform and non-binding National Floor Level Minimum Wage (NFLMW) to address disparities in minimum wages within and across states in various scheduled employments, on the basis of recommendations made by the National Commission on Rural Labour (1991). There is no doubt that tripartite forums such as the Indian Labour Conference (ILC), as well as other committees and commissions, have played a commendable role in shaping India’s minimum wage policy over the years and have achieved much. However, in order to achieve decent work and inclusive growth in India, there are other areas of priority to focus upon - such as low pay, wage inequality and gender wage gap.

The government is ever committed to improving the living conditions of informal economy workers who contribute significantly to India’s economic growth and progress. A minimum guaranteed income for all workers would therefore go a long way towards bettering workers’ living standards and help India achieve many of its socio-economic goals, including the United Nations Sustainable Development Goals (SDGs).

In line with this priority area and to enhance effectiveness of India’s wage policy, the Government of India introduced a Code on Wages Bill in Parliament in August 2017, which simplifies, amalgamates and rationalizes four Acts; it also recommends the introduction of a binding National Minimum Wage (NMW). This would imply fixing a single national minimum wage – or different national minimum wages for different states or geographical areas. The passage of the Code in Parliament over the coming days will extend the benefits of minimum wages to all workers, which is in keeping with the provisions of the ILO Minimum Wage Fixing Convention, 1970 (No. 131).

Bearing in mind the Code on Wages Bill, the Ministry of Labour and Employment constituted an Expert Committee on 17 January, 2018, acting upon the advice of the Central Advisory Board (CAB) on minimum wages. The Committee was set up under the Chairmanship of Dr. Anoop Satpathy (Fellow, the V. V. Giri National Labour Institute, NOIDA), with members from the ILO and the Wage Cell of the Ministry. Its mandate was to undertake an evidence-based analysis to determine the methodology for fixing the NMW, which may become a baseline minimum wage in India covering all workers - irrespective of their skills, sectors, occupations and rural-urban locations. This evidence-based methodology will also strengthen the existing systems used by central and state governments to fix and adjust minimum wages.

It gives me immense pleasure to note that the Expert Committee has produced a technical report on determining the methodology for fixing the national minimum wage. This is the result of immense efforts made by the Committee over the past year, during which it extensively consulted various experts, policy-makers, officials and stakeholders in the field. In its report, it recommends a methodology based upon constructing a nationally representative and culturally palatable food basket, that adheres to a balanced dietary approach rather than one focused on calorie intake. The Committee also makes major recommendations relating to the level of national and regional minimum wages, additional rent allowances for urban workers, and the periodic revision and adjustment of the NMW.



The basic purpose of this evidence-based report is to initiate a process of consultation among the social partners for determining the methodology for fixing the level of national minimum wage as well its revision and adjustment process. Hence, the views expressed in this publication are not necessarily those of the Ministry of Labour and Employment, Government of India.

I take this opportunity to express my appreciation to all the officials of the Ministry of Labour and Employment, especially the Senior Officers and the officers and staff of the Wage Cell, for providing the necessary inputs and support to the Committee in completing its task.

New Delhi  
8 January 2019

**Heeralal Samariya**  
Secretary (Labour and Employment)





## Foreword

The Expert Committee under the Chairmanship of Dr. Anoop Satpathy has brought out a timely technical Report on “Determining the Methodology for the Fixation of the National Minimum Wage (NMW)”. The Report has its momentum as the Code on Wages Bill aims to ensure universal wage protection for all workers, which will benefit millions of persons in India. Apart from universalizing wage protection coverage, it is also of utmost importance to set minimum wages at a level which ensures a living wage, and reduces wage disparities to further contribute to enhancing productivity and economic growth. The Committee by recommending the level of the national minima provides the social partners and stakeholders with a momentous opportunity to undertake further consultation and dialogue process to fix the national minimum wage at an agreed level.

The Report has used a scientific approach to determine the methodology and to estimate the level of an evidence-based national minimum wage. It has undertaken a rigorous and meticulous analysis of available official household survey data relating to private consumption expenditure, nutritional intakes and employment-unemployment made available by the National Sample Survey Office (NSSO). The Committee has generated a large amount of evidence relating to changes in the demographic structure, consumption pattern and nutritional intakes, the composition of food baskets and the relative importance of non-food consumption items to address the realities in the Indian context. Using the nutritional requirement norms as recommended by the Indian Council of Medical Research (ICMR) for Indian population, the committee has recommended a balanced diet approach for fixation of national minimum wage which not only includes a minimum threshold of calorie requirements but also a minimum threshold of protein and fat requirements for the wage earner and his/her family. On the basis of the aforesaid approach, the Committee has recommended a monetary value of the national minimum wage for all workers in India irrespective of sectors, skills, occupations and rural-urban locations.

Apart from proposing the level of a single national minimum wage at an all-India level, the Committee has also estimated and recommended different national minimum wages for different geographical regions of the country to suit the local realities and as per socio-economic and labour market contexts. Furthermore, the Report has also introduced a city compensatory allowance by recommending an additional house rent provisions for urban workers over and above the subsistence level of national minimum wage.

As per my understanding, the Committee has put tremendous hard work in last one year in consulting subject matter experts, policymakers and other stakeholders and accordingly has updated the methodological framework of fixation of minimum wage based on the overall guidelines of the ILC 1957 and the Supreme Court Judgment of *Workmen v Reptakos Brett & Co.* in 1992. The Report presents an extensive review of earlier works on this subject and has made significant efforts to address the existing gaps in methods of fixation of minimum wages and places the emerging methodology in an international context. I take this opportunity to congratulate all the Committee members and sincerely hope that this technically sound evidence-based report will enable fruitful dialogue and consultation process among the social partners in further strengthening the minimum wage system in the country and in setting the minimum wage at an appropriate level.

New Delhi  
8 January 2019

**Manish Gupta**  
Joint Secretary  
Ministry of Labour and Employment





## Acknowledgments

The Expert Committee wishes to acknowledge the support of - and contributions made by - a large number of persons, experts and organizations in finalizing this report. The Committee benefited from the discussions held in the Central Advisory Board (CAB) on minimum wages, as well as the suggestions made by several members of the Board at its meeting held on 5 December 2017. Senior officials of the Ministry of Labour and Employment (MoLE), Government of India, provided useful feedback and insights on numerous occasions during the course of the Committee's work. The Committee wishes to place on record the highly useful inputs and advice it received especially from Shri Heeralal Samariya, Secretary (Labour & Employment), and Ms. M Sathiyavathy, former Secretary (Labour & Employment). A special thanks goes to Shri Manish Gupta, Joint Secretary, MoLE, for his continuous support and for providing highly relevant inputs and suggestions.

The Committee benefited immensely from inputs received at the expert meeting organized by the V.V. Giri National Labour Institute (VVG NLI), NOIDA, on a range of issues relevant to the subject of this report. It extends its gratitude to Dr. H. Srinivas (Director General, VVG NLI); Professor Amitabh Kundu, (Distinguished Fellow, Research and Information System for Developing Countries); Professor Arup Mitra (Director General, National Institute of Labour Economics Research and Development); Shri S. V. Ramana Murthy, (Deputy Director General, Central Statistical Organisation); Dr. S. K. Sasikumar (Senior Fellow, VVG NLI); Dr. Sandip Sarkar, (Professor, Institute for Human Development); Shri D. Chaudhuri, (former Deputy Director General, MoLE) and Mr. Bal Paritosh Das, (Programme and Policy Officer, United Nations World Food Programme). The Committee's work was also enhanced by discussions with Dr. Biranchi Narayan Nanda, Senior Labour and Employment Advisor, MoLE and Mr. I. S. Negi, Deputy Director General and other officials of the Labour Bureau, Shimla and Chandigarh, on prices and issues concerning the composition of the food basket during the Bureau's visit on 25 May 2018. In addition, the Committee also interacted with and benefited from discussions with Ms. Sibani Swain, (Additional Secretary and Financial Adviser), Mr. P. P. Mitra (former Labour and Employment Advisor), Shri N.K. Santoshi, Deputy Director General, Dr. Onkar Sharma, Deputy Labour Commissioner (Central) of the MoLE, and Professor Ravi Srivastava, former Professor of Jawaharlal Nehru University. The Committee also received valuable inputs from International Labour Organization (ILO) experts, including Mr. Patrick Belser, Mr. Daniel Kostzer and Ms Uma Rani, to whom we extend our gratitude. Similarly, we thank Ms. Dagmar Walter, Director of the ILO Decent Work Technical Support Team (DWT) for South Asia and Country Office for India.

The report was prepared by Dr. Anoop Satpathy, Fellow, V. V. Giri National Labour Institute, Mr. Xavier Estupinan, Wages Specialist, ILO DWT for South Asia and the Country Office for India; Mr. Bikash Kumar Mallick, Assistant Director, MoLE; and Dr. Anup K Karan, Additional Professor, Public Health Foundation of India (PHFI). Thanks are also due to Ms. Anuja Bapat, Director, Mr. M.A. Khan, Deputy Director and Ms. Rachana Bolimera, Economic Officer of MoLE, who provided useful inputs at various stages of the preparation of the Report.

The Expert Committee would also like to thank, Mr. Manoj Kumar Gupta, Director; Mr. Bijayananda Pattnaik, Deputy Secretary; Mr. Gyanesh Kumar, Economic Officer; Mr. Aditya Singh Kushwaha, Investigator; and Ms. Vimal Rakesh, Investigator of the Wage Cell of the MoLE. We also express our gratitude to all the other officials of the MoLE for providing timely administrative and logistic supports.

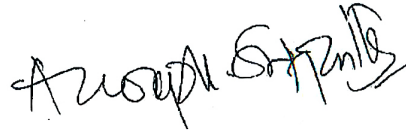
We would also like to thank Ms. Jolly Dawar, Jyoti Gahlot and Sheetal Gupta in Delhi for the administrative support from ILO; and Ms. Frances Papazafiroopoulos and Ms. Claire Piper in Geneva for language editing and style of the report, respectively. Lastly, I would like to thank the VVG NLI, NOIDA for sparing my services for undertaking this important task as Chairman of the Expert Committee.

**Dr. Anoop Satpathy**  
Chairman of the Expert Committee



## Report of the Expert Committee on Determining the Methodology for Fixing the National Minimum Wage

We, the undersigned, Members of the Expert Committee to Determine the Methodology for Fixing the National Minimum Wage, constituted by the Ministry of Labour and Employment, Government of India have adopted the Report and submitted it.



1. DR. ANOOP SATPATHY  
CHAIRMAN



2. DR. ANUP KARAN  
MEMBER



3. XAVIER ESTUPINAN  
MEMBER



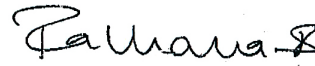
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5. M.A. KHAN  
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6. BIKASH KUMAR MALICK  
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7. RACHANA BOLIMERA  
MEMBER





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## Abbreviations

ACFTU.....	All-China Federation of Trade Unions
BRICS .....	Brazil, Russian Federation, India, China and South Africa
CAB.....	Central Advisory Board
CAC.....	Central Advisory Council
CEC .....	China Enterprise Confederation
CES.....	Consumer Expenditure Survey
CEDA .....	China Enterprise Directors Association
CLC .....	Chief Labour Commissioner
CPI.....	Consumer Price Index
CPI-AL .....	Consumer Price Index for Agricultural Labourers
CPI-IW .....	Consumer Price Index for Industrial Workers
CPC .....	Central Pay Commissions
CNI .....	National Confederation of Industry
CSO .....	Central Statistical Organisation
CU .....	Consumption Units
ECC .....	Employment Conditions Commission
EUS .....	Employment and Unemployment Survey
EG.....	Expert Group
FAO.....	Food and Agricultural Organization
FGD.....	Focus Group Discussion
GDP.....	Gross Domestic Product
GoI.....	Government of India
ICMR.....	Indian Council of Medical Research
ILC .....	Indian Labour Conference
ILO .....	International Labour Organization
IOE .....	International Organisation of Employers
MGNREGA.....	Mahatma Gandhi National Rural Employment Guarantee Act
MoLE .....	Ministry of Labour and Employment
MPCU.....	Monthly per capita consumption unit
MRP .....	Mixed Recall Period
MYR.....	Malaysian Ringgit
MW.....	Minimum Wage



NCL	National Commission on Labour
NCO	National Classification of Occupation
NCRL	National Commission on Rural Labour
NEDLAC	National Economic Development and Labour Council
NFLMW	National Floor Level Minimum Wage
NGOs	Non-Governmental Organizations
NMW	National Minimum Wage
NSSO	National Sample Survey Office
NSQF	National Skills Qualification Framework
NWC	National Wages Council
NWCC	National Wages Consultative Council
OECD	Organisation for Economic Co-operation and Development
PDS	Public Distribution System
PLI	Poverty Line Income
SC	Supreme Court
SDGs	Sustainable Development Goals
SDP	State Domestic Product
UTs	Union Territories
URP	Uniform Recall Period
VDA	Variable Dearness Allowance
VHLSS	Vietnam Household Living Standards Survey
WHO	World Health Organization

# Executive Summary

## Chapter 1: Background

Chapter 1 describes the context in which the Expert Committee on Determining the Methodology for Fixing the National Minimum Wage (NMW) was set up and its background. It gives a general overview of the way in which minimum wage policy has evolved in India since the landmark Minimum Wages Act in 1948 until the present-day Code on Wages Bill, 2017. India has been pioneer in attempting to address wage disparities and establishing wage-setting institutions – and yet, despite economic growth in the past two decades, low pay and wage disparities are still high. On 17 January 2018, the Ministry of Labour and Employment (MoLE), Government of India (GoI.) on the basis of recommendations made by the Central Advisory Board (CAB) on Minimum Wages at its meeting held on 5 December 2017 to discuss the provisions in the proposed Code on Wages Bill, 2017, constituted an Expert Committee, which is mandated to determine the methodology for fixing the minimum wage. Its broad terms of reference are to examine and review current norms for fixing the minimum wage and recommend changes in methodology; recommend base values of national and regional minimum wages; and recommend changes in the process of revision and adjustment of the minimum wage.

## Chapter 2: Minimum wage policy in India

Chapter 2 gives a detailed account of minimum wage policy in India, which started as early as 1929 with the Royal Commission on Labour, culminating in the Payment of Wages Act, 1936. In 1943, the Labour Investigation Committee was established, on the recommendation of the Labour Standing Committee and the Indian Labour Conference (ILC), to look into the issues of labour conditions and minimum wages and come up with proposals. The outcome was the Minimum Wages Act, which came into force in 1948 and set a framework for fixing minimum wages in certain employments. The absence of criteria in the Minimum Wages Act 1948 to determine minimum wages has been filled by the ILC, 1957, and the Supreme Court (SC) 1992 recommendations providing guidelines for this purpose. Through its five-year plans, the Planning Commissions have also contributed towards addressing wage issues in India. Other recommendations have advocated insightful measures to help shape minimum wage policy.

Various committees, commissions and expert groups have subsequently shaped minimum wages policies in India, including the first and second National Commissions on Labour (NCL) – 1969 and 1999–2002, respectively – which provided relevant guidelines with respect to wage policy.

In 1988, the Labour Ministers' Conference took the decision that minimum wages be linked to the Consumer Price Index for Industrial Workers (CPI-IW) to address the changes in the cost of living over time. The year 1996 saw the implementation of the national floor level minimum wage (NFLMW), which is a non-binding national minimum wage to address wage disparities in various schedule employments within and across states. Nevertheless, an intense debate about a meaningful wage policy over the past decades has considered the introduction of a binding national minimum wage for all workers. In August 2017, the Government of India introduced the Code on Wages Bill in the *Lok Sabha*, which consolidated four Acts and recommended a binding national minimum wage with the option to have regional minimum wages. The latter constitutes one of the salient features of the Bill, which will ensure a universal coverage to wage workers in the Indian labour market.

The guiding principles for calculating the minimum wage in India, as established by the ILC and the Supreme Court (SC) milestone judgment (1992), are accepted standards for calculating the minimum wage. This

report sets out to contribute to these norms by proposing a minimum wage fixation methodology that, with the use of evidence-based information, will help determine a national and regional minimum wage for all wage-earners.

### **Chapter 3: ILO Conventions, Recommendations and guidelines on minimum wages**

Chapter 3 of the report reviews the salient features of ILO Conventions and Recommendations on minimum wages, particularly the Minimum Wage Fixing Convention No. 131 (1970). In addition, it focuses on the evidence-based approach for setting minimum wages, which is recognized as a key element in the ILO's *Minimum Wage Policy Guide*.

Historically, the purpose of minimum wages has evolved from a policy tool to be used selectively in a few low-wage sectors to a policy instrument of much broader coverage. The ultimate objective of Convention No. 131 is to encourage member States to extend the coverage of minimum wages to all groups of wage earners, guided by the principle of full consultation with the social partners – especially when fixing and adjusting minimum wages.

The report also addresses the importance of an evidence-based approach to validate some of the arguments that are raised by the social partners. In this context, it emphasizes the use of timely information, especially statistics and updated data contained in labour force surveys and household surveys. These are crucial for an evidence-based approach because they address the issues of both formal and informal sectors, and everyone in the population. Drawing upon ILO Convention No. 131, the Expert Committee relies on an evidence-based approach to propose its methodology for fixing base-level minimum wages at a national and regional level.

### **Chapter 4: Determining the methodology for fixing the national minimum wage**

Chapter 4 describes how the methodology adopted by the Expert Committee to estimate minimum wages is in line with the broader guidelines recommended by the ILC in 1957 and the SC judgement of 1992.

The Expert Committee, drawing upon a range of official data sources, produces new evidence on the Indian population's changing nutritional requirements and nutritional intakes, the demographic structure and per family consumption unit, and levels of food and non-food consumption. It proposes a balanced diet approach, which is culturally palatable and takes into account calorie, protein and fats requirements – compared to the erstwhile approach of only considering calories – for estimating the minimum food expenditure required for maintaining the work efficiency of workers and their families' healthy living.

After reviewing the emerging evidence from the nationally representative Consumer Expenditure Surveys (CES) conducted by the National Sample Survey Office (NSSO), and the nutritional requirements of the Indian population compiled by the Indian Council of Medical Research (ICMR, 2010), the Committee takes the considered view that the food items amounting to the level of  $\pm 10$  per cent of 2,400 calories, along with proteins  $\geq 50$  and fats  $\geq 30$  per day per person, constitute a balanced food basket. On the basis of this criterion and a palatable consumption pattern, it has estimated the required food expenditure for a worker's family.

In line with the ILC, 1957, and the SC judgement, 1992, the Expert Committee also proposes that a reasonable expenditure for 'essential non-food items', such as clothing, fuel and light, house rent, education, medical expenses, footwear and transport, be equal to the median class of consumption expenditure distribution. In addition, the minimum wage should also include consumption expenditure on any 'other non-food items'

usually consumed by the Indian population equivalent to the sixth fractile (25-30 per cent) of the Indian household expenditure distribution. The Committee also proposes an additional house rent allowance to all workers residing in urban areas.

Given the considerable variations in the economic situation, the labour market conditions, the cost of living and women's empowerment across the various states, the report also proposes five distinct national minimum wages for five different regions representing groups of states.

The basic methodology for estimating the NMW at the regional level remained the same as that of the estimation of NMW at the national level - with slight variations, wherein the national consumption basket was retained as a standard yardstick for each of the regions and the regional-level average unit prices specific to each region were used to arrive at the total food consumption expenditure for each region.

## Chapter 5: International experience with minimum wage systems

Chapter 5 of the report examines four important features in ILO Convention No. 131 - i.e. its scope, consultation with the social partners, the criteria used to determine minimum wages and the periodic adjustment of minimum wage rates - to compare different minimum wage systems in eight countries, including India. The major objective of this chapter is to draw upon international experience and to make recommendations keeping in mind global best practices and their adaptability and relevance to the Indian context.

International experiences from all BRICS countries are presented. These countries share common features and characteristics: they are all large emerging economies with a significant influence on regional or global affairs. Malaysia and Viet Nam are also included as relevant examples in Asia, as they have minimum wage systems that set regional minimum wages.

China adopted a minimum wage in 1994 and has strengthened its policies since 2004; Brazil re-activated its minimum wage policy in 1995 and has accelerated its adjustments from 2005 to 2016 in line with economic growth; the Russian Federation complemented its national minimum wage with regional floors in 2007; and South Africa established a system of minimum wages after the end of apartheid in 1997 and adopted a national minimum wage policy in 2018.

With respect to the two Asian countries, Viet Nam has seen its minimum wage policy evolve over the past few years. Since 2012, the system has set differentiated minimum wages for its four regions. Malaysia, for its part, established the National Wages Consultative Council in 2011 to set minimum wages on a regional basis for three distinct geographical areas: Peninsular Malaysia, Sarawak and Sabah (and Labuan).

In all country experiences, minimum wage systems correspond to national realities. For example, China covers all wage earners through a system of regional minimum wages; other countries combine national, regional or sectoral minimum wage rates to achieve the extended coverage.

In all international examples there is a process of consultation. In Malaysia, Viet Nam and South Africa technical boards make a contribution by formulating sound evidence-based studies, information and analysis that provide technical support for the social partners in their deliberations.

The report reveals that the criteria used to set and adjust the level of minimum wages are specific to every country and minimum wage systems correspond to national realities. However, the indicators taken into account are mainly the ones found in the ILO's Convention No. 131 (both the needs of the workers and their families, and economic factors).



## Chapter 6: Recommendations

Chapter 6 contains the Expert Committee's detailed recommendations, relating to fixing need-based and evidence-based national and regional minimum wages, based on comprehensive review of the present methodology. These include:

- (i) increasing the previously established three consumption units per worker's family to 3.6 consumption units;
- (ii) elaborating a nationally representative and culturally palatable food basket, by adopting an approach that would focus on a balanced diet (comprising of calorie, protein and fats) rather than merely its calorie intake;
- (iii) setting the minimum wage at a level that would allow for a minimum recommended intake (per adult person per day) of 2,400 calories, 50 grams of protein and 30 grams of fats;
- (iv) ensuring that the required expenditure of essential non-food items (namely clothing, fuel and light, house rent, education, medical, footwear, and transport) be equal to the median class of the expenditure distribution, and that of the other non-food items be equal to the expenditure for the sixth fractile (25-30 per cent) of the distribution in the NSSO-CES 2011/12 survey data;
- (v) setting the single value of the NMW for India at ₹ 375 per day (or ₹ 9,750 per month) as of July 2018, irrespective of sectors, skills, occupations and rural-urban locations, and introducing an additional house rent allowance (city compensatory allowance), averaging up to ₹ 55 per day i.e., ₹ 1,430 per month for urban workers over and above the NMW;
- (vi) establishing the NMW for five different regions with diverse socio-economic and labour market situations, ranging from a low of ₹ 342 per day (or ₹ 8,892 per month) in Region I to a high of ₹ 447 per day (₹ 11,622 per month) in Region IV; and
- (vii) reviewing the consumption basket every five years, subject to the availability of NSSO-CES data, and – during the internal period - revising and updating the basic minimum wage at least in line with the consumer price index (CPI) every six months, to reflect changes in the cost of living. And if the country's economic realities are factored into the minimum wage, any adjustments should take into account both inflation and productivity. Further research is required to arrive at any productivity-linked revisions.



## Chapter 1: Background

1.1 The issue of what constitutes the minimum wage – and the methodology of determining and regularly adjusting this wage - has been a subject of intense debate during both pre-and post-independent India. This debate has not only dominated academic and policy circles but has also been played out to the maximum in various tribunals and courts. Given the sensitive nature of the subject and its implications on poverty, inequality, employment and other economic parameters, the Government of India and various state governments have established various tripartite commissions and committees. In the past, their mandate has ranged from recommending appropriate methods and norms for determining minimum wages to adjusting these wages to price increases and other economic factors such as various occupations and skills.

1.2 The Minimum Wages Act, 1948, is an important piece of legislation that sets the framework for the minimum wage machinery and its procedures. However, it does not provide the exact criteria/norms for fixing or quantifying minimum wages statutorily. These were established by the 15th Session of the Indian Labour Conference (ILC) held in July 1957, and they constitute the basis for fixing minimum wages in India. The 15th ILC stated that the minimum wage should be need-based and ensure the minimum human needs of the industrial worker. It accordingly formulated five norms to serve as a guide for all wage-fixing authorities, in order to help them calculate the 'minimum wage'. These norms consist of: (i) three consumption units for one wage earner without incorporating the earnings of women, children and adolescents; (ii) a minimum food requirement of 2,700 calories per adult person per day<sup>1</sup>; (iii) clothing requirements at 72 yards per annum for an average working family of four; (iv) a house rent corresponding to the minimum area provided for under the Government's Industrial Housing Scheme; and (v) 20 per cent of total minimum wage for fuel, lighting and other miscellaneous items.

1.3 In 1992, the Supreme Court (SC), in the historic *Workmen v Reptakos Brett & Co.* judgment (1992), ruled that, taking into account the socio-economic aspect of the wage structure, these norms were inadequate. It accordingly instructed that a few additional components be added, namely: children's education, medical requirements, minimum recreation including festivals/ceremonies, and contingencies such as old age and marriage. The SC also directed that these consumption items should constitute 25 per cent of the total minimum wage. It was further of the opinion that the wage structure corresponding approximately to these components was nothing more than a minimum wage at subsistence level. In line with the norms set by the 15th ILC (1957) and the SC judgment (1992), the wage-fixing authorities at central and state level have been setting minimum wages for their respective "scheduled" employments under the Minimum Wages Act, 1948, and adjusting them to inflation at an interval not exceeding five years. Given that the five-year period is too long, the Labour Ministers' Conference in 1988 recommended the Variable Dearness Allowance (VDA) as an instrument to bring wages in line with increases in the cost of living<sup>2</sup>. It is revised twice a year - on 1 April and 1 October.

1.4 Despite the statutory fixation of wages under the Minimum Wages Act, 1948, low wages and wide disparities in minimum wages for various scheduled employments have continued to prevail across states (GoI., 1991; GoI., 2016; ILO, 2018). The issue of wage disparity was a matter of great concern for the National Commission on Rural Labour (NCRL) constituted in 1991. After analysing the submission made by the central and state governments, the commission was of the opinion that: "the Government of India and state governments

<sup>1</sup> As recommended by Dr. Aykroyd for an average Indian adult of moderate activity.

<sup>2</sup> At present 27 out of 35 states and union territories are adjusting minimum wages to variations in the cost of living. Information provided by the Wage Cell, Ministry of Labour and Employment (MoLE), Government of India.

who must determine minimum wages under the Minimum Wages Act of 1948, are generally not clear in their own minds on what it is that they must do and wide disparities in minimum wages reflect the varied perceptions of the concept of the minimum wage in the states and at the Centre” (GoI., 1991). This led the NCRL to recommend a uniform national floor level minimum wage (NFLMW), which would be applicable to all employments. As the NCRL’s main concern was the issue of wages in rural employment, it anchored the NFLMW norms on the basis of the Planning Commission’s rural poverty line<sup>3</sup> and set the minimum wage at ₹ 20 per day at October 1990 prices (Consumer Price Index for Agricultural Wages - CPI-AL)<sup>4</sup>. The government introduced the NFLMW in 1996 - and at the implementation stage it set the daily wage at ₹ 35 by undertaking the necessary price adjustment. This rate has gradually been scaled up to ₹ 176 per day as at 1 June 2017 by adjusting the base wage to the cost of living. Although the NFLMW is non-binding, the states and union territories are regularly advised to fix wages (under the Minimum Wages Act, 1948) at least equal to or above the NFLMW, which is revised every two years.

1.5 The way this basic wage was introduced in 1996 raises a number of pertinent questions. First, should the need-based NFLMW be aligned to poverty-level survival wages, or should its monetary value ensure that workers and their families not only escape poverty but also lead a subsistence standard of living (Sharif, 2003), thereby enhancing the net welfare effect of such interventions? Second, can such a national minimum floor be anchored only on the basis of the needs of rural workers and their families, thereby overlooking urban workers’ needs? Or should it also include the needs of this category of workers, given the rapid rate of urbanization, rural-urban migration, the contractualization of labour and the high urban cost of living – and bearing in mind that urban workers are net buyers unlike their rural counterparts. Third, should the food basket used to determine minimum wages under the Minimum Wage Act, 1948, be constructed on a normative basis by taking only the calorie approach, as is the case now, or should it capture the realities of changing dietary intake patterns measured in terms of observed household behaviours, which change alongside rising prosperity? These are some of the questions that the Committee has considered in this report.

1.6 Despite India’s long history of wage policy and wage-setting institutions and the fact that the Indian economy has experienced strong economic growth during the past two decades, low pay remains pervasive and wage inequality is still very high (ILO, 2018). In 2011–12, the average wage in India was about ₹ 247 per day, and the average wage of casual workers was estimated at ₹ 143 per day. Although average wages have increased faster for the most vulnerable categories of workers - including those in rural areas, informal employment and low-paid occupations as well as casual and female workers - wage disparities continue to be high (ibid.). Regional disparities in average wages have increased over time, and wages have risen more rapidly in high-wage states than in low-wage ones. Furthermore, although the gender wage gap significantly declined between the periods 1993-94 and 2011-12, it is still very high by international comparison. Most importantly, although the average labour productivity has increased, the labour share, which is the proportion of national income that goes into labour compensation, has declined (ibid.).

1.7 On 17 January 2018, the Government of India constituted an Expert Committee under the Chairmanship of Dr. Anoop Satpathy (Fellow, V. V. Giri National Labour Institute, NOIDA) on the basis of

<sup>3</sup> The norms for determining the NFLMW were subsequently revised in 2003 as per the recommendations of the Working Group constituted by the Central Advisory Board under the Minimum Wages Act of 1948. The norms suggested by the Working Group were in accordance with the 15<sup>th</sup> ILC 1957 and SC 1992 judgment, but they recommend that values for each of these norms be determined by the results of the NSSO Consumer Expenditure Survey (55<sup>th</sup> Round). The Working Group also anchored its estimates on the basis of the requirements of rural areas (see Appendix table 2.1).

<sup>4</sup> The corresponding daily wage for urban workers based on the urban poverty line was ₹ 25 at October 1990 prices, which was 25 per cent higher than the daily wage of ₹20 for rural wage workers.

recommendations made by the Central Advisory Board (CAB) on Minimum Wages at its meeting held on 5 December 2017 to discuss the provisions in the proposed Code on Wages Bill, 2017, related to the national minimum wage. The other members of the Expert Committee were: Anuja Bapat, Director; M.A. Khan, Deputy Director; Bikash Kumar Malick, Assistant Director; Rachana Bolimera, Economic Officer from the Ministry of Labour & Employment, Government of India; and Xavier Estupinan, Wages Specialist, from the ILO Decent Work Technical Team (DWT) for South Asia and the Country Office for India. The Expert Committee engaged the services of Dr. Anup Karan, Additional Professor, Public Health Foundation of India (PHFI), as a consultant to the committee. He was subsequently co-opted as a member to the Expert Committee.

1.8 The Expert Committee's terms of reference were to: (a) examine and review the current norms for determining the minimum wages and recommending changes in methodology, with a view to fixing need-based national and regional minimum wages that are desirable on the basis of available evidence; (b) recommend initial base values of the national and regional minimum wages as per the suggested methods; and (c) review the norms and process of revising and adjusting minimum wages and recommend any changes required. The terms of reference also mandated the committee to make recommendations keeping in mind global best practices and their adaptability and relevance to the Indian context.

1.9 The Committee extensively reviewed the reports and recommendations of the previous committees and commissions, referred to scholarly literature on the subject, and analysed relevant data sets thematically; it also held several meetings during the course of its work. It also benefited from interactions with national experts, including officials from the Central Statistical Organization (CSO), the National Sample Survey Office (NSSO) and the Labour Bureau, as well as international experts from the ILO and other institutions, to understand global best practices.

1.10 The Committee's report is organized into six chapters. This introductory chapter describes the context in which this Committee was established and its background, and outlines its terms of reference and the approach it followed in preparing this report. The second chapter maps the evolution of India's minimum wage policy with specific reference to the determination and adjustment of minimum wages. The third chapter outlines the salient features of ILO Conventions, Recommendations and guidelines relating to minimum wages. Chapter 4 documents the Committee's proposed methodology relating to the fixation of the need-based national minimum wage at the national and regional levels. Chapter 5 draws upon international experience relating to the minimum wage system in the BRICS countries (Brazil, Russian Federation, India, China and South Africa), as well as in Viet Nam and Malaysia. Chapter 6 provides key recommendations by the Committee.





## Chapter 2: Minimum Wage Policy in India

2.1 India was amongst the first developing countries to introduce a minimum wage policy under its Minimum Wages Act, 1948, which is one of the most important pieces of legislation in this matter. Its foundation lies in the Directive Principles of the Constitution of India, which endeavour to secure to “all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life, and full enjoyment of leisure and social and cultural opportunities”<sup>5</sup>. Apart from this Act, a number of committees, commissions and expert groups have been constituted at various times to give shape to minimum wages policies in India, and to undertake exercises to determine the base value of the minimum wage and its adjustment process. This chapter takes a close look at the evolution of the minimum wage system in India and reviews the salient features and key recommendations of the various commissions and committees.

### The shaping of India’s minimum wage policy

#### Background

2.2 The beginning of the twentieth century marked the rise of the working class in India’s organized industries and plantations. The first decades reflected a period of high prices and surplus profits for industries; however, despite the relative labour shortage after the post-war years, wages remained very low and workers were not paid at regular intervals. All this gave way to social unrest, with industrial workers rising up to complain about their exploitation.

2.3 In 1926, the Government of India requested local governments to gather evidence on delays in wage payments in the industry and recommended imposing various sanctions on those committing violations. The investigations confirmed that exploitation was prevalent in the industry. The Royal Commission on Labour, appointed in 1929, collected further evidence on the situation and presented a report with detailed information on the existing labour conditions, including wages. Amongst its many findings, the Commission pointed out that the level of wages outside organized industries was low, and it received a considerable volume of evidence on the practicality of instituting statutory minimum wages. The Commission also praised the fact that the ILO had recently adopted a Convention on the minimum wage machinery (1928)<sup>6</sup>, further boosting the idea of instituting a statutory minimum wage. It felt that the spirit of the Convention demanded that a machinery should first be created for fixing minimum wages in low paid trades. In February 1933, a bill embodying the conclusions of the Royal Commission on Labour was introduced and circulated. The final result was the enactment of The Payment of Wages Act, 1936.

2.4 Under the aforementioned Act, ‘wages’ are defined as “all remuneration (whether by way of salary, allowances or otherwise) expressed in terms of money or capable of being so expressed which would, if the terms of employment, express or implied were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment”<sup>7</sup>. The Act also regulated great variations in wage payment periods, by establishing a limit of one month as the longest pay period; indeed, until 1930, virtual chaos had existed with delays in payment being widespread (Ornati, 1955).

<sup>5</sup> The Constitution of India, Directive Principles of State Policy, Article 43

<sup>6</sup> In 1928, the ILO adopted the Minimum Wage-Fixing Machinery Convention, 1928 (No. 26), and its accompanying Recommendation (No. 30), which established certain principles to determine minimum wages.

<sup>7</sup> The Payment of Wages Act, 1936, may be seen at:

<https://www.ilo.org/dyn/travail/docs/625/Payment%20of%20Wages%20Act%201936.pdf>

## Minimum Wages Act, 1948

2.5 As mentioned above, the possibility of establishing a statutory wage-fixing machinery had already been raised by the Royal Commission on Labour in 1929<sup>8</sup>. Subsequently, both the Labour Standing Committee and the Indian Labour Conference recommended the establishment of the Labour Investigation (Rege) Committee in 1943. This was called upon to look into the question of wages and earnings, examine working conditions - including housing, social conditions and the employment of workers - and to explore the possibility of establishing a statutory wage-fixing machinery in India. On the basis of wage data collected during the investigation, the Committee concluded that irrespective of war-time conditions, the basic wage levels were extremely low and it recommended that the scientific fixation of wages deserved early and careful attention<sup>9</sup>. Trade union organizations also adopted resolutions demanding the fixation of minimum wages, as the Second World War raised the cost of living abnormally high and wages lagged behind<sup>10</sup>.

2.6 In 1945, the 7<sup>th</sup> session of the Indian Labour Conference (ILC) drafted a bill to address the prevailing conditions of low-paid workers. In 1946, the Standing Labour Committee recommended separate legislation for the “unorganized” sector, and this gave rise to a Minimum Wages Bill, which was introduced in the Central Legislative Assembly on 11 April 1946. The provisions in this bill set a framework for the fixation of minimum wages in scheduled employments<sup>11</sup> by the Government, in consultation with the employers’ and workers’ organizations. The Minimum Wages Act came into force in 1948. The Act authorizes the appropriate governments to fix and adjust minimum wages in a number of scheduled employments in accordance with the set procedure, and the employers are obliged to pay the said wages<sup>12</sup>. With the enactment of the Minimum Wages Act, India became a pioneer of minimum wage policy amongst developing countries.

## Committee on Fair Wages (1948)

2.7 Confronted with a deterioration in industrial relations, the Government appointed a Central Advisory Council (CAC). At its first session in November 1948, the CAC appointed a tripartite Committee on Fair Wages to look into the principles of fair wages for labour and their application. The report of this Committee is considered to be a landmark in the formulation of wage policy in India. It includes a definition of three levels of wages: a minimum wage, a fair wage and a living wage.

2.8 According to the Committee, the “living wage” was defined as the highest wage level that enabled workers to provide for themselves and their families, which included not only the basic essentials of food, clothing and shelter but also frugal comforts such as children’s education, health protection and essential social requirements. It also included some type of measure for insurance against contingencies such as old age and others.

<sup>8</sup> Subsequent to the Royal Commission of Labour (1929), the fixation of minimum wages was also favoured by Labour Enquiry committees such as: the Textile Labour Enquiry Committee, Bombay (1937-40); the United Province Labour Enquiry Committee, Kanpur (1938); and the Bihar Labour Enquiry Committee (1938-40) - as quoted in the first report of the United Province Labour Enquiry Committee, 1946-48, p. 61.

<sup>9</sup> Main report of the Labour Investigation (Rege) Committee, 1944-45 (GoI., 1948, pp. 279-280).

<sup>10</sup> The Indian National Congress also recognised the fixation of minimum wages for industrial workers in its election manifesto for the general elections of the Central Assembly in 1945-46, as quoted in the first report of the United Provinces Labour Enquiry Committee, 1946-48, p. 62.

<sup>11</sup> Scheduled employment means an employment specified in the schedule appended to the Minimum Wages Act, or any process or branch of work forming part of such employment.

<sup>12</sup> The Minimum Wages Act, 1948 may be seen at: [https://labour.gov.in/sites/default/files/TheMinimumWagesAct1948\\_0.pdf](https://labour.gov.in/sites/default/files/TheMinimumWagesAct1948_0.pdf)

2.9 Nevertheless, the Committee was of the opinion that when determining the living wage, account had to be taken of the prevailing economic conditions such as the national income and the capacity of the industry concerned to pay this wage. The Committee therefore considered the living wage as the ultimate goal or target to attain.

2.10 As regards a “fair wage”, the Committee indicated that: “the objective is not merely to determine wages which are fair in the abstract, but to see that the employment at existing levels is not only maintained but, if possible, increased. From this point of view, it emphasizes that the levels of the wages should enable the industry to maintain production with efficiency. The capacity of industry to pay should, therefore, be assessed by the Wage Boards in the light of this very important consideration.”

2.11 With respect to the definition of the fair wage, this was to be related with the productivity of labour. The Committee further suggested that the fair wage should also be in harmony with the prevailing wage rates in the country. Given that extreme low wages were not uncommon - even in the organized sectors of the country - the Committee recommended that the wage-fixing machinery should address this issue when unequal bargaining was likely to cause wage depression.

2.12 Finally, the Committee recommended that: “The minimum wage must provide, not merely for the bare sustenance of life, but also for the preservation of the efficiency of the worker by providing for some measure of education, medical requirements and amenities. Minimum wages are usually fixed for occupations in an industry where workers are not protected by collective bargaining or statutory backing in wage fixation”.

2.13 The Fair Wages Committee drew a clear distinction between a minimum and a living wage, observing that the former was a lower level than the latter. In regard to the fair wage, the recommendation was that it should be above the minimum wage and below the living wage.

2.14 With regard to the machinery to be adopted for the fixation of fair wages, the Committee proposed a structure of “wage boards” for each State, made up of equal representatives of employers and workers as well as independent members. Furthermore it recommended a “regional board” for each wage-regulated industry, and a Central Appellate Board.

2.15 As a result of these discussions, a “Fair Wages Bill”, designed to fix fair wages for workers employed mainly in factories and mines, was introduced in Parliament. But it was never approved.

## Recommendations of Committees and National Commissions

2.16 The Government of India also established two important Commissions on Labour (at different times), which both provided diverse views on wage policy. The first National Commission on Labour (NCL), held in 1969, emphasized the need for a wage policy that would bring wages in line with the expectations of the working class and maximize wage employment (GoI., 1969). Despite various judicial pronouncements in favour of minimum subsistence requirements, the first NCL held that ‘in fixing the need-based minimum wage which is in the range of the lower level of fair wage, the capacity of the pay will have to be taken into account. The first NCL<sup>13</sup> was also of the opinion that a uniform national minimum wage was neither feasible nor desirable, but that

<sup>13</sup> Apart from the First NCL, the ILC in November 1985 expressed that “till such time a national wage policy does not come into being, it would be desirable to have regional minimum wages in regard to which the Central Government may lay down the guidelines. Accordingly, the Government issued guidelines in July 1987 for the setting up of five Regional Minimum Wages Advisory Committees (i.e., Eastern, North-Eastern, Southern, Northern and Western), exclusively on the basis of geographical contiguity. They still exist today (GoI., 2016). These Committees - renamed subsequently as the Regional Labour Ministers’ Conference - made a number of

efforts should be made to fix regional minima comprised of different homogenous regions within the state (Government of India, *ibid.*). For its part, the second National Commission on Labour (GoI., 2002) focused more on labour flexibility, technological changes and economic growth as considerations in wage setting. It recommended a wage policy based on a set of principles directed towards attaining social justice, higher employment levels, capital formation and price stability.

2.17 During the period between the two National Commissions on Labour, other important committees/commissions were appointed to address the wage issue in India. In 1978, the Government of India constituted the Bhootlingam Committee (GoI., 1978) and the National Commission on Rural Labour (1991). Both these bodies made important recommendations concerning the introduction of a national minimum wage. The Bhootlingam Committee conducted an in-depth country analysis on wages, incomes and prices and - in contrast to the views of the first NCL - was of the opinion that “in our view, the real minimum wage can only be the absolute national minimum, irrespective of sectors, regions and states below which no employment would be permitted”. It observed that the process of determining the national minimum wage should be consistent with factors such as: (a) per capita national income adjusted after applying the participation rate; (b) average national income per consumption unit; and (c) per capita rural consumption. It was also of the view that such a national minimum wage could not deviate too much from prevalent earnings in the small-scale sector, and that its impact must not be such as to inhibit the generation of employment. Accordingly, the Committee arrived at a national minimum wage of ₹ 150 per month at current 1978 prices, to be achieved within a period of seven years, so that employment and the tiny and small-scale sector would be the least affected. It began by recommending a national minimum wage of ₹ 4 per day for eight hours of unskilled work - or a monthly rate of not less than ₹ 100. It further proposed that the national minimum wage quantum be revised every two years until the recommended level of ₹ 150 per month (at 1978 prices) had been reached; thereafter, it should be mandatory to revise the minimum wage every three years in relation to the trend in increase in per capita national income.

2.18 In 1991, the National Commission on Rural Labour (NCRL) made recommendations to set up a NFLMW in order to reduce disparities in minimum wages across the country; this was later introduced in 1996. The NFLMW has been updated from time to time, taking into account the rise in the consumer price index and the recommendations made by the Central Advisory Board. The NFLMW is not a statutory measure. Although the Ministry of Labour and Employment suggests that states establish their minimum wages above the NFLMW, they are not obliged to comply with this recommendation.

2.19 The NCRL defined the minimum floor as “the cost of living at the subsistence level for the worker and his family of three adult consumption units”. For determining the minimum floor, it relied on the work conducted by the Planning Commission Task Force on Projections of Minimum Needs and Effective Consumption Demand, which was set up in 1977 to determine the poverty line for use in the Sixth Five Year Plan. The Task Force had relied on the calorie norms determined by the Indian Council of Medical Research (ICMR) in 1968, which were 2,400 for rural areas and 2,100 for urban areas. It estimated that the poverty lines for both rural and urban areas were ₹ 49.09 and ₹ 56.64 per capita per month, respectively (at 1973-74 prices). Subsequently, the NCRL determined the minimum subsistence wage for rural areas to be ₹ 510 per month (₹ 19.62 per day) and for urban areas ₹ 650 per month (₹ 25 per day) at October 1990 price levels (Consumer Price Index for Industrial Workers - CPI-AL) (GoI., 1991, p. 93). As the NCRL’s main concern was agricultural and rural labour, it took into account the average number of wage earners in agricultural households (1.89) and the average number of days of agricultural employment per wage earner (159 days per year). On the basis of its

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recommendations to reduce disparities in minimum wages in different states of a region, set up an inter-state Coordination Council, and established consultation with neighbouring states while fixing/revising minimum wages, etc.



findings, it recommended a basic minimum floor level wage of ₹ 20 per day at current prices. In its report, the Commission also stated that: “while this will be the floor level, the Government at the Centre and the States would be free to fix minimum wages under the Minimum Wages Act, above this level on the basis of skills, areas, occupations or employment or other local factors” (GoI., 1991).

2.20 However, at the implementation stage in 1996, the NFLMW was initially fixed at ₹ 35 per day (₹ 910 per month), after the necessary price adjustments had been made. Subsequently, the NFLMW was raised to ₹ 40 per day (in 1998), ₹ 45 (as of 1 December 1999), and ₹ 50 (as of 1 September 2002), taking into account the rise in prices. At this stage the CAB (under the Minimum Wages Act) set up a Working Group to recommend revised norms for fixing the minimum wage. The CAB subsequently accepted the norms (see Appendix table 2.1) suggested by the Working Group in December 2003 and revised the NFLMW upwards to ₹ 66 per day with effect from February 2004 and ₹ 115 per day with effect from April 2011. Based on the changes in the consumer price index numbers for industrial workers (CPI-IW), the Government of India has adjusted the NFLMW to ₹176 per day with effect from June 2017<sup>14</sup>.

## Five year plans and wage policy

2.21 The Planning Commission of India has been key in establishing important guidelines with respect to wage policy (ILO, 2018). The Five Year Plans reflect various aspects of this policy:

- ▶ The First Five Year Plan (1951–56) provided for a critical baseline for shaping a wage structure by creating labour market institutions such as collective bargaining and the workers’ right to association. The Plan proposed that the tripartite machinery on industrial relations should evolve to establish standards to guide wage boards and tribunals in setting wage-related issues.
- ▶ The Second Five Year Plan (1956–61) focused on the country’s industrial development. It advocated that increases in real wages should be linked to productivity through a better layout of plants, an improvement in working conditions and workers’ training. It recommended the institution of tripartite wage boards that would contribute towards settling industry wage disputes.
- ▶ The Third Five Year Plan (1961–66) advised for extension of wage boards to other industries (according to circumstances). It recognized the need to implement the principle of equal pay for equal work, as gender discrimination was prevalent in both employment and wages.
- ▶ The Fourth Five Year Plan (1969–74) considered that price stability was basic to wage policy, and felt that it was appropriate to link the Dearness Allowance to the cost of living. It pointed out that the total wage should be composed of a basic or minimum wage, a component linked to the cost of living and another linked to productivity.
- ▶ The Fifth Five Year Plan (1974-1979) stressed that a reasonable balance should exist between wages, prices and income. It again emphasized the fact that wages should be correlated to productivity.
- ▶ The Sixth Five Year Plan (1980–85) laid down the criteria for fixing and revising minimum wages. These included both the social factors (minimum basic needs, adjusting real wages to the rise in the cost of living, allowances for occupational hazards, bonus, social security benefits, among others) and also economic factors (capacity to pay, profitability and productivity, consumption pattern, cost of living and regional disparities, among others). The level of minimum wages should be raised in such a manner that the concept of a need-based minimum wage would soon become a reality.

<sup>14</sup> The government notification in this respect may be seen at: [https://labour.gov.in/sites/default/files/MX-M452N\\_20170704\\_171116.pdf](https://labour.gov.in/sites/default/files/MX-M452N_20170704_171116.pdf)

- ▶ The Eighth (1992–97) and Ninth Five Year Plans (1997–2002) highlighted safe and humane working conditions, social security benefits, an improvement in the productivity of labour and the reduction of malpractices in wage payment. It did not focus much on wage policy, as by then the concern had shifted towards issues of labour flexibility, labour law reforms and skill formation.

## Determining the need-based minimum wage

2.22 Even before the 15<sup>th</sup> Session of the ILC (1957) issued recommendations on what the minimum wage should cover, attempts had already been made in India to determine wages that were commensurate with the needs of workers and their families. In this section, we shall review some of these attempts to understand how the issue of need-based minimum wages was addressed prior to and after 1957 by a number of labour enquiry committees and the 15<sup>th</sup> ILC, respectively. We shall also examine the parallel determination efforts undertaken by various Central Pay Commissions (CPCs) and the Planning Commission, with a view to fixing the pay of public sector employees and estimating the poverty line respectively.

### Determining need-based minimum wages by various labour enquiry committees

2.23 Before 1957, both the Textile Labour Enquiry Committee (1940) and the United Provinces Labour Enquiry Committee (1948) had made attempts to determine need-based minimum wages. As early as 1940, the Board in the Bombay Textile Labour Enquiry Committee had agreed that a diet intake of 2,600 calories should be used for determining the minimum wage (Labour Enquiry Committee, 1938). The basis for this decision was supported by a scientific note for the Committee on dietary standards for Indian workers suggested by Dr Aykroyd<sup>15</sup> - who later would contribute to set the food norms at the 15<sup>th</sup> ILC session. Nevertheless, the diet used by the Textile Labour Enquiry Committee did not consider sugar intakes, and for this reason Aykroyd suggested an increase of 25 per cent for extra food expenditures. The Committee's main concern was the estimate of the total monetary value, as the non-vegetarian diet would be more expensive than the vegetarian diet. The final report concluded that the Committee would use a vegetarian diet for the Bombay textile workers, after identifying that "family budget studies reveal a comparatively small consumption of meat amongst textile workers in this Province" (Textile Labour Enquiry Committee, 1940a).

2.24 With regard to housing, the Committee agreed that scientific standards could not address this factor and accepted the recommendations of the Rent Enquiry Committee<sup>16</sup>; consequently, items<sup>17</sup> other than food and rent were calculated at between ₹ 15 to ₹ 20 per month. The total estimate for maintaining a living standard for a "typical family<sup>18</sup>" of a husband, wife and two children, was between ₹ 50 and ₹ 55 per month for the city of Bombay. The number of wage earners in the family was also reviewed, and the conclusion was that an adult male should be held responsible for supporting the whole family with his own income.

2.25 The United Provinces Labour Enquiry Committee<sup>19</sup> came up with another wage estimate, which considered four levels of living standards<sup>20</sup> (1948a). The Committee felt that fixing the minimum wage at the

<sup>15</sup> In 1931, Dr. Wallace Aykroyd was the first nutritionist to be recruited for the Department of Health Secretariat of the League of Nations, based in Geneva, Switzerland. In 1935, Aykroyd was appointed Director of the Government's nutritional research centre in India. In 1946, he was one of the first to join the staff of the newly constituted Food and Agriculture Organization of the United Nations (FAO) as head of the Nutrition Division. (Carpenter, 2007).

<sup>16</sup> In Bombay, an area of 180 square ft. was estimated as the minimum to accommodate a maximum of four persons.

<sup>17</sup> Items were divided into three groups: (1) clothing, (2) fuel and lighting, and (3) miscellaneous.

<sup>18</sup> The typical family of four members converted into consumption units was calculated to be equivalent to one male = 1, a wife = 0.8; and two dependents or children  $0.6 \times 2 = 1.2$ ; altogether 3.0 consumption units.

<sup>19</sup> The United Provinces Labour Enquiry Committee was set up on account of the general labour unrest at the end of the war, and the Committee was mandated to look into all aspects of labour problems including wages, dearness allowances and bonuses.

highest comfort level was not within the reach of the majority of workers. It therefore advocated that the compulsory fixation of wages should be based on the criterion of the 'subsistence plus level'<sup>21</sup>, which would form the basis of the minimum wage. This will be described in more detail later in the text.

2.26 With regard to food requirements, the Committee examined the advice of Dr. V. N. Patwardhan of the Nutrition Research Laboratory in Coonoor, who provided a “cheap vegetarian diet” of 2,700 calories, 77 grams of protein, 77 grams of fat and 450 grams of carbohydrates (table 2.1).

**Table 2.1: Cheap vegetarian diet suggested by Dr. V. N. Patwardhan**

Sl. No	Commodities	Weights (Oz.)
1	Cereals	14
2	Pulses	3
3	Green leafy vegetables	6
4	Other root vegetables	6
5	Milk	8
6	Sugar and jaggery	2
7	Oil, ghee, etc	2

**Source:** United Provinces Labour Enquiry Committee, 1948a, p. 84.

2.27 On the basis of this diet, the Committee estimated that ₹ 6 per month was the cost of food for an adult in the United Provinces at pre-war prices<sup>22</sup>. The recommended minimum wage was to be no lower than ₹ 30 per month at the level of pre-war prices. The calculation took into consideration a family of one male, one female and one child, with consumption units equivalent to 2.4 (male equal to one, female equal to 0.8 and a child equal to 0.6). The Committee was of the opinion that fixing the minimum living wage in this way would, improve the health, well-being and general efficiency of the industrial worker and would go a long way towards raising the country's general standards of living. Subsequently, the Committee also established minimum wage levels for semi-skilled (₹ 40), skilled (₹ 50) and highly skilled (₹ 75) occupations, respectively.

2.28 In addition to the Textile Labour Enquiry Committee and the United Provinces Labour Enquiry Committee, there are examples of other attempts before 1957 to determine the minimum wage based on a need-based approach. In most cases the discussion ultimately focused on the requirements for food and non-food items to address the minimum level of sustenance for industrial workers and their families.

### **Determining need-based minimum wages by the Indian Labour Conference, the Supreme Court and the Labour Ministers' Conference**

2.29 The Indian Labour Conference (ILC), the Supreme Court (SC) of India and the Labour Ministers' Conference have also provided important recommendations for the development of wage policy. The most important of these was the recommendation proposed by the 15<sup>th</sup> ILC Session (July, 1957), which introduced the concept of determining the minimum wage by addressing the issue of the minimum requirements of a worker and his family.

<sup>20</sup> (i) The poverty level; (ii) the minimum subsistence level; (iii) the subsistence plus level; and (iv) the comfort level.

<sup>21</sup> The Committee called this standard the minimum living wage.

<sup>22</sup> Dr. Aykroyd's cost for South India was estimated at not less than ₹ 6.5 per month.

*15th Session of the Indian Labour Conference (1957)*

2.30 As discussed earlier, the Minimum Wages Act, 1948, is an important piece of Indian legislation that sets the framework for the minimum wage machinery and its procedures. However, it did not provide the criteria for the determination and fixation of minimum wages. These norms were in fact established at the 15<sup>th</sup> Session of the Indian Labour Conference (ILC) held in July 1957. At this Conference, it was agreed that in order to fix minimum wages, they should be “need-based and should ensure the minimum human needs of the industrial worker, irrespective of any other consideration” (GoI., 1957). The ILC recommended that for calculating the minimum wage, five important considerations should be taken into account:

- a) the standard working class family includes a wife and two children apart from the earning worker<sup>23</sup>; an equivalent of three adult consumption units<sup>24</sup>;
- b) a net intake of 2,700 calories per day per consumption unit, as recommended in 1948 by Dr Wallace Aykroyd<sup>25</sup>, first director of the Department of Nutrition at the United Nations Food and Agricultural Organization (FAO);
- c) clothing requirements of 72 yards<sup>26</sup> (65.8 metres) per year per family;
- d) a minimum housing rent charged by the government for low-income groups; and
- e) fuel, lighting and other miscellaneous items of expenditure to constitute 20 per cent of the total minimum wage.

2.31 The above-mentioned recommendations have been accepted as the guiding criteria to fix minimum wages by most of the wage-fixing authorities, including the Minimum Wage Committees and Wage Boards. The Conference also suggested that if minimum wages were set below these norms, the authorities concerned should justify the circumstances that prevented them from complying.

2.32 Amongst the norms developed by the 15<sup>th</sup> ILC, the food norm suggested by Dr. Aykroyd has become the most controversial and has been the focus of discussion when put into practice. At the time, Dr. Aykroyd had collected available data regarding food value, protein, carbohydrates and fat in India, and tabulated them so that the Government could issue a *Health Bulletin* -When working at the League of Nations Health Section, he placed the calories requirements of an average male doing “easy going agricultural” work at 2,500 to 2,600 calories (The Indian Medical Gazette, 1937).

2.33 Nevertheless, the 15<sup>th</sup> ILC session adopted Dr. Akroyd’s “adequate diet level”, rather than the optimum diet level<sup>27</sup> (GoI., 1957). In this diet, the food component refers to a 2,700 calories intake for an Indian adult of moderate activity. The normative diet includes specific food components in ounces that meet the total calories intake (table 2.2).

<sup>23</sup> The recommendation of the Committee at the 15<sup>th</sup> ILC established that the earnings of women, children and adolescents should be disregarded.

<sup>24</sup> On the basis of Dr. Aykroyd’s formula (as enunciated in *Health Bulletin No. 23, 1937*), this yielded 3 consumption units per earner. While the worker was treated as 1 consumption unit and his wife 0.8 unit, the two children together were equated to 1.2 units by the Fair Wage Committee - by averaging the coefficients for children of different age groups and multiplying the average by two.

<sup>25</sup> Dr Aykroyd worked on nutrition for nearly 30 years. In 1935, he was appointed Director of the Government’s nutritional research centre in India, situated in Coonoor in Kerala.

<sup>26</sup> The provision for clothing is based on an average for the whole of India, but 72 yards of clothing per annum per family did not presumably envisage the provision of woolen clothing and it may not have been enough to cover the requirements of a family in the cooler regions of the country.

<sup>27</sup> The optimum diet would include more vitamins and less protein in its calorie content, while an adequate diet would include more protein and less vitamins.

2.34 The ILC resolution also outlined the method for converting these norms into monetary values to ensure that industrial workers were able to meet their requirements and those of their families. However, these descriptive norms may not be applicable to every state or every family. The requirements and various components in this diet might therefore have to be modified for the different regions in India, as the consumption patterns or eating habits in certain regions simply do not match the requirements indicated in the formula – and there might not even be an adequate supply of the items listed.

**Table 2.2. Aykroyd’s “adequate diet level” adopted by the 15<sup>th</sup> ILC, 1957**

Sl. No	Food items	Aykroyd’s “adequate diet” (Oz.)
1	Cereals	14
2	Pulses	3
3	Vegetables	10
4	Milk	10
5	Sugar and Gur	2
6	Oil and Ghee	2
7	Fruits	2
8	Fish and Meat	3
9	Eggs	1
<b>Number of calories</b>		<b>2,700 (net)</b>

**Source:** *Summary Proceedings of the Indian Labour Conference (15th Session)*, New Delhi, (GoI., 1957)

2.35 Subsequently, in September 1992, the ILC also cautioned about the trend to fix minimum wages at unrealistically high levels (ICRIER, 2017). It is also relevant to ensure the enforcement of minimum wages once they have been set.

### *Supreme Court of India (1992)*

2.36 Furthermore, the Supreme Court (SC) of India, in the historic *Workmen v. Reptakos Brett & Co.* judgment handed down in 1992, suggested that the need-based norms established by the 15<sup>th</sup> Session of the ILC (1957) should be considered for calculating the minimum wage, and that other additional components be included (i.e. children’s education, medical requirements, minimum recreation including festivals/ceremonies and contingencies such as old age and marriage). These consumption items should account for 25 per cent of the total minimum wage.

2.37 Apart from its contribution to the determination of minimum wages, the SC, through its various judicial pronouncements, has played an important role in shaping the wage policy in India. Significant cases in this respect include the *Crown Aluminum Works v. their Workmen* (1958), *Kamani Mehta and Alloys v. the Workmen* (1967) and *People’s Union for Democratic Rights v. the Union of India* (1982). In these cases, the SC ruled that the concept of minimum wages, which are determined by applying the principle of the subsistence minimum to ensure the sustenance of workers, is a worker’s legal right. The SC further pronounced that no industry has a right to exist unless it is able to pay its workmen at least a bare minimum wage (*Crown Aluminum Works v. their Workmen*, 1958), and that employment at wages below the minimum wage is forced labour (*People’s Union for Democratic Rights v. Union of India*, 1982).

### *Labour Ministers' Conference*

2.38 In 1985, the ILC suggested that the central government establish guidelines to fix and revise regional minimum wages in order to address effectively the existing disparity in minimum wages. In response, Regional Minimum Wage Advisory Committees were set up in 1987 following the recommendations of the Regional Labour Ministers' Conference. This institutional framework was intended to help reduce the disparity in minimum wages between states in a region, establish an inter-state coordination council, and facilitate consultation between neighboring states when revising minimum wages.

2.39 In order to protect fixed minimum wages against inflation, the Labour Ministers' Conference in 1988 took the decision to link minimum wages to the Consumer Price Index for Industrial Workers (CPI-IW). This wage adjustment, known as the Variable Dearness Allowance (VDA), provides for the revision of minimum wages in scheduled employments to neutralize the effect of inflation. Accordingly, the appropriate governments are required to revise the minimum rates of wages from time to time, twice a year or annually. For the schedule employments in the central sphere, the minimum rates of wages are revised effective from 1 April and 1 October every year.

### **Determination by the Central Pay Commissions**

2.40 The Government of India has regularly set up Central Pay Commissions (CPC)<sup>28</sup> to review and make recommendations on the work and wage structure of public employees. Six of the seven Pay Commissions<sup>29</sup> so far have used the 15<sup>th</sup> ILC norms to calculate the minimum pay. In fact, the Seventh Central Pay Commission, in its 2015 report (GoI., 2015), confirmed that the use of the ILC 1957 norms constitute “the best approach to estimating the minimum pay as it is a need-based wage calculation that directly costs the requirements, normatively prescribed to ensure a healthy and a dignified standard of living”.

### *Second Pay Commission*

2.41 The first attempt to quantify the norms, as laid down by the 15<sup>th</sup> ILC, was made by the Second Central Pay Commission (1959). The Commission scrutinized the feasibility of setting a minimum wage on the basis of the norms and examined the economic and social implications. One of the Commission's major observations was that the minimum remuneration calculated in accordance with these recommended norms was around ₹ 125 per month. The Commission was of the view that this minimum remuneration was 2.4 times higher than the upper limit of minimum wages fixed under the Minimum Wages Act, and about 70 to 80 per cent higher than the rates generally prevailing in the organized sectors of industry (GoI., 1959). The Commission then stated that “a minimum wage pitched above the level of per capita income and intended for very wide application is obviously beyond the country's capacity; in ignoring the vital need for savings and investment, such a wage gives no thought to the future”.

2.42 The Commission then questioned the feasibility of Dr. Aykroyd's “adequate diet”, which included foodstuffs such as fruits, milk, meat, fish and eggs, stating that these items were neither available nor

<sup>28</sup> Wages under the Minimum Wages Act are determined by the appropriate government, in accordance with the recommendations of the 15<sup>th</sup> ILC and the SC 1992 judgment, in consultation with the employers' and workers' organizations. In contrast, the Pay Commissions are appointed by the Government of India to quantify minimum wages for public employees/civil servants.

<sup>29</sup> The First Pay Commission (1947), whose report preceded the enactment of the Minimum Wages Act, 1948, fixed the minimum subsistence wage of unskilled labour for rural and urban areas at the same rate of ₹ 55 per month (inclusive of the Dearness Allowance of ₹25). Urban employees were given an additional allowance for house rent. When it fixed the minimum wage, the Commission deliberately discounted the market value/wages of unskilled labourers, possibly because the market level of wages would have been at the poverty level, i.e., below the minimum subsistence level. It also pronounced that the application of the rule on the minimum wage had always been recognized as subject to the limitations imposed by the country's general economy (GoI, 1991).

planned for production. It therefore requested Dr. V.N. Patwardhan to elaborate a diet given the limits of the country's present output of foodstuffs (table 2.3).

**Table 2.3: Dr. Aykroyd's "adequate diet" and the diet level established by the Second Pay Commission**

Sl. No	Food Items	Aykroyd's "adequate diet" 15 <sup>th</sup> ILC (Oz.)	Dr. Patwardhan's diet Second Pay Commission (Oz.)
1	Cereals	14	15
2	Pulses	3	3
3	Vegetables	1	6
4	Milk	10	4
5	Sugar and gur	2	1.5
6	Oil and ghee	2	1.25
7	Fruits	2	-
8	Fish and meat	3	-
9	Eggs	1	-
10	Groundnut	-	1
<b>Number of calories</b>		<b>2,700 (net)</b>	<b>Over 2,600 (net)</b>

2.43 The Commission's final decision was to use a diet of 2,600 calories, which excluded costly foodstuffs (table 2.3). However, the Commission did not convincingly explain the rationale of opting for a particular food item over another. The valued food diet was fixed at ₹ 52 per month for a three-consumption unit family. By adding up clothing, rent and other requirements as prescribed by the 15<sup>th</sup> ILC, the total cost amounted to ₹ 82.5 per month for the minimum wage of unskilled labourers at the point of entry under the central government (GoI., 1959). This value was rounded up to ₹ 80 after undertaking a full neutralization of the price at the implementation stage (GoI., 1991). The most important difference with the 15<sup>th</sup> ILC norms corresponded to the food diet, which enabled it to reach a minimum pay that included a 65 per cent food component. The Commission also highlighted that this minimum pay was not static but part of an incremental scale, in contrast to the minimum wage established under the Minimum Wages Act of 1948, in which wages did not form part of an incremental scale.

#### *Third and Fourth Pay Commission*

2.44 The 1973 Report of the Third Pay Commission indicated that the adoption of the minimum wage based on the ILC guidelines would represent a misdirection of resources at that moment. The Commission adopted its own diet schedule and was of the opinion that government employees at the start of their career were not required to support three consumption units; it accordingly recommended a minimum wage of ₹ 185 for the lowest paid employees with two consumption units. However, at the implementation stage, the Government linked the wage to three consumption units and fixed the minimum pay at ₹196. In a similar vein, the Fourth Pay Commission considered that the employer's ability to pay was a vital factor. The Commission was of the view that a dual approach should be considered in order to be fair with respect to both employees' wages and the people they served.

#### *Fifth and Sixth Pay Commissions*

2.45 The Fifth Pay Commission undertook to revise pay by adjusting the previous minimum pay of ₹ 750 per month in 1986 (recommended by the Fourth Pay Commission) by adding up the Dearness Allowance of ₹

1,110 to compensate for inflation. The resultant price protected the minimum pay of ₹ 1,860 per month as at 1 January 1996. This was further increased by 30.9 per cent, which corresponded to the real increase in per capita income (per capita net national product at factor cost) between 1986 and 1995. The final value of minimum pay (i.e., ₹ 2,440) was rounded off to ₹ 2,550 per month at the implementation stage as at 1 January 1996. The approach adopted by the Fifth Pay Commission differed from that of previous Commissions. It focused on the analysis of what had happened in the country's economic context since 1986, and took the decision to adjust the previous minimum pay level with respect to inflation plus the real increase in per capita income. In short, the adjustment took into account the country's economic realities such as changes in the cost of living and productivity, thus arriving at the new 1996 minimum pay level.

2.46 In 2008, the Sixth Pay Commission submitted its report to the Ministry of Finance. The Commission was able to address and use the norms set by the 15<sup>th</sup> ILC to determine the need-based minimum wage for a single industrial worker. For the food component, it considered a 2,700 calories intake comprising of 65 grams of protein and around 45-60 grams of fats. In the diet, animal proteins, such as milk, eggs, fish, liver and meat, were included to form at least one-fifth of the total protein intake. For housing, account was taken of the rent corresponding to the minimum area provided under the government's industrial housing schemes. Fuel, lighting and other items of expenditure added up to an additional 20 per cent of the total minimum wage. With regards to the 1992 SC Judgment (which had prescribed that 25 per cent of the total minimum should comprise of expenditure related to children's education, medical requirements, recreation, festivals and ceremonies), the Commission considered that the educational allowance and medical facilities being provided by the government should not be factored in the minimum pay value. Therefore, the Commission made its own calculations to add 22 per cent<sup>30</sup>, thereby recommending ₹ 6,660, as the minimum pay in the government. This value was rounded up to ₹ 7,000 per month, when the measure was implemented on 1 January 2006.

### *Seventh Pay Commission*

2.47 In order to estimate the need-based minimum pay as per the 15<sup>th</sup> ILC norms, the Seventh Pay Commission calculated the cost of food, clothing and detergent products using prices from the Labour Bureau, Shimla<sup>31</sup> (GoI., 2015). The result was then divided by 0.8 to obtain a value, of which 20 per cent provided for fuel, lighting and other expenses. The cost estimated at this stage was divided by 0.85 to arrive at a total, of which 15 per cent was allocated to recreation, ceremonies and festivities. The Commission was of the opinion that the prescribed provision of 25 per cent to cover education, recreation, ceremonies, festivals and medical expenses, in accordance with the SC Judgment of 1992, should be moderated to 15 per cent because expenses for educational and medical necessities were being separately provided for through relevant allowances and facilities to the public employees and thus did not need not be provided here.

2.48 The Commission also provided for an additional premium (not included in the 15<sup>th</sup> ILC recommendation) of 25 per cent to account for the skill factor, justifying that the government had no unskilled staff<sup>32</sup>. The estimated cumulative cost was then divided by 0.97, of which 3 per cent provided for housing expenses given that license fees for government accommodation accounted for about 3 per cent of the total pay. Finally, the Commission adjusted the final result by a Dearness Allowance to cover for the costs of the six months that it would take the government to implement the recommended wage structure. The rounded value of ₹18,000, constituted the minimum pay the Commission recommended (Appendix table 2.2).

<sup>30</sup> This enhancement also quantified the skill factor that Group D staff would acquire through training, upon their merger into Group 'C' (GoI., 2015).

<sup>31</sup> These prices are used in the calculation of the CPI (IW) - and subsequently in the calculation of the Dearness Allowance.

<sup>32</sup> After the merger of Group D staff in Group 'C', as recommended by the 6th CPC.



2.49 The results obtained from the Seventh Pay Commission did not meet the demands of government employees, who had asked that the minimum pay should be ₹ 26,000 per month. Nevertheless, this time the Commission was able to address not only the ILC and SC recommendations but also include a skill factor premium. This situation was not always possible for other Pay Commissions, which struggled to comply with most of the adopted norms.

### The determination of the need-based minimum wage by Planning Commissions by means of poverty lines

2.50 Another important reference for fixing need-based minimum wages is to take into account poverty lines. Methodologies that capture poverty estimates have evolved over time and provide different ways to calculate food and non-food components. In certain instances, the methodology of poverty estimation - especially with reference to calorie requirements - has also influenced the determination of need-based uniform national minimum wages<sup>33</sup>. Therefore, this section reviews methodologies of poverty estimation and recommendations from various working groups and expert committees.

#### *The Planning Commission Working Group*

2.51 In 1962 the Planning Commission set up a working group to define the poverty line. In so doing, it drew upon the recommendations of the Indian Council of Medical Research (Patwardhan, 1960) regarding a balanced diet and the prices of the minimum level of food, clothing, shelter and fuel. The working group did not however consider expenditure on health and education in its definition. It recommended a national minimum of ₹ 100 per month - or ₹ 20 per capita per month - for the rural population, and ₹ 125 per month - or ₹ 25 per capita per month - for urban areas, at 1960-61 prices (GoI., 2006).

#### *Task Force on Projections of Minimum Needs and Effective Consumption Demand*

2.52 The Task Force on Projections of Minimum Needs and Effective Consumption Demand, set up by the Planning Commission in 1977, under the Chairmanship of Dr. Y. K. Alagh, adopted the Dandekar-Rath<sup>34</sup> method of applying the nutritional norm to identify the cut-off point in the expenditure distribution. Using different criteria for the nutritional requirements of rural and urban areas, the Task Force defined the poverty line in terms of the per capita expenditure required for a per capita per day calorie intake of 2,400 in the case of the rural population and 2,100 for the urban population. In addition, using the 28<sup>th</sup> Round (1973-74) of National Sample Survey (NSS data) relating to the food consumption levels of households, as well as to conversion factors derived from the calorie content of food items, the estimated poverty lines were set for both rural and urban areas at ₹ 49.09 and ₹ 56.64 per capita per month, respectively, at 1973-74 prices.

<sup>33</sup> The Committee of Labour Secretaries of States, under the Chairmanship of the Additional Secretary of the Ministry of Labour (set up in 1981), recommended that in establishing the minimum wage, the consumption basket should consist of 2,400 calories and 2,100 calories per capita per day, in the rural and urban areas, respectively. This recommendation was to a great extent influenced by the prevalent poverty line definition used by the Planning Commission, as per the recommendation of the Task Force on Projections of Minimum Needs and Effective Consumption Demand, under the Chairmanship of Y. K. Alagh (1977). Subsequently, the Task Force's poverty line expenditure was also considered by the NCRL (1991), which recommended the national floor level minimum wage to be ₹ 20 per month at October 1990 prices.

<sup>34</sup> Dandekar and Rath fixed a minimum consumption based on a calorie norm to define the poverty line for approximately two decades. After making adjustments for price changes for each Indian state, the numbers of poor below the state-specific poverty lines were then aggregated to arrive at the national poverty estimates. Expenses on education and health were excluded in this approach. However, a recommendation was adopted to continue with the existing methodology until minimum norms for non-food items were developed.

*Expert Group 1993 (Lakdawala)*

2.53 In 1993, the Planning Commission appointed an Expert Group on Estimation of Proportion and Number of Poor. The Expert Group recommended maintaining the Task Force poverty line of ₹ 49 for rural areas and ₹ 57 for urban areas at 1973-74 prices, the poverty line serving as a cut-off line separating the poor from the non-poor. It was set at a daily intake per capita of 2,400 calories and 2,100 calories, respectively, with reference to the consumption pattern of 1973-74. The Expert Group also recommended retaining the consumption basket common to all states, identified separately for rural and urban areas. The poverty lines for each state were calculated in terms of the 1973-74 base year, using the common consumption basket at state-specific prices.

*Expert Group 2005 (Tendulkar)*

2.54 The Expert Group 2005 adopted the officially measured urban poverty line of 2004-05, based on the Lakdawala Expert Group methodology, and derived the all-India reference poverty line basket. The proposed poverty line basket was calculated using Mixed Recall Period (MRP)-consumption-based estimates<sup>35</sup> rather than Uniform Recall Period (URP) - based estimates; this meant that the collected data for clothing, footwear, durable goods, education, and institutional medical items were for a 365-day recall period. The Expert Group also made special provisions for private health and education expenditure in estimating the poverty line for the period 2004-05. The estimates for poverty ratio and the number of poor were made for the periods 2004-05, 2009-10 and 2011-12 using the proposed methodology. Accordingly, the poverty line 'per capita monthly expenditure' was estimated at ₹ 446.7 in rural areas and ₹ 578.8 in urban areas in 2004/05, and the same estimates for 2011/12 for rural and urban areas were ₹ 816 and ₹ 1,000, respectively

*Expert Group, 2012 (Rangarajan)*

2.55 For the first time, the methodology proposed by the Rangarajan Committee (2012) recomputed the average requirements of calories, proteins and fats, as the basis for estimating food expenditure. Based on the recommendations made by the ICMR in 2010, a minimum requirement of 2,154.91 calories per person per day for the rural area and 2,089.35 calories for the urban area was advocated. Similarly, the average protein and fats requirements were set at 48 grams and 28 grams per capita per day in rural areas and 50 grams and 26 grams per capita per day in urban areas, respectively. Using the NSSO 2011-12 data, the Expert Group identified the fractile groups of population in the consumption expenditure distribution that met the above-mentioned nutritional norms. The reported food expenditure for the fractile group that complied with the nutritional norms formed the basis of food expenditure. The non-food expenditure component of the poverty line was anchored at the median and sixth fractile groups for two different types of non-food items, i.e., essential and other non-food, respectively. Accordingly, the poverty line 'per capita monthly expenditure' was calculated at ₹ 972 in rural areas and ₹ 1,407 in urban areas<sup>36</sup>.

**Minimum wage outcomes**

2.56 As discussed in the previous section, the norms recommended by the 15<sup>th</sup> ILC (1957) to determine the need-based minimum wage filled an important gap in the Minimum Wages Act of 1948. Indeed, these norms have been widely accepted and various central wage boards have attempted to fix minimum wages on the basis of the established norms. Three out of twenty-six Wage Boards (central) have attempted to set the

<sup>35</sup> URP-consumption = consumption data are collected from the households using a 30-day recall period for all the items. MRP-consumption = consumption data for five non-food items, viz., clothing, footwear, durable goods, education, and institutional medical expenses, which are collected using the 365-day recall period and the 30-day recall period for the remaining items.

<sup>36</sup> 'The monthly expenditure of a household of five corresponding to the poverty line amounted to ₹ 4860 in rural areas and ₹ 7,035 in urban areas.'

minimum wage based on the need-based approach. They have particularly focused most on the diet used to calculate the food component in the formula.

2.57 However, most Wage Boards have found it challenging to set minimum wages using the adopted norms. For example, the first National Commission on Labour (NCL) revealed that Wage Boards disregarded the need-based criteria mainly because of the “employers’ inability to pay” (Dayal, 1970). On similar lines the Committee on the Functioning of the System of Wage Boards (1968) reported that a majority of the wage boards had not found it feasible to fix the 'need-based minimum' of the ILC. Other difficulties they have encountered have been related to the composition, quantities and quality of the diet for the same number of calories (Babu, 2001). Hence, there has been a lack of clarity in this system, and this has provoked criticism over the years from both employers and employees.

**Box 2.1**  
**The Code on Wages Bill, 2017**

The Code on Wages Bill was introduced in the *Lok Sabha* on 10 August, 2017. The Wage Code consolidates four existing Labour Acts relating to wages: (i) the Minimum Wages Act, 1948; (ii) the Payment of Wages Act, 1936; (iii) the Payment of Bonus Act, 1965; and (iii) the Equal Remuneration Act, 1976. A salient feature of the Code is the introduction of a universal minimum wage.

Under the Minimum Wages Act, 1948, state governments have the mandate to fix the minimum rate of wages for employees employed in a scheduled employment, leaving others unprotected. The proposed Wage Code establishes that the central government may notify a national minimum wage for the whole country. It may fix different national minimum wages for different states or geographical areas. States on the other side may not fix minimum wages below the benchmark decided by the central government.

Under the Wage Code, the central and state governments will constitute their respective advisory boards. These boards will advise the respective governments on aspects including: (i) fixing minimum wages; and (ii) increasing employment opportunities for women.

The central or state governments will fix the number of hours that will constitute a working day, as well as a day of rest for employees every week. The amount of overtime will be at least twice the normal wage of the employee.

The Wage Code mandates state governments to establish one or more authorities to handle claims under the proposed provisions. It provides the faculty to issue orders against employers for compensation, as well as for the recovery of dues.

The Code specifies sanctions and penalties for offences committed by an employer or for disobeying any provision.

**Source:** *Code on Wages Bill, 2017*, available at:  
<https://labour.gov.in/sites/default/files/Code%20on%20Wages%20Bill%202017-As%20introduced%20in%20Lok%20Sabha.pdf>

2.58 Nevertheless, Wage Boards are the only machinery for determining minimum wages for workers in scheduled industries. Wage bargaining in general terms has therefore taken place either at the industry level or through government-controlled wage boards (GoI., 1991).

2.59 In the current context, the ILO’s *India Wage Report* (ILO, 2018) provides evidence of wide disparities in the minimum wage rates for the same employments across various states. This does not necessarily

reflect the differences in the cost of living; and as for the guidelines adopted by the 15<sup>th</sup> ILC for fixing minimum wages, these may not always be followed by the states<sup>37</sup> (ILO, 2018).

2.60 In some sectors and states, minimum wages are fixed at levels far below the NFLMW. There are also large variations in minimum wage rates for the same employment across states. Similarly, the functioning of Wage Boards also vary from state to state, and there is no systematic procedure to revise minimum wages. Everything is contingent upon the state's institutional capacity or the minimum wage-fixing machinery.

2.61 The evident low pay and high wage disparities have led to intense debate over the past decade to put in place a meaningful wage policy, including the consideration to introduce a binding national minimum wage for all workers. This debate took the form of an agenda item at the 44<sup>th</sup> Session of the ILC (2012), which recommended that “the Minimum Wage Act, 1948 should cover all employments and the existing restriction for its applicability on the scheduled employments only should be deleted. This will also help India ratify ILO Convention No. 131”<sup>38</sup>. Eventually, the debate culminated with the government introducing the Wage Code Bill in the *Lok Sabha* in 2017, which consolidates four Acts and also makes a recommendation for a binding national minimum wage (GoI., 2017). The salient features of the Wage Code Bill, which include the universal coverage to all wage workers in the Indian labour market, are given in box. 2.1.

## Conclusions

2.62 Wage policy and minimum wages have been subject of considerable debate in India. Before Independence, the situation in India with regards to poor working conditions, low wages and delay in wage payments in many industries called for the government's attention. Various committees/commissions were constituted to better understand the conditions of labour and to frame a wage policy for low-paid work.

2.63 The Payment of Wages Act, 1936, and the Minimum Wages Act 1948, sought to provide protection and ensure better working conditions for low-paid workers. The Committee on Fair Wages also laid the foundations for wage policy, defining that the minimum wage should not provide merely for the bare sustenance of life, but also address the issue of preserving workers' efficiency by making provision for some measure of education, medical requirements and amenities.

2.64 The absence of criteria in the Minimum Wages Act to determine minimum wages has been filled by ILC and SC recommendations providing guidelines for this purpose. Through its Five Year Plans, the Planning Commissions have also contributed towards addressing wage issues in India. Other recommendations have advocated insightful measures to help shape minimum wage policy.

2.65 Over the years, there has been a demand to improve the minimum wage policy and even an interest in framing a “national wage policy”. While the first NCL suggested establishing regional minima

<sup>37</sup> In its report (1988) on the problems of unorganized workers in the agricultural sector, the sub-committee of the parliamentary Consultative Committee for the Ministry of Labour (Gurudas Dasgupta Committee) noted that the West Bengal Government fixed minimum wages on the assumptions of: (a) a consumption of food equivalent to 2,200 calories per unit per day; (b) a three adults consumption unit in a family; (c) a consumption of 72 yards of clothing a year per family; and (d) an amount equivalent to 25 per cent to cover housing, fuel, light medical and educational expenses. As the calorie norms set by the West Bengal Government were even below those defining the poverty line, the Committee felt that minimum wages should be fixed on a rational basis taking into account such factors as the poverty-line requirements of nutrition, shelter, clothing, fuel, light, medical and educational expenses, and a realistic assumption of consumption units and the number of workers in a family (GoI., 1991).

<sup>38</sup> Details of the recommendations of the Conference Committee on “Minimum Wages” may be seen at: [https://labour.gov.in/sites/default/files/44th\\_ILCL.pdf](https://labour.gov.in/sites/default/files/44th_ILCL.pdf)

comprised of different homogenous regions within the state, the Bhootlingam Committee and the National Commission on Rural Labour recommended the creation of a national minimum wage. Accordingly, the year 1996 saw the implementation of the NFLMW, which is a non-binding national minimum wage.

2.66 Determining and fixing a minimum wage are contingent upon local conditions, the cost of living and the paying capacity, which differ across states and Union Territories (UTs). Despite attempts to quantify and set minimum wages in accordance with ILC and SC norms, these have not always been successful.

2.67 Six of the Seven Pay Commissions have used the 15<sup>th</sup> ILC norms to estimate the minimum pay calculations. Earlier Pay Commissions struggled to comply with the adopted norms, and only the Sixth and Seventh Pay Commissions have been able to address both ILC and SC guidelines.

2.68 Meanwhile, different estimates of poverty lines have emerged as a result of varying proposed methodologies over time, which have based their calculations, inter alia, on the requirements of food and non-food components that ensure a household's well-being. Poverty lines are relevant benchmarks for setting minimum wages. Some calculations have included access to health and education, while others have focused on the consumption patterns of households in the Indian context.

2.69 The calorie intake of food requirements to estimate poverty lines and need-based minimum wages have been the subject of discussions. Non-food components have used less sophisticated or scientific methods of calculation. Clothing, housing, fuel and other miscellaneous items are usually based on consumption expenditure.

2.70 Household consumption expenditure is dependent on the number of family members and the definition of consumption units for the household. A "typical" household in the adopted norms consists of four family members and three consumption units.

2.71 India is a huge and diverse country where consumption expenditure on food and non-food items varies according to each region or state. Hence, consumption patterns and food availability are highly dependent upon both the geographical area and social behaviour.

2.72 The guiding principles for calculating the minimum wage in India, as established through milestone decisions taken by the ILC and the Supreme Court, are accepted standards to estimate the minimum wage. This Committee and its report will attempt to contrast the norms with evidence-based information, and to use an appropriate methodology to determine the need-based minimum wage.





## Chapter 3: ILO Conventions, Recommendations and Guidelines on Minimum Wages

3.1 The International Labour Organization (ILO) has played a significant role in setting guidelines for instituting and strengthening minimum wage systems, through extensive research and the use of international labour standards. In fact, minimum wage policy has been one of the most debated policies at the ILO. Since its foundation, ILO principles have sought to provide the world of work with a framework in which social justice might prevail, thereby ensuring long-lasting social peace. In this context, the focus has been on ensuring that those who work earn wages that allow them to maintain a standard of living in accordance with their geographical area and time in history. This principle has not always been achieved, and in some sectors and countries wages have been found to be unduly low, especially where there are no regulating framework or system of collective bargaining – which naturally impedes any wage increases to ensure better working conditions. For example, India's Minimum Wage Act, 1948, was established to address low-paid workers in specific scheduled employments where there was no mechanism in place to regulate wages. To some extent, this piece of wage legislation was also influenced by the first ILO Convention<sup>39</sup> on minimum wages and the Declaration of Philadelphia of 1944. Hence, the Minimum Wage Act aligned with the ILO Minimum Wage-Fixing Machinery Convention No. 26 (1928), and called for the government to ratify this binding instrument in 1955.

3.2 This chapter reviews the salient features of various ILO Conventions and Recommendations on minimum wages and draws upon useful insights that might be relevant for setting and adjusting minimum wages in the Indian context. It also provides a section devoted to an evidence-based approach for setting minimum wages, and refers to a number of elements in the *Minimum Wage Policy Guide* developed by the ILO (ILO, 2016).

### ILO Conventions and Recommendations

3.3 Historically, the concept of minimum wages has evolved from a policy tool to be used selectively in a few low-wage sectors to an instrument of much broader coverage. ILO Conventions have captured this evolution over time, through the enactment of its Convention No 26 and the Minimum Wage Fixing Convention, 1970 (No. 131). While the former focuses on creating and maintaining a machinery to fix minimum rates of wages in specific sectors where “no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low”, the latter calls for a coverage of “all groups of wage earners whose terms of employment are such that coverage would be appropriate”. Another important difference between Convention No. 131 and Convention No. 26 (including their accompanying Recommendations), is that the former refers to the establishment of a “system of minimum wages”; while the latter only refers to the concept of “minimum wage fixing machinery”.

<sup>39</sup> International labour standards are legal instruments drawn up by the ILO's constituents (governments, employers and workers) and setting out basic principles and rights at work. Conventions are legally binding international treaties that may be ratified by member States. Taken from: <https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang-en/index.htm>

### The ILO Minimum Wage Fixing Machinery Convention, 1928 (No. 26)

3.4 In 1928, a Convention and Recommendation<sup>40</sup> on fixing the minimum rates of wages were presented for adoption at the 11<sup>th</sup> Session of the International Labour Conference. They did not raise any major problems amongst the members of the Committee in charge and became the ILO Minimum Wage Fixing Convention (No. 26) and its accompanying Recommendation (No. 30). Convention No. 26 has been one of the ILO's most ratified instruments, and India ratified it in 1955. It is still in force at present. It only applies to the fixing of minimum wages in trades or “parts of trade” (manufacture and commerce), where no arrangements exist for the regulation of wages or if wages are exceptionally low. It provided the first framework to address the issue of minimum wages for the working poor.

3.5 In 1944, the *Declaration of Philadelphia* reaffirmed the fundamental principles on which the ILO stands. It emphasized that labour is not a commodity, and also recognized the ILO's obligation to achieve “policies in regard to wages and earnings, hours and other conditions of work calculated to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection”. The Declaration was unanimously adopted by the Conference; and some participating members, like Mr. Jamnadas Mehta (Workers' delegate from India), not only supported the Declaration but opined that there should be follow-up to oversee the results in the respective countries, noting that in India “We have no minimum wages” (ILO, 2017).

### Minimum Wage Fixing Machinery (Agriculture) Convention, 1951 (No. 99)

3.6 Until the second half of the twentieth century, the agriculture sector had no international labour standard relating to the setting of minimum wages. It was only in 1951 that Convention No. 99 provided the effective wage fixing machinery for the primary sector of the economy, providing protection to workers employed in agricultural undertakings and related occupations. Under this Convention, sector-specific categories of persons such as members of the farmer's family may be excluded from its application.

### Minimum Wage Fixing Convention, 1970 (No. 131)

3.7 In 1958, the Committee in charge of the General Survey on member States' national law and practice indicated that the concept of minimum wages had evolved since the adoption of Convention No. 26. Many countries were applying minimum wage systems of national coverage, with the objective of satisfying the basic needs of workers and their families. In 1968, a comprehensive report on minimum wage fixing machinery and related problems, with special reference to developing countries, was published. This report set the foundation of the adoption of the ILO Convention No. 131 – in which minimum wages are meant to be part of the development strategy for developing countries (Marinakakis, 2008).

3.8 The Minimum Wage Fixing Convention, 1971 (No. 131) encourages countries to establish a system of minimum wages, extending the coverage to all groups of wage earners whose terms of employment would be appropriate.

3.9 The criteria for setting the minimum wage is another relevant feature of the Convention, which are accompanied by a balanced set of indicators. The criteria should be viewed in the light of the following concepts:

<sup>40</sup> Recommendations are also legal instruments drawn up by the ILO's constituents, which serve as non-binding guidelines. A recommendation supplements the Convention by providing more detailed guidelines on how it could be applied, Ibid.



- a) *the needs of workers and their families*, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups, and;
- b) *the economic factors*, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

3.10 The role of the social partners is important in setting the minimum wage, as full consultation should take place on a basis of equality. Full consultation is a relevant concept and lies at the heart of ILO Convention No. 131. The representative organizations of employers and workers are both meant to be consulted for the establishment, operation and modification of the minimum wage machinery – and this includes both the fixing and adjustment of minimum wages<sup>41</sup>. In addition, independent persons representing the general interests of the country may be appointed to participate in the operation of fixing the minimum wage, but only after the process of full consultation<sup>42</sup>.

### The Minimum Wage Fixing Recommendation, 1970 (No. 135)

3.11 Recommendations are also relevant international labour standards that serve as non-binding guidelines. ILO Recommendation No. 135 calls for the use of timely information especially statistics and other data needed for the analytical studies of the relevant economic factors. The use of “surveys of national economic conditions, including trends in income per head, in productivity, and in employment, unemployment and underemployment, should be made to the extent that national resources permit”.

3.12 To extend the scope of the coverage of minimum wages to all groups of wage earners, the minimum wage system may use a single minimum wage rate or a differential minimum wage rate based on the cost of living in different regions or zones. Recommendation No. 135 establishes there is no prescription on the application of national versus sectoral minimum wages. The coverage may be achieved through national or sectoral systems, or a combination of both.

3.13 Moreover, Recommendation No. 135 indicates that a single minimum wage system should not impair the effects of decisions fixing higher minimum wage rates than the general rate, for particular groups of workers. Although the differential rates can be a part of the system to achieve higher minimum wages for specific groups, there are two important elements to consider – the minimum wage fixing should not interfere with or prejudice the exercise of free collective bargaining, and the system should be kept as simple as possible so it can be understood and enforced easily.

3.14 Minimum wage enforcement implies publicizing minimum wage provisions, employing a sufficient number of inspectors, and providing for adequate penalties and sanctions for the violation of the law. As minimum wage policy targets the most vulnerable workers, enforcement should focus on gaining the attention of these groups and on their characteristics. Recommendation No. 135 states that arrangements to reach workers who need protection should make use of their languages or dialects, and should be adapted when necessary to the needs of illiterate persons.

<sup>41</sup> Recommendation No. 135 states that consultation should involve the selection and application of the criteria for determining the level of minimum wages; the rate or rates of minimum wages to be fixed; the adjustment from time to time of these rates; the problems encountered in the enforcement of minimum wage legislation; and the collection of data and the carryout out of studies for the information of minimum wage fixing authorities.

<sup>42</sup> It is also after a process of consultation that independent persons based on their competence for representing the general interests of the country may be appointed to participate in the operation of the fixing machinery.

3.15 Adequate channels for claims are needed for workers to exercise their rights under minimum wage provisions. Employers' associations and workers' organizations can both play an important part in protecting workers against abuses.

### India's position on ILO Convention No. 131

3.16 As stated earlier, many elements of the minimum wage policy in India were influenced by the first ILO Minimum Wage Fixing Convention (No. 26) and the Declaration of Philadelphia of 1944. The enactment of the Minimum Wages Act, 1948, which was in alignment with Convention No. 26, also enabled India to ratify this Convention in 1955.

3.17 By December 2018, Convention No. 131, which entered into force on 29 April 1972, had been ratified by 54 member States. The last two countries to have ratified the Convention are Malaysia on June 7, 2016, and Bulgaria on March 20, 2018.

3.18 The Government of India, as part of its submission under the Article 19 report, has submitted that Convention No. 131 can only be ratified after necessary amendments have been made to the Minimum Wages Act 1948. This implies broadening the scope of coverage from scheduled employment to 'any employment', which is under consideration by the government<sup>43</sup> (GoI., 2013).

3.19 The Code on Wages Bill, introduced in Parliament on August 10 1917, aims – inter alia - at ensuring a statutory national minimum wage to all wage workers in the country. This new legislation provides the backstop for the ratification of Convention No. 131 and a broad consensus exists among the constituents to ratify Convention 131 once all wage workers are covered under the minimum wage system as reflected in the recommendations of the 44<sup>th</sup> session of the ILC in 2012.

### The evidence-based setting and adjustment of the minimum wage

3.20 As discussed earlier in the text, the elements to be considered when determining the level of minimum wages in accordance with Convention No. 131 should include the needs of workers and their families, and the economic factors in a country. Both these factors provide a balanced approach towards setting the appropriate minimum wage level. The ILO has also developed a *Minimum Wage Policy Guide* to address the effectiveness of the minimum wage, and it emphasizes that setting and adjusting the level should be a result of evidence-based social dialogue.

3.21 A balanced approach should ensure the effective protection of workers and the appropriate development of sustainable enterprises. This section will focus on the importance of an evidenced-based approach and the use of indicators fostering the discussion when setting and adjusting the level of minimum wages. It also discusses how the use of data and acceptable methodologies, through a process of consultation, can help narrow the range of possible solutions to set the appropriate level.

3.22 There is no universal method for setting a minimum wage. A process of full consultation, which takes into account the arguments and views of all the social partners to ensure an adequate minimum wage

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<sup>43</sup> In its Article 19 report to the Committee of Experts on the Application of Conventions and Recommendations (CEACR) on unratified ILO Convention No. 131 (February 2013), the Government of India stated that there was an amendment proposal to cover all categories of workers of "any employment" under the Minimum Wages Act, 1948.

fixation mechanism, provides the right environment for setting the minimum wage. In the Indian context, the Minimum Wages Act, 1948, establishes - under section 7 - that the appropriate government shall constitute minimum wage advisory boards. In minimum wage discussions, the social partners usually have conflicting short-term opinions and interests. An evidence-based approach provides the opportunity to validate some of the arguments that are raised in the discussion.

3.23 An evidence-based approach also implies that there should be clear criteria to guide discussions on the level of minimum wages, as well as reliable statistical indicators to support governments and the social partners in their deliberations (ILO, 2016, chapter 5). The entire process is highly technical in nature; the data should be reliable and from credible sources, while the methodology should be open, and publically available. Considering that different methodologies will have an effect on the overall results, it is important to carry out “a critical mass of studies using a variety of methodologies (ibid, chapter 7). With timely available information and acceptable methodologies, an evidence-based approach constitutes the basis for making decisions about setting and adjusting the minimum wage.

### Box 3.1

#### Importance of an evidence-based approach in setting a national and regional minimum wage

An evidence-based approach is not only important for setting a national minimum wage but also for establishing regional minimum wages. For instance, the Code on Wages Bill (box 2.1) has a provision which suggests that the national minimum wage may be defined as a single value for the whole country; or, if necessary, there could be differentiated minimum wages for different geographical areas or states to provide a national coverage by means of varying values. As we shall see in chapter 5, there is a vast diversity of schemes, with some countries having opted for a simple national minimum wage for the whole economy that covers all workers (Brazil, Russian Federation, and South Africa), while others have selected different minimum wages with respect to regions, sectors or occupational categories of workers (China, Viet Nam and Malaysia).

There is no doubt that choosing a single national minimum wage reduces the complexity of enforcement and ensures that there is no difference in the way workers are protected throughout the country; however, a national coverage that establishes various geographical or specific state minimum wages addresses the country’s heterogeneity and provides higher minimum wage levels for those areas where the cost of living is comparatively high. If the minimum wages are differentiated on the basis of geographical or state criteria, these criteria need to be clearly defined. They may be linked to the cost of living, economic development or labour market characteristics; consequently there must be an evidence-based approach to put forward for consideration by the constituents and regional stakeholders.

It is also important to mention that differentiated levels of minimum wages may affect the relative competitiveness of regions, or possibly trigger large internal migration flows leading to tensions (Belsar, 2012). Even if different regional or geographical floors have to be defined, it is important to set up mechanisms to avoid exacerbating disparities, thereby leading to conflicting interests between these areas and economic development.

3.24 The use of timely statistical information, formula and other indicators may not only stimulate the process of discussion amongst the social partners, but can also narrow down the antagonistic initial proposals to a range of possible solutions to set the minimum wage level. In other words, statistical indicators are only complementary to social dialogue that takes place in collective bargaining or tripartite discussions. And its main objective is to provide governments and the social partners with information about the range of values for which the benefits of a minimum wage are likely to exceed the costs (Belsar, 2012).

### Indicators for setting minimum wage levels

3.25 As discussed in the previous section at 3.9, ILO Convention No. 131 and Recommendation No. 135 both provide the criteria to take into account when addressing the needs of workers and their families, as well as economic factors. The criteria for setting the level of the minimum wage are not exhaustive, and their exact use and relative importance is left up to the member State's own interpretation.

3.26 Although it might sound like a cliché, if minimum wages are set too high, this will be counterproductive - i.e., propelling price inflation, hurting employment and burdening small and medium-sized enterprises. However, if set too low, minimum wages may drive the workers and their families into poverty.

3.27 Two basic indicators can provide a range of values at the outset to address the setting of the minimum wage level; a monetary value or benchmark that estimates the needs of workers and their families; and the ratio of the minimum wage to the average (mean and median) wage. These indicators may be calculated at the national level or at the regional or sectoral levels.

3.28 In addition to these indicators, it is important to foresee the implications of setting the minimum wage within the range of the proposed values by measuring the number of workers directly affected and the impact on the country's total wage bill.

#### *A monetary benchmark for the needs of workers and their families*

3.29 Absolute and relative benchmarks have been used to help estimate the needs of workers and their families. The former are usually established by estimating the average cost of basic food and other non-food items that ensure a decent lifestyle for a worker and his or her family (Anker, 2007). Non-food items include expenses like housing, health care, education, and participation in the social life of the community, as well as expenses related to unforeseen events or emergencies. They should be quantified cost-wise and then summed up.

3.30 Meanwhile, relative benchmarks or poverty lines are sometimes estimated as a proportion of median household income. Relative needs or poverty lines are mainly used in developed economies. Poverty lines or benchmarks are the most common indicators of living standards. Both international poverty lines<sup>44</sup> and national poverty lines are usually based on the "cost of basic needs" that meet adequate nutrition requirements (often 2,100 calories per person per day) and other non-food essentials such as clothing, shelter, and other items (Belsler, 2012). There is much debate in India about the poverty rates, which vary widely depending upon the method chosen to estimate poverty line levels and headcounts.

3.31 Therefore, it is important to identify acceptable poverty or living standard benchmarks to address the needs of workers and their families. This calculation is critical, as the minimum wage that is captured through this indicator will allow a typical household to escape poverty and lead a basic but decent life style (Anker, 2006). For this purpose, the costs of food and non-food items (usually a nutritious low-cost diet; basic housing or shelter; adequate clothing and footwear; other goods and services such as transport, health, education, miscellaneous) for a typical household<sup>45</sup> need to be defined. Other variables required for this estimation are the size of the household, the average number of household members who work full time as wage earners, and the consumption units with

<sup>44</sup>Calculated by the World Bank.

<sup>45</sup>In this case, the definition of a typical household may also wish to be defined using the particular characteristics of households with low incomes (hence those households most likely to benefit from the minimum wage). Household size may be defined in terms of "adult equivalent", which takes into account economies of scale (the fact that it costs less to feed and house a couple than to feed and house two single individuals) as well as the different needs of different individuals (particularly the lower consumption needs of children). (Belsler, 2012).

regards to the members of the family. The average household size will convert a per capita expenditure of food and non-food items into the total household expenditure. The consumption units of each member of the household are usually weighted and expressed at a different level of consumption between adults and children<sup>46</sup>.

3.32 Finally, the estimated cost of this household expenditure level that addresses the need of workers and their families to maintain a satisfactory standard of living is considered an average - taking into account the average number of full-time wage-earning workers in a household. This average represents the minimum remuneration or minimum aspirational wage that a full-time worker must earn to maintain the basic standard of living embodied in the stipulated household expenditure.

3.33 In India, there is a tacit agreement on the elements advanced by the 15<sup>th</sup> ILC and SC norms. Nevertheless, there are still debates on some of their definitions and values. Empirical evidence will provide the means to update data on the cost of living, adequate calorie intakes, consumption units and members of the household at the national or state level. An appropriate indicator should be available to update the changes in the cost of living over time. The Consumer Price Index (CPI) is the most commonly used indicator for this purpose.

3.34 For countries with regional minimum wages, monetary regional benchmarks should also be calculated to address the particular characteristics and costs of these regions.

#### *Minimum to average and median wages*

3.35 As discussed in the previous section, monetary benchmarks that take into consideration the needs of workers and their families may be calculated through well-designed baskets of goods and services capturing household consumption and expenditure. However, these indicators do not fully take into consideration other economic factors, the current general level of wages, or the levels of social security in the country. If setting minimum wages only takes into account one side of the equation related to the needs of workers and their families, some situations will still remain unaddressed.

3.36 To some extent, an indicator that can provide reasonable information relating to economic factors is the ratio of the minimum wage to the mean and/or to the median wage. Average wages not only capture a part of average productivity levels in a country or region; they can also provide information on economic factors (ILO, 2016). This means that average wages reflect to some extent the average performance of the economy - and to some extent its capacity to pay workers.

3.37 Despite this, average wages may not necessarily represent the average worker. Average wages may be calculated either through the use of the mean or median values; both provide useful information. But for countries with high inequality, the calculation of the average wage using the mean is likely to provide a result that is influenced by extreme values or outliers. In this case, it is better to use the median wage that constitutes a better point of reference to portray what an “average worker” earns in the country.

3.38 With regard to the ratio of the minimum wage to mean or median wages, this can be a referential indicator to understand how other countries have set their minimum wages with respect to their mean or median. For example, some studies show that the minimum wage to median wages has a higher ratio range (From 0.4 to 1.0) when estimated for developing countries compared to developed countries (From 0.35 to 0.6) (Rani, 2013).

<sup>46</sup> For example, the OECD considers the head of the household to have a consumption unit of 1.0, but if a second adult is identified its consumption is considered to be 0.5; the weight for persons under 18 years old is taken for a consumption of 0.3.

This is probably because the median wage workers are low-paid and constitute a larger share of the workforce in developing countries

3.39 The ratio of the minimum to the median wage<sup>47</sup> can be a useful indicator of the economic factors used to define the “counterbalance value” for the needs of workers and their families. Nevertheless, this indicator should be complemented with further analysis and the disaggregation of ratios for specific regions, sectors or types of workers that are most likely to be affected by the minimum wage increase.

3.40 Some countries have been able to use formulas to set and adjust minimum wages. Malaysia is one such example, where a formula is used to establish a base criteria to set the minimum wage. This will be explained in more detail in chapter 5.

#### *Other elements to take into account*

3.41 By using these two introductory indicators, country stakeholders may, in their discussions, view a range of values and evaluate what other types of data and studies can contribute to a sound evidence-based approach for setting the minimum wage.

3.42 In the case of evidence-based setting, an assessment of the country’s current data situation is required to identify variables or indicators that exist or are missing. Labour force surveys and household surveys are relevant, especially because they cover formal and informal sectors and everyone in the population (employed, unemployed, out of the labour force). However, the administrative data can sometimes provide updates and detailed information (tax or labour related data) to supplement the analysis.

3.43 Once the assessment of the data situation has been conducted, it is recommended that the authorities – before the date of implementation – establish a data collection mechanism to produce pre-and-post minimum wage policy data. It is also of the utmost importance to conduct studies to assess the expectation of different but possible minimum wage levels, with potential impacts. When simulating the effect of various scenarios of a minimum wage on employment, it is important to consider vulnerable groups and household income. The updated labour force surveys or household surveys can help in constructing the possible scenarios through various methodologies.

#### *Adjusting for price increases*

3.44 Once a minimum wage level has been set, provisions must be made to adjust its value from time to time according to the cost of living and economic factors. For this, the CPI is the most frequently used indicator for making adjustments in many countries around the world, including in India.

3.45 Inflation reduces the purchasing power of the minimum wage over time, bringing down its real value. The monitoring of CPI can identify the fluctuations in prices for a typical basket of goods and services consumed by workers and their families. Many countries have established this monitoring mechanism with statistical data, which are usually available on a monthly basis.

3.46 Some countries publish different CPIs, according to the sector, region or at national level. Although countries like Brazil have designed a CPI for the poorest households<sup>48</sup>. The use of the aforementioned

<sup>47</sup> When tabulating information to build a wage distribution it is important to derive at an hourly and monthly work wage, including full-time employees and part-time employees (Belser, 2012).

<sup>48</sup> Brazil uses the National Consumer Price Index (INPC - Índice Nacional de Preço ao Consumidor-IBGE) of the past twelve months for adjusting the minimum wage with regards to the cost of living. It measures the price change for those who are in the salary bracket up to 5

CPI may be more relevant to reflect an increase in food prices, which often grows at a faster rate than average prices. Food expenditure in poor households usually represents a larger share of the total income.

3.47 Minimum wage adjustments that take into account the cost of living are usually made on a regular basis. Most countries make these adjustments on a yearly basis, in order to at least maintain the purchasing power of workers and reduce the risk of deteriorating standards of living.

3.48 The adjustment of minimum wages through inflation only helps to maintain the purchasing power capacity of workers. For this reason, some countries revise minimum wages from time to time also taking into account economic factors such as labour productivity<sup>49</sup>, in order to share the fruits of progress through an increase in wages.

## Conclusions

3.49 To summarize the discussion in this chapter, it is quite clear that ILO Conventions have successfully set a guiding framework to help countries adopt a minimum wage system established on the basis of international labour standards. This report, which is aiming to propose a need-based methodology to fix minimum wages in India, may draw many insights from ILO Conventions. In particular, the Minimum Wage Fixing Convention, 1971 (No. 131) offers a broader scope of application compared to previous Conventions, limiting exclusions (if necessary) to a minimum. Convention No. 131 establishes a machinery to fix and adjust minimum wages from time to time, following the principle of full consultation with the social partners. Indeed, the social partners should participate in the design and operation of the system on an equal footing.

3.50 As regards for setting the minimum wage levels, Convention No. 131 calls for a balanced approach that takes into account both the needs of workers and their families, as well as economic factors. In the case of the former, Convention No. 131 neither specifies what food or non-food components should be taken into account, nor how these should be estimated. Nevertheless, many countries - as we shall see in chapter 5- have attempted to build a need-based basket of food and non-food items, according to their own national context, to match workers' basic needs. A need-based minimum wage has to be determined through socially agreeable standards of living within the national context. In India, as we reviewed in chapter 2, the framework of such a need-based approach was outlined by the 15<sup>th</sup> ILC (1957); the 1992 judgment of the SC for the determination of statutory minimum wages under the Minimum Wages Act, 1948; and the National Commission of Rural Labour (NCRL, 1991); for the fixation of non-statutory national floor level minimum wages.

3.51 As far as economic factors are concerned, the level of minimum wages should not affect employment or be a constraint for economic development. Although recent literature provides evidence that there is little or no cost on employment if minimum wages are set appropriately, the level of minimum wages should not be set too high so that they may unexpectedly impact labour costs significantly - especially those associated with labor-intensive industries. This in turn may trigger inflation, reduce exports and increase employment. However, if the level of wages is set too low, it is likely to put constraints on internal household consumption. Setting a minimum wage level therefore calls for a balanced approach when addressing the criteria contained in

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minimum wages. The INPC is used for salary adjustments, while the IPCA (Broader Consumer Price Index) adjusts the quarterly and half-yearly financial transactions and balance sheet of the open companies. In addition, it is the official inflation measure of the country.

<sup>49</sup> In setting and adjusting minimum wages, policy-makers frequently make reference to labour productivity. Labour productivity provides contextual information on the market value of what is produced by an average worker in a country, given existing levels of capital and technology. Average labour productivity in a country is usually measured as gross domestic product (GDP) per worker, or GDP per hour worked. Data on sector-level productivity is also useful when minimum wages are set at different levels in different industries.

Convention No. 131 and a process of full consultation. In the case of enforcement, it is recommended that appropriate measures be taken to ensure the effective application of minimum wages.

3.52 The ILO's *Minimum Wage Policy Guide* provides many insights into the ways of effectively addressing the fixation and adjustment of the minimum wage. It emphasizes that the process should be the result of evidence-based social dialogue. Indeed, an evidence-based approach makes it possible to contrast and validate some of the social partners' conflicting arguments. The use of data and acceptable methodologies contribute towards establishing the process of consultation and narrowing the range of possible solutions when defining the minimum wage level.

3.53 An evidence-based approach is not only important when setting minimum wages at the national level but also for different geographical areas or states, and it helps facilitate the process of consultation. As regards the level of the minimum wage, the methodology used to estimate a need-based approach, based on the 15<sup>th</sup> ILC Session and the SC judgment, should make it possible to contrast the norms with evidence-based empirical information, and if necessary question its assumptions.

3.54 In order to guarantee a balanced approach – and in accordance with the criteria contained in Convention No. 31 – it is necessary to take into account economic factors to make sure that the level takes into consideration the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment in the country.

3.55 Studies and impact assessments may also contribute towards addressing economic factors. One simple but important indicator that some countries use to address economic factors is the ratio of the minimum to median or mean wages. It is also possible to some extent - through average or mean wages - to capture productivity or the capacity of payment in a given country. The use of these and other statistical analyses can provide insightful guidance to further the discussion.

3.56 Once a minimum wage level has been set, provisions should be made to adjust its value from time to time in accordance with the cost of living and economic factors.



## Chapter 4: Determining the Methodology for Fixing the National Minimum Wage

4.1 This chapter presents a methodology for fixing a need-based national minimum wage (NMW), and estimates the base values of the NMW on the basis of available evidence. The proposed methods follow the broad framework of the recommendations made by the 15<sup>th</sup> Session of the Indian Labour Conference (ILC), 1957, and the judgment delivered later - by the Supreme Court (SC) of India in 1992, as discussed in detail in chapter 2. As mentioned in chapter 2, the ILC 1957 recommended that minimum wages in India should cover the food expenditure of workers' families, and be adequate to preserve workers' efficiency. In addition, the ILC 1957 also recommended an allowance to cover, to some extent, the clothing, house rent, fuel, lighting and other miscellaneous requirements of workers' families (GoI., 2016). In 1992, the SC judgment ruled that children's education, medical requirements, minimum recreation, including festivals/ceremonies and contingencies for old age and marriage, should account for 25 per cent of the total minimum wage. Furthermore, the National Commission on Rural Labour (NCRL), constituted in 1991, proposed a uniform National Floor Level Minimum Wage (NFLMW) by anchoring the methods of determining the NFLMW on the prevalent rural poverty line. This led to a very modest level of NFLMW (₹ 35/- per day) announced by the Government of India in the year 1996, which was later gradually scaled up to ₹ 176 per day as of 1 June 2017 by adjusting the base wage with the cost of living.

4.2 The present Expert Committee used these recommendations as its guiding principles. However, when reviewing the methods of fixing minimum wages under the Minimum Wages Act, 1948, and the NFLMW, it noted various limitations in the methodology, which raised a number of issues. For instance, the Committee raised concerns relating to the composition of food basket for meeting the required calorie levels. It also questioned why the food basket used to determine the minimum wage was constructed on a normative basis by taking the "calorie-only" approach. Similarly, it noted that the composition of the non-food basket was not comprehensive and was also linked to the level of food consumption expenditure. A number of questions raised in the past about the NFLMW were still relevant and important. For instance, it wondered to what extent the NFLMW could meet the needs of urban workers given the high urban cost of living.

4.3 In the light of the latest available evidence, the Expert Committee has modified and updated the existing methodology by incorporating changes in the demographic structure (size of workers' families and consumption units), nutritional requirements, the composition of food items and the relative importance of non-food consumption items in the consumption basket of households. The following sections present the main data sources used in the analysis, outline key outcome indicators, and propose methods of analysis for determining national as well as regional minimum wages for workers – irrespective of sectors, skills, occupations and rural-urban locations.

### Data sources

4.4 The analysis drew upon various official data sources to produce the latest evidence on a range of indicators related to: food and non-food consumption patterns; the unit price of various consumption items; the demographic structure; average nutritional intakes; and the nutritional and other requirements of Indian households in general, and workers' families in particular. The main data sources used and the outcome indicators analysed are as follows:

### Consumer expenditure survey

4.5 The Consumer Expenditure Survey (CES) (Schedule Type 1) of the 68<sup>th</sup> round of the National Sample Survey Office (NSSO) 2011-12 (henceforth referred to as CES 2011-12) was the main data source for estimating the per consumption unit daily/monthly consumption expenditure on different food and non-food items. The sample size of the survey consisted of 1,01,662 households covering rural (59,695 households) and urban (41,968 households) areas. The Schedule Type 1 of the CES 2011-12 collected information on the quantity and value of household consumption of food items in the sample households, with a reference period of the last month for each household in the sample. For collecting household expenditure on non-food items, the survey used a mixed recall period (MRP) with a reference of the last one year for five non-food items, namely clothing and bedding, footwear, education, institutional healthcare and durable goods, and one month for the rest of the non-food items (NSSO, 2014a).

### Employment and unemployment survey

4.6 The Employment and Unemployment Survey (EUS) of the 68<sup>th</sup> round of the NSSO, 2011-12 (henceforth referred to as EUS 2011-12) was used for estimating the number of casual and regular wage workers. The sample size of the survey was 101,724 households, covering rural and urban areas (59,700 and 42,024 households, respectively). The survey also provided information on the types of households on the basis of their main sources of livelihood - e.g. self-employment in agriculture and non-agriculture, casual and regular wage earnings and others (NSSO, 2014b). The analysis used the EUS 2011-12 for estimating the number of casual and regular wage workers per households among casual and other manual labour households, and across all households taken together in the survey. In addition, the survey data was also utilized for calculating the average number of wage workers and average days of employment per worker, as well as for generating relevant indicators related to the labour market situation required for state rankings.

### Nutritional values of food items

4.7 Reference was made to the *Nutritive values of Indian foods* (Gopalan et al., 1989), later updated by Narasinga et al. (1991) to convert the quantity of different food items consumed by households, as reported in the NSSO survey, into values of nutritional intakes. These values are also reported in the NSSO report on *Nutritional intake in India, 2011-12* (NSSO, 2014c). The NSSO 2014 report provides the nutritional values of 109 food items including *pan*, ingredients of *pan*, toddy, country liquor, beer and foreign/ refined liquor or wine. After merging a few items of consumption across rural and urban areas reported separately in the nutritional chart - and excluding *pan*, ingredients of *pan*, toddy, country liquor, beer and foreign/ refined liquor or wine - the analysis was based on 103 food items for estimating the nutritional intake by households.

### Nutritional requirements and consumption units

4.8 Information on the nutritional requirements of the Indian population was collated from two sources. First, the Committee used recommendations made by the Indian Council of Medical Research (ICMR, 2010) on the calorie, protein and fats requirements for individuals in different age groups, and according to gender and type of occupation. It also consulted the summarized nutritional requirements chart reported in the Rangarajan Committee report on poverty measurement (GoI., 2014). Second, since the nutritional requirements of the population vary by age group, gender and occupation, and type of food, and the consumption data from the NSSO is available only at the household level and not at the individual consumption level, the Committee used the age-gender composition of each household in the survey to estimate the consumption units of food and

nutrient intakes. A consumption unit may be defined as a unit that indicates the energy requirements of a group of persons (say in a family) of different sexes and ages. Taking the calorie requirements of an average male in the 20-39 year age group doing sedentary work as a norm, the average calorie requirements of males and females in the other age groups are expressed as a ratio to this norm (see Appendix table 4.1; also for more on this see NSSO, 2014c, p. 8). Since the age-sex composition of the households varies for different types of households - for instance, across households deriving their livelihood from wage labour and self-employment - we estimated the average household size and consumption units for different types of households. Consequently, table 4.1 presents the average household size and consumption unit as estimated from the CES 2011-12. We also estimated the household size and consumption unit from the EUS 2011-12, and found the estimates from the two surveys very close.

**Table 4.1: Average household size and consumption units across different types of households, 2011-12**

Type of households*	Household size			Consumption unit		
	Rural	Urban	All-India	Rural	Urban	All-India
Self-employed in agriculture	5.08	--	5.08	4.12	--	4.12
Self-employed in non-agriculture	4.91	3.86	4.34	4.00	3.91	3.96
Regular wage work	4.41	4.35	4.39	3.60	3.18	3.31
Agricultural labour	4.24	--	4.24	3.45	--	3.45
Other manual casual labour	4.65	4.35	4.56	3.78	3.56	3.71
All households with any wage work**	4.39	4.35	4.39	3.57	3.56	3.57
Others	2.54	2.19	2.38	1.91	1.72	1.82
<b>All households</b>	<b>4.60</b>	<b>4.05</b>	<b>4.43</b>	<b>3.73</b>	<b>3.31</b>	<b>3.60</b>

**Notes:** \* The NSSO survey classifies all surveyed households on the basis of their main source of livelihood separately for rural and urban areas; \*\* All households with any wage work includes households whose main sources of livelihoods are regular wage work, agricultural labour and other manual casual labour.

4.9 According to the CES 2011-12, the estimated average household size is 4.4 persons (4.6 in rural and 4 in urban areas), which translates into average consumption units of 3.6 (3.7 in rural and 3.3 in urban areas) per household for all India. A roughly similar figure is reached for those households that derive their livelihood from any wage work, including those deriving their main livelihoods from agricultural labour, other manual casual wage work and/or regular wage work

## Estimation procedure and results

4.10 According to the ILC 1957 and the SC 1992, minimum wages should cover the food and non-food expenditure needs of a worker's family to ensure that the food basket provides at least 2,700 calories per adult (or per consumption unit) per day, and that the non-food basket ensures a reasonable standard of living. This essentially implies that minimum wages should be equal to food expenditure complying with minimum nutritional norms - plus a reasonable level of non-food expenditure. The following sections of this chapter will put forward the Committee's proposals on methods to estimate food and non-food expenditure, and determine the level of NMW on the basis of the proposed methodology.

## Nutritional requirements and expenditure on food

4.11 In the light of new evidence, two major updates in the existing methods for estimating food expenditure are proposed. These updates are related to: i) the changing nutritional requirements of the Indian population; and ii) the changing composition of the food basket for deriving certain levels of nutrients.

### *Nutritional requirements*

4.12 There is a growing literature (for instance, Deaton and Dreze, 2009), which indicates that the Indian population's calorie requirements have, in general, declined over the years. This may be on account of changes in the consumption pattern (a preference for more diversified food) in favour of non-cereal food items such as pulses, vegetables, milk and milk products, eggs and meat (NSSO, 2014c). Appendix figure 4.1 presents trends in the consumption of four different food items for the periods 1993-4 to 2011-12. It shows that the per capita monthly consumption of cereals in rural areas declined from 13.4 kg. in the period 1993-94 to 11.2 kg. in the period 2011-12; the respective figures for the urban areas were 10.7 kg. and 9.3 kg. However, during the same time span, the consumption of milk and milk products, fish and meat and vegetables increased.

4.13 Another reason for the declining need of calorie consumption over the years – the reduced drudgery of work - has been widely discussed in the literature (Rao, 2000, 2005; Deaton and Dreze, 2009; GoI., 2014). This is mainly on account of the increased mechanization of domestic activities<sup>50</sup> and agricultural works, improved transportation facilities and access to safe drinking water, and the increased ownership of durable goods in households. In short, the proportion of the population engaged in heavy work has declined over time, while that of moderate or sedentary workers has increased. This essentially implies that although an adult male worker engaged in heavy work may require a high calorie intake (an average of 3,490 K/cal. per person per day in accordance with the ICMR recommendation), the average calorie requirement for the general population (weighted by age-sex-occupation) works out to be approximately 2,100 K/cal. per person per day (GoI., 2014). The decline in the average calorie requirements over time basically implies that a lower proportion of adult workers are now engaged in heavy work compared to earlier years.

4.14 Given the current demographic structure of workers' families and the proportion of the population engaged in different types of works as estimated from the EUS 2011-12, the average calorie requirements for these families are estimated to be 2,400K/cal. per adult person per day. Thus, given the reduced calorie requirements of the Indian population in general, and workers' families in particular, the present method proposes a lower calorie norm of 2,400 K/cal. per adult person per day, compared to the 2,700 K/cal. per adult person per day proposed in the ILC 1957 recommendation for estimating food expenditure (table 4.2).

4.15 However, we propose a 'balanced diet' approach by including minimum requirements of proteins and fats along with calories. Although the balanced diet concept includes many other micronutrients such as iron, vitamins, calcium and folic acid (ICMR, 2010), for the sake of simplicity the Expert Committee only considers three major nutrients – calories, proteins and fats. Following similar methods as in the case of calorie requirements, the average requirements for proteins and fats for workers' families work out to be approximately 50 grams and 30 grams per adult person per day, respectively (table 4.2).

<sup>50</sup> Rao (2000, 2005) notes that rural women used to spend much energy on grinding flour at home, but that today this task is typically done outside the home with energized devices such as electric mills.

**Table 4.2: Average calorie, protein and fats requirements of households with casual and regular wage earnings as their main source of livelihood.**

Age –Sex – Occupation* Composition		Population (%)	Nutrient requirements per day per person						
			Calorie K/cal	Protein Grams	Fat grams	Weighted nutrient requirements**			
						Calorie	Protein	Fat	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)		
Less than 1		1.51	585	10.2	19	8.8	0.2	0.3	
1-3		5.76	1060	16.7	27	61.1	1.0	1.6	
4-6		5.94	1350	20.1	25	80.2	1.2	1.5	
7-9		6.5	1690	29.5	30	109.9	1.9	2.0	
10-12		6	2100	40	35	126.0	2.4	2.1	
13-14	Male	2.37	2750	54.3	45	65.2	1.3	1.1	
	Female	2.1	2330	51.9	40	48.9	1.1	0.8	
15-59	Male	Sedentary	0.18	2320	60	25	4.2	0.11	0.05
		Moderate	8.5	2730	60	30	232.1	5.1	2.6
		Heavy	21.95	3490	60	40	766.1	13.2	8.8
		Non-worker	4.73	2320	60	25	109.7	2.8	1.2
	Female	Sedentary	0.11	1900	55	20	2.1	0.1	0.02
		Moderate	2.1	2230	55	25	46.8	1.2	0.5
		Heavy	8.93	2850	55	30	254.5	4.9	2.7
Non-worker		17.08	1900	55	20	324.5	9.4	3.4	
60 & above	Male	3.05	2320	60	25	70.8	1.8	0.8	
60 & above	Female	3.2	1900	55	20	60.8	1.8	0.6	
<b>All</b>		<b>100</b>				<b>2371.6</b>	<b>49.3</b>	<b>29.9</b>	

**Source:** Col. 2 based on EUS 2011-12, Cols. 3, 4 and 5 based on ICMR 2010, and Cols. 6, 7 and 8 based on the Committee's estimate.

**Note:** \* The types of work have been classified into sedentary, moderate and heavy, using the National Classification of Occupations (NCO) 2004 codes at the 3-digit level. The Committee has categorized sedentary workers as those engaged in occupations with codes between 111 and 246; moderate between 311 and 644; and heavy between 811 and 933. \*\* The weighted average has been estimated by multiplying each nutrient requirement per person per day by the population share in each category.

4.16 Furthermore, a 10 per cent margin in the calorie consumption may be allowed instead of fixing the same as a single point unit. Literature reflects that a lower or higher intake of calorie consumption in the margin of 10 per cent on a daily basis is not likely to affect a person's working capacity (Sukhatme, 1981; GoI., 2014). This allows a variation in the calorie requirements in the range of 2,160-2640 K/cal. per day per adult person. Allowing a 10 per cent margin in calorie intake also helped capture a larger number of households in the CES 2011-12 sample for the purpose of estimating a 'balanced diet' consumption basket, compared to fixing the calorie norm at 2,400 K/cal as a single point.

*Composition of the food basket*

4.17 The recommended norm of 2,400 K/cal. may be obtained with various combinations of food items, which have a profound impact on the total food expenditure. For instance, 2,400 calories may be acquired with rice, wheat or sugar, with a much lower expenditure compared to food items like milk, meat and vegetables for the same nutrients content. One of the most relevant issue to consider would be to identify food items that should constitute the consumption basket of households with the minimum nutritional requirements. The best way to address this issue is to make the proposed food basket “palatable”, following the approach of Darmon et al. (2002a; 2002b). Hence, an additional constraint of “palatability” was applied, drawing evidence from the current consumption pattern (types of food items being currently consumed) of the households that meet the balanced diet requirements.

**Table 4.3: The per consumption unit monthly consumption of different food items by households meeting the nutritional norms of calories, protein and fats, 2011-12**

Food items*	2,100 calorie level		2,400 calorie level		2,700 calorie level	
	Quantity (Kg.)	Value (₹)	Quantity (Kg.)	Value (₹)	Quantity (Kg.)	Value (₹)
Rice and rice products	6.57	136.33	6.96	144.92	7.35	153.25
Wheat and wheat products	5.81	82.03	6.35	89.60	6.91	97.07
Other cereals	0.80	13.10	0.83	13.43	0.90	14.23
Pulses	1.03	57.72	1.12	62.68	1.22	68.28
Milk and milk products (litres)	6.44	175.62	7.62	207.76	9.11	248.58
Sugar and related products	1.03	33.86	1.13	37.48	1.26	41.83
Oil (litres)	0.86	68.48	0.92	73.87	0.98	78.57
Eggs (numbers)	1.76	6.13	1.87	6.55	1.97	6.95
Meat and fish	0.48	57.56	0.51	61.22	0.55	66.79
Vegetables	6.79	84.53	7.39	90.91	8.11	98.43
Fresh fruits	4.82	29.73	5.60	35.12	6.50	41.62
Dry fruits	0.10	9.80	0.11	12.26	0.13	14.82
Spices	0.34	39.15	0.37	42.26	0.39	45.75
Other food **		111.23		142.21		193.42
<b>Total</b>		<b>905.28</b>		<b>1,020.25</b>		<b>1,169.61</b>

**Notes:** \* Kg. unless otherwise specified; \*\* for all other food items see Appendix table 4.2

4.18 Using the three nutritional constraints (calories  $\pm$  10 per cent of 2,400, proteins  $\geq$  50 and fats  $\geq$  30) and an additional constraint of “palatability”, a nationally representative consumption basket, and mean per consumption unit consumption expenditure by households, were estimated at the all-India level. Using the CES 2011-12, we also estimated the quantity consumed and the related unit price for each food item in the consumption basket. As an alternative, additional analyses were undertaken for a higher level of calorie consumption, corresponding to the ILC 1957 recommendation ( $\pm$  10 per cent of 2,700 calories, proteins  $\geq$  50 and fats  $\geq$  30 per adult person per day) and a lower level ( $\pm$  10 per cent of 2,100 calories, proteins  $\geq$  50 and fats  $\geq$  30)

corresponding to the poverty level (GoI., 2014) threshold of nutrient requirements. The application of the constraints reduced the household sample size to 28,570 at the 2,100 calorie level, 26,575 at the 2,400 calorie level, and 19,508 at the 2,700 calorie level. However, even in the reduced sample, all the Indian states and UTs were represented (Appendix figure 4.2). The average per consumption unit expenditure on different food items in the sample households meeting balanced diet criteria was estimated using the CES 2011-12 survey. The per consumption unit monthly expenditure on food with a balanced diet approach is estimated to be ₹ 1,020.25 at the 2,400 K/cal. level. Table 4.3 presents the consumption pattern of these households at the three different calorie levels of a balanced diet. Appendix table 4.2 lists more detailed types of food items consumed. Appendix figure 4.3 presents the proportional contribution of different food items by broad categories in per consumption unit monthly values of food consumption.

4.19 CES 2011-12 data also capture the government subsidies available through the public distribution system (PDS) on a few food items such as rice, wheat and sugar. Where these exist, the expenditure of households on these food items is significantly lower than that on non-PDS food items, mainly because PDS prices are considerably lower than non-PDS prices for these three food items (Appendix figure 4.4). It is the Expert Committee's considered view that the benefits of such subsidies should not be passed on to the employers and that they should remain with the poor households. Hence, for arriving at the final average per consumption unit values of food expenditure, we neutralized the amount of the subsidy by replacing the subsidized price of those items with the implicit price of 'other rice', which is essentially the non-PDS unit value as estimated from the CES 2011-12.

4.20 As a robustness check, a comparison was made between the retail consumer price data (Consumer Price for Industrial Workers - CPI-IW) for the year 2011-12 and the unit values (implicit prices) estimate from the CES 2011-12. This revealed that the retail consumer prices were higher compared to the CES implicit prices (in the range of 5-10 per cent for most of the items except rice and rice products, other cereals, meat and fish, and vegetables). While the difference between retail consumer prices and implicit prices are high for food items like milk and milk products, fish and meat, fruits and a few vegetable items, this difference is in the range of 3-5 per cent for most food items in the cereals category (table 4.4). We finally used implicit prices from CES 2011-12 for estimating food expenditure of households.

**Table 4.4: Unit values from the Consumer Expenditure Survey (CES) and CPI-IW for different food items, 2011-12**

Food items	CES 2011-12 Prices	CPI-IW	Difference (in %)
Rice and rice products (per kg.)	20.9	24.9	19
Wheat and wheat products (per kg.)	19.9	19.6	-2
Other cereals (per kg.)	15.9	24.1	52
Pulses (per kg.)	56.5	52.2	-8
Milk and milk products (litre)	28.3	27.7	-2
Sugar (per kg.)	28.2	30.9	10
Edible oil (per litre)	80.8	84.3	4
Meat and fish (per kg.)	121	162.3	34
Eggs (for one item)	3.5	3.3	-6
Vegetables (per kg.)	14.3	19.4	36
Fruits and dry fruits (per 100 gm.)	8.8	7.9	-10

## Non-food expenditure

4.21 The second component of the total consumption expenditure of households is non-food expenditure - which is important for fixing the minimum wage as recommended by the ILC 1957 and the SC judgement 1992. Estimating non-food expenditure in determining minimum wages has hitherto been normative. For instance, the ILC 1957 recommended three main components of non-food: (i) a clothing requirement of 72 yards per annum for an average working family of four, (ii) a house rent corresponding to the minimum area provided for under the Government's Industrial Housing Scheme; and (iii) 20 per cent of the total minimum wage for fuel, lighting and other miscellaneous items. Later in 1992, the SC instructed that a few additional components be added, namely, children's education, medical requirements, minimum recreation including festivals/ceremonies and contingencies for old age, marriages etc., in such a way that these items together should constitute 25 per cent of the total minimum wage.

4.22 However, the ILC's 1957 recommendations do not contain a precise methodology for estimating the 72 yards of clothing. The SC judgment on expenditure on education, medical requirements and minimum recreation, including festivals/ceremonies and contingencies for old age, marriages etc., is endogenous to the minimum wage levels (expenditure being 25 per cent of the minimum wage).

4.23 The Expert Committee proposes that estimating non-food expenditure be included in the total household consumption expenditure basket by delinking these estimates from minimum wage levels and anchoring them on the observed consumption behaviour of households. The Committee proposes that the average required expenditure on non-food items be estimated on similar lines to the broad framework of the methods suggested by the Expert Group to Review the Methodology for Measurement of Poverty (Rangarajan) (GoI., 2014).

4.24 The Expert Committee suggests that non-food expenditure be divided into two major groups: i) essential non-food items; and ii) other non-food items. Following the ILC 1957 and the SC 1992 recommendations, the present Committee is of the opinion that clothing, fuel and light, house rent, education, medical expenses, footwear, and transport (or conveyance) should be included in the essential non-food item group. The second group would cover all the other non-food items of usual household consumption, such as recreation, festivals/ceremonies and provision for marriage expenditure, as reported in the CES 2011-12<sup>51</sup>. Following the methodology of the Rangarajan Expert Committee Report (2014), the average monthly expenditure of the median class (50<sup>th</sup> percentile) of the consumption distribution may be used as the representative non-food expenditure for essential non-food items. For the second group – other non-food items – the sixth fractile (25-30 per cent) can represent the reasonable average expenditure on those non-food items<sup>52</sup>. Accordingly, the total non-food expenditure is obtained by adding the two groups' expenditure together.

4.25 Using the adult equivalence scale discussed earlier in the text (paragraph 4.8), we estimated the mean per consumption unit total monthly non-food consumption expenditure disaggregated by 'essential' and 'other' non-food items for 20 equal fractile groups using the CES 2011-12. The mean per consumption unit monthly expenditure on essential non-food items for the median class was ₹ 591, and the value for the sixth

<sup>51</sup> Other non-food items of usual consumption include: entertainment, durable goods, toilet articles, other household consumables, consumer services excluding conveyance, and consumer taxes.

<sup>52</sup> The Rangarajan Expert Committee (2014) considered the sixth fractile for other non-food items, mainly because the poverty-level calories, proteins and fats intake norms were met by households in the sixth fractile group.



fractile for other non-food items was ₹ 175 in the period 2011-12 (table 4.5). More detailed items of consumption expenditure by disaggregated non-food items are presented in Appendix table 4.3.

**Table 4.5: Average per consumption unit monthly values (₹) of non-food consumption expenditure items by fractile groups, 2011-12**

Fractile groups*	Essential**	Others***	Total non-food
Below 5%	208	79	287
5% to 10%	270	107	377
10% to 15%	311	127	438
15% to 20%	351	148	499
20% to 25%	386	159	545
25% to 30%	420	<u>175</u>	595
30% to 35%	463	194	657
35% to 40%	498	212	710
40% to 45%	548	225	773
45% to 50%	<u>591</u>	249	840
50% to 55%	645	268	913
55% to 60%	685	294	979
60% to 65%	760	320	1,080
65% to 70%	833	367	1,200
70% to 75%	918	401	1,319
75% to 80%	1,021	451	1,472
80% to 85%	1,189	531	1,720
85% to 90%	1,459	672	2,131
90% to 95%	1,992	959	2,951
95% to 100%	3,534	2,151	5,685
<b>All</b>	<b>748</b>	<b>345</b>	<b>1,093</b>

**Notes:** \* Fractile groups are 20 equal groups of the distribution based on the monthly per person total consumption expenditure at the all-India level; \*\* includes clothing, fuel and light, house rent, education, medical expenses, footwear, and transport (or conveyance); \*\*\* entertainment, durable goods, toilet articles, other household consumables, consumer services excluding conveyance, and consumer taxes.

### Estimation of the national minimum wage

4.26 For estimating the national minimum wage (NMW), the food and non-food expenditure - as calculated in the foregoing sections - are added together. They also represent the total minimum consumption expenditure required by a worker's family to live a healthy life and maintain work efficiency. Considering an average family size of 3.6 consumption units per family, the per consumption unit consumption expenditure is multiplied by 3.6 to arrive at the total consumption expenditure required for a worker's family.

4.27 Furthermore, since workers cannot be expected to work 30 days a month, they need to earn their total monthly consumption expenditure in 26 days a month – considering they take one day off a week. The final

daily minimum wage can be estimated by dividing the monthly consumption expenditure per household by 26 days.

4.28 The average number of wage workers<sup>53</sup> (regular and casual taken together but excluding the self-employed) per household, estimated from EUS 2011-12, works out to be 0.76 for all types of households and 1.3 for households deriving their main livelihood from wage work. However, households depending on casual wage work for their main source of livelihood do not have access to 26 days of employment in a month. The average days of employment per worker (considering the usual principal and subsidiary statuses together) for the casual labour households, as estimated from EUS 2011-12, works out to be approximately 20 days in a month. This essentially implies an average of 1.03 wage earners employed for 26 days per households engaged in casual work. We have considered an average of one wage earner per household for 3.6 consumption units for estimating the NMW.

4.29 Finally, since the total minimum consumption expenditure in the foregoing sections was derived on the basis of the CES 2011-12, these estimates account for the 2011-12 level of NMW. The NMW at 2011-12 prices can be adjusted for the year 2018 (July) by using the national average of the CPI-IW. Alternatively, consumer price indices available through the Central Statistical Organization (CSO) may also be used for the price adjustments. Table 4.6 summarizes the estimation of the single value of the NMW, taking as a reference the 2,400 calorie level of a balanced diet and related non-food expenditure.

**Table 4.6: Estimation of the daily national minimum wage (NMW) (in ₹)**

The monthly per consumption unit (MPCU) expenditure		Value (in ₹)
Food expenditure (MPCU)		1,020.2
Non-food expenditure (MPCU)	Essential	591
	Other	175
<b>Total expenditure (MPCU)</b>		<b>1,785.9</b>

↓

<b>Total monthly household expenditure (MPCU x 3.6 consumption units) – January 2012</b>	<b>6,429.24</b>
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↓

<b>Total monthly household expenditure Updated July 2018</b>	<b>9,772.4</b>
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↓

<b>Daily wage to cover 26 days (Monthly household expenditure / 26)</b>	<b>375.9</b>
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4.30 Using the methods mentioned in the foregoing paragraphs, the NMW works out to be ₹ 375.9 per day at July 2018 prices. By approximately rounding off the numbers, the Expert Committee recommends the

<sup>53</sup> On the basis of the Usual Principal and Subsidiary Status (UPSS).

NMW to be ₹ 375 per day or ₹ 9,750 per month for all wage workers, irrespective of sectors, skills, occupations and the rural-urban location<sup>54</sup>.

4.31 We also estimated total consumption expenditure and the estimated per day wage rates at the two other balanced diet levels: i.e., a daily per consumption unit intake of (i) 2,100 K/cal.; and (ii) 2,700 K/cal. Along with calories, the minimum required intakes of protein and fats are included in these two scenarios. The estimated wages for these two calorie levels, along with other underlying indicators required for calculating daily minimum wages, are presented in Appendix table 4.4. The wage rates for those consuming a balanced diet of 2,100 K/cal. and 2,700 K/cal. for 3.6 consumption units are estimated to be ₹ 352 per day, and ₹ 407 per day, respectively. The estimation of the daily wage rates for those consuming 2,100 K/cal. and 2,700 K/cal. at the three consumption unit levels are estimated to be ₹ 293 per day and ₹ 339 per day, respectively (Appendix table 4.5). The estimated daily wages at the three different levels of calorie intakes, along with a balanced diet at 3.6 and 3 consumption units, are summarized in Appendix figure 4.5.

4.32 Alternative estimates are also presented using retail consumer price data instead of the implicit prices from the CES 2011-12 – which provide marginally higher estimates of wage rates. At the 2,400 K/cal. and 2,700 K/cal. levels, the estimates, are ₹ 400 per day and ₹ 443 per day, respectively, for 3.6 consumer units per family (see Appendix table 4.6), and ₹ 334 per day and ₹ 369 per day, respectively, for three consumer units per family (see Appendix table 4.7).

4.33 The daily minimum wages estimated in this manner only represent a base level minimum wage required for healthy living and maintaining a worker's work efficiency. Such a minimum wage is in no way representative of the workers' skill levels and the employer's capacity to pay. It is just enough to meet the basic requirements of workers and their families and can be made statutory.

### Estimation of the national minimum wage at the regional level

4.34 As discussed in Chapter 2, the data on actual prevailing wage rates across different states show large variations. The wage rates are significantly higher in states such as Delhi, Kerala, Tamil Nadu, Punjab, and Haryana, compared to those in states like Assam, Bihar, Odisha, Jharkhand, and Chhattisgarh (ILO, 2018). It is quite possible that the actual prevailing wage rates in the first group of states are already far higher than the single value of NMW estimated in the preceding section. In contrast, if a few poorer states are not in a position to implement the NMW average currently, this situation may be addressed by estimating different values of the NMW at regional levels – groups of states – representing different socio-economic characteristics along with geographical contiguity. Moreover, the first NCL (1969), and the ILC (1985) had also advocated regional minimum wages, and the Code on Wages Bill, 2017, also leaves the option open to fix the NMW at regional levels. As we shall see in Chapter 5, countries such as China, Viet Nam and Malaysia set their minimum wages at regional level in accordance with local realities.

4.35 The basic framework for estimating the NMW at the regional level remains the same as that of the estimation of NMW at the national level - with slight variations. As far as the food basket is concerned, the Expert Committee is of the opinion that the national consumption basket should be retained as a standard yardstick for each of the regions, instead of estimating a balanced diet consumption basket for each of the regions

<sup>54</sup> In accordance with the ILC 1957 recommendation, alternative estimates are also derived for three consumption units per family. The estimates for the daily and monthly minimum wage rates for 2,400 calorie levels of a balanced diet and three consumption unit is ₹ 313 and ₹ 8,144, respectively, at July 2018 prices.

separately. This would avoid bias in the consumption pattern, which emerges from the level of poverty in any region. Similarly, the all-India average of 3.6 consumption units per household is also retained at the regional level, so that the states at an advanced demographic transition stage should not be disadvantaged. However, the regional-level average unit prices specific to each region were used to arrive at the total food consumption expenditure for each region. For the non-food category, the Committee followed similar principles to those explained in the section on the NMW: i.e., the median class expenditure for the ‘essential non-food items’ and the 6<sup>th</sup> fractile expenditure for the ‘other non-food items’ were estimated separately for each of the regions.

4.36 The Committee grouped all the Indian states and UTs into five regions with common characteristics. The states were ranked using a few representative common indicators and gathered together in different regional groupings. These indicators must be seen as a means of initiating the discussion and stimulating interest (as other elements could be incorporated) to better determine socio-economic and geographical characteristics. Nevertheless, the present exercise considers key indicators from four dimensions: i) state income; ii) the cost of living; iii) the labour market situation; and iv) women’s empowerment. While the first three dimensions are closely and directly related to wage variations - and also represent economic situations across regions - the fourth dimension, i.e., women’s empowerment, is widely recognised as an important factor positively affecting wage levels (Klasen and Pieters, 2012). Evidence shows that increased women’s literacy (such as in Kerala and Tamil Nadu), as well as a higher female labour force participation (such as MGNREGA<sup>55</sup>), have positively affected prevailing wages in a region. Two representative indicators from each of these four dimensions were selected and used for estimating a combined index. However, all the north-east states except Assam were grouped together to form one single regional group, and the UTs were categorized along with their nearest large states: Andaman and Nicobar Islands and Puduchery together with Tamil Nadu; Lakshadweep with Kerala, Dadra and Nagar Haveli; Daman and Diu with Gujarat; and Chandigarh with Punjab. The remaining 22 states were ranked and categorized in four different groups using a common set of indicators as follows:

▶ **State income**

- ▶ Per capita State Domestic Product (SDP)
- ▶ Per worker value of production in agriculture and allied activities

▶ **Cost of living**

- ▶ Cost of living (monthly per capita consumption expenditure)
- ▶ Share of non-food expenditure to total household expenditure

▶ **Labour market**

- ▶ Share of regular wage earners in total employment
- ▶ Average number of days of casual employment

▶ **Women’s empowerment**

- ▶ Women workers’ participation rate
- ▶ Women’s literacy

4.37 The value of these indicators for the 22 states is presented in Appendix table 4.7 Most of them are collated for the year 2011 - or close to 2011. The four sets of indicators were used to construct a simple

<sup>55</sup> The Mahatma Gandhi Rural Employment Guarantee Act, 2005.

(unweighted) index for different states. The values of each state and each indicator were standardized using a variance method formula as follows:

$$\text{Scaled value (S) of indicators} = \frac{(X_i - Mn) * 100}{(Mx - Mn)} ;$$

4.38 The composite index =  $\frac{\sum S_i}{n}$ ; 'X<sub>i</sub>' is the value of any indicator for any state; Mn is the minimum value of any particular indicator across states; Mx is the maximum value of the particular indicator across states; and 'n' is the number of indicators.

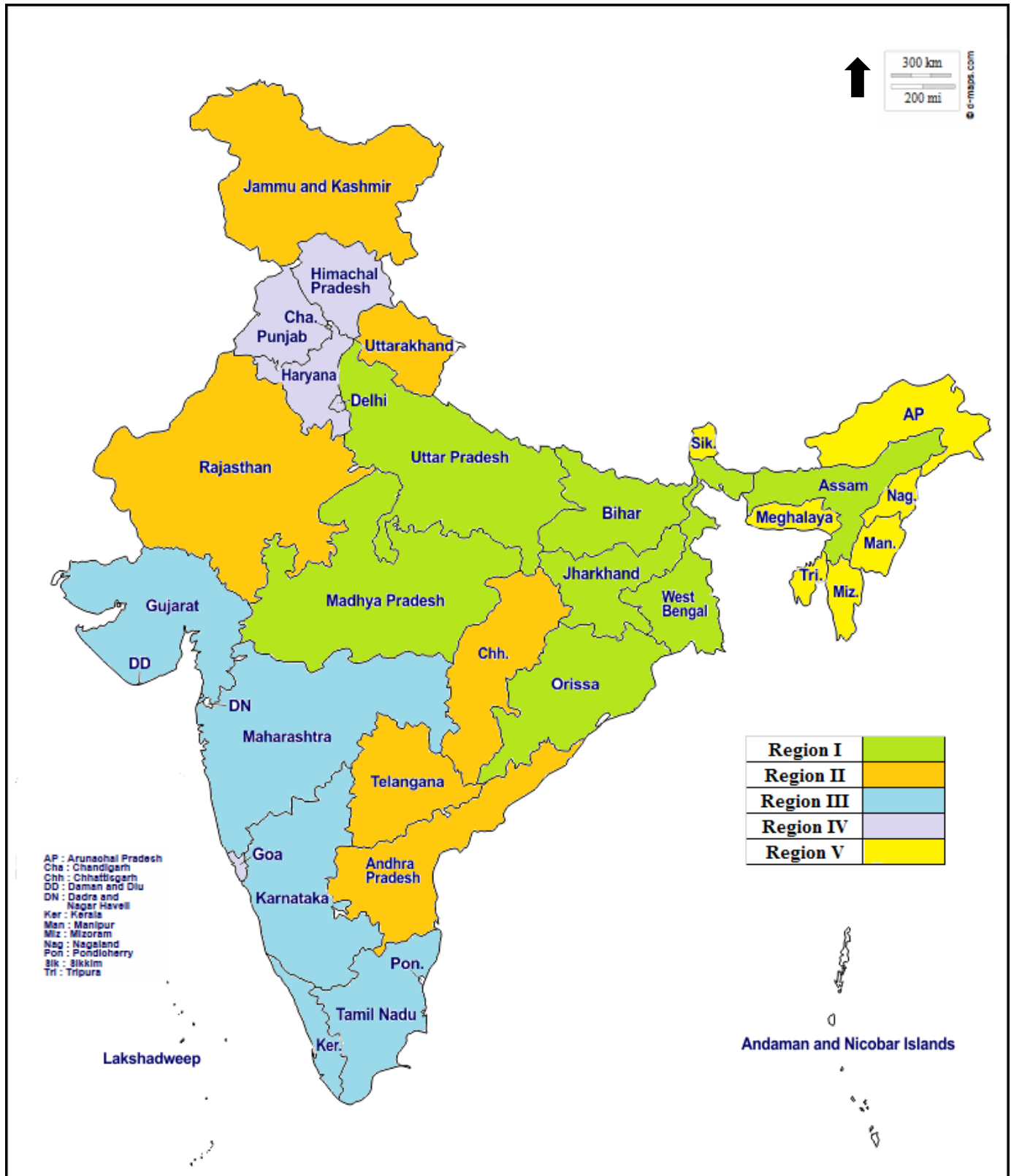
4.39 The index value for each indicator and the average composite index for each state are presented in Appendix table 4.8. On the basis of the estimated index, the 22 states were categorized into four groups representing different levels of economic development; the cost of living; the labour market situation; and women's empowerment. The newly formed state of Telangana is part of the state of Andhra Pradesh for the purpose of the present analysis. The cut-off of the composite index used for groupings of the states are i) below 30; ii) 30-40; iii) 40-50; and iv) above 40. Although these cut-off points might seem to have been decided on a subjective basis, they helped maintain some geographical continuity across the states to the extent possible. The fifth group is comprised of all the north-east states except Assam. A list of the states categorized in the five regions are presented in table 4.7, and a map of India with minimum wage regions is given in figure 4.1.

**Table 4.7: List of states in the five regions**

Region I	Region II	Region III	Region IV	Region V
Assam, Bihar, Jharkhand, Madhya Pradesh, Odisha, Uttar Pradesh, and West Bengal.	Andhra Pradesh, Telangana, Chhattisgarh, Rajasthan, Jammu & Kashmir, and Uttarakhand	Gujarat, Karnataka, Kerala, Maharashtra, and Tamil Nadu	Delhi, Goa, Haryana, Himachal Pradesh, and Punjab	Arunachal Pradesh, Manipur, Meghalaya, Nagaland, Sikkim, Mizoram and Tripura

4.40 The food expenditure for each region was estimated using the national average of a balanced diet consumption basket at the three levels of calorie intakes and the unit value of different food items for each region. The non-food expenditure for each region was estimated for 'essential' and 'other' non-food items, using the method as explained in the non-food section of the NMW estimates. Finally, after adjusting for the number of working days (26 days a month), the consumer unit (3.6) and the price index for July 2018, the regional level NMW was estimated. The estimated values of NMW at the 2,400 calorie level ranged from a low of ₹ 342 per day in Region I to a high of ₹ 447 per day in Region IV (table 4.8). A similar estimate of the regional daily wage rates for 2,400 calorie levels and three consumption unit is given in Appendix table 4.10. Estimated daily regional wage rates at 3 and 3.6 consumption units at the 2,400 calorie level are also summarized in Appendix figure 4.6.

Figure 4.1: National minimum wage regions based on composite index



Source: Elaborated by the Expert Committee.

**Table 4.8: Estimation of the regional level daily NMW (₹) at 2,400 calorie levels of a balanced diet with 3.6 consumption units per household**

Monthly per consumption unit expenditure (MPCU)		Region I (₹)	Region II (₹)	Region III (₹)	Region IV (₹)	Region V (₹)
Food expenditure (MPCU)		949.6	1,007.9	1,116.7	1,141.3	1,124.4
Non-food expenditure (MPCU)	Essential	521.6	596.1	642	779.2	553.9
	Other	151.4	202.5	210.5	201.3	154.8
<b>Total expenditure (MPCU)</b>		<b>1,622.6</b>	<b>1,806.5</b>	<b>1,969.2</b>	<b>2,121.8</b>	<b>1,833.1</b>



<b>Total monthly household expenditure (MPCU x 3.6 consumption units) - January 2012</b>	<b>5,841.36</b>	<b>6,503.4</b>	<b>7,089.12</b>	<b>7,638.48</b>	<b>6,599.16</b>
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<b>Total monthly household expenditure Updated July 2018</b>	<b>8,878.9</b>	<b>9,885.2</b>	<b>10,775.5</b>	<b>11,610.5</b>	<b>10,030.7</b>
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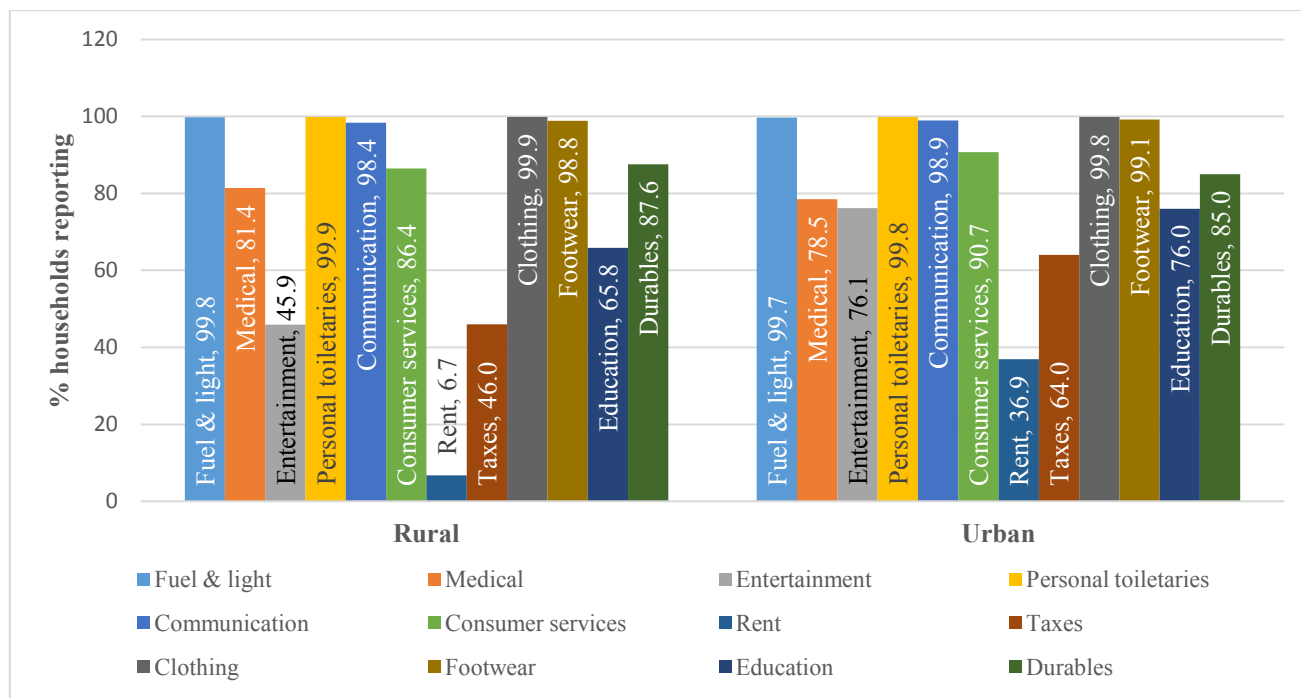


<b>Daily wage to cover 26 days (Monthly household expenditure / 26)</b>	<b>341.5</b>	<b>380.2</b>	<b>414.4</b>	<b>446.6</b>	<b>385.8</b>
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4.41 A parallel estimate of daily regional wage rates at the 2,100 and 2,700 calorie level at 3.6 consumption units are also summarized in Appendix table 4.11, and at 3 consumption units in Appendix table 4.12.

### Rent compensatory allowance

4.42 A careful review of the current expenditure pattern on non-food items, as estimated from the CES 2011-12 (See Appendix table 4.3), reveals that although all the non-food items may represent the actual expenditure pattern of sample households, the rent for housing is grossly underestimated (₹ 43.4 monthly per consumption unit in the median class) in the CES 2011-12. This is mainly because a large number of households live in their own dwelling units and they are therefore reported - zero rent in the survey. The survey data reflect that 84 per cent of households reported zero rent. Although this may be true in rural areas, approximately 63 per cent urban households not reporting any rent needs a careful review (figure 4.2). The percentage of households deriving their livelihood from casual wage earnings and not reporting any rent in urban areas exceeds 70 per cent. For almost all the other non-food items, the percentage of households reporting positive expenditure is fairly large.

**Figure 4.2: Percentage of households deriving their main livelihood from casual wage earnings reporting expenditure on different non-food items in the CES 2011-12 survey**

4.43 The Expert Committee takes the considered view that the NMW must take into account a reasonable allowance for rent for all households residing in urban areas. A reasonable way to make provisions for such an allowance is to estimate the average rent paid by urban households who reported actually paying rent (excluding zero-rent-paying households) using the CES 2011-12 survey. We estimated the average rent paid by all non-zero-reporting households residing in urban areas classified by their main sources of livelihoods (table 4.9)

**Table 4.9 Percentage of urban households reporting non-zero rent, and the average rent value (₹) among paying households by types of household.**

Types of households	Households reporting rent (in %)	Average per consumption unit monthly value (₹) of rent for rent-paying households	
		2011-12	Updated for July 2018
Self-employed in non-agriculture	26.1	524.6	797.4
Other manual casual labour	28.8	300.7	457.1
Regular wage work	46.5	801.8	1,218.7
All households with any wage work	42.4	717.5	1,090.6
Others	43.5	839.9	1,276.7
<b>All households</b>	<b>36.9</b>	<b>667.6</b>	<b>1,014.7</b>



4.44 The average per consumption unit rent among rent-paying households (approximately 37 per cent) is estimated to be approximately ₹ 1,015 as of July 2018, which is ₹ 1,219 among households depending mainly on regular wage work (47 per cent of households) and ₹ 457 among households depending mainly on other manual casual wage work (29 per cent of households).

4.45 The Expert Committee takes the view that an additional allowance up to ₹ 391 monthly per consumption unit for rent<sup>56</sup> in urban areas should be considered above the NMW. For an average labour income-based family of 3.6 consumption units, this amount would be equal to ₹ 1,407 per month (₹ 54.15 per day) at July 2018 prices. Rounding up to ₹ 1,430 per month (₹ 55 per day). However, the actual rent allowance may be lower or higher depending on the types of cities and towns. It might, for instance, be over and above the daily NMW estimated in the foregoing section. In the case of the regional minimum wage, such allowances may be made over and above the estimated regional NMW for workers residing in urban areas.

### National minimum wage and skill level of workers

4.46 The labour market in India consists of a range of different types of workers. Workers are broadly divided into three main categories: i) the self-employed, who do not work in the labour market for wages but work for profits from their own enterprises; ii) regular wage earners, who work in the labour market on a fairly regular basis and earn wages regularly, weekly or monthly; and iii) casual wage earners, who do not have access to secure employment on a regular basis and earn their wages mostly on a daily basis. The NMW only applies to the last two categories of workers, and more particularly to all casual wage earners along with a small proportion of regular wage earners who are engaged in a variety of low-paid manual work. It goes without saying that all wage earners have different levels of education and skills. Under section 3(a)(ii) of the Minimum Wages Act, 1948, minimum rates of wages may be fixed for different classes of work in the same scheduled employment, but work categories are not defined. However, a number of governments have opted to fix minimum wages for at least three - or sometimes four - different categories of workers based on their skills level: i) unskilled; ii) semi-skilled; iii) skilled; and (iv) highly skilled<sup>57</sup>. The Central Government usually comes up with four categories of skills for the agricultural sector, construction and non-coal mines. The following definitions of “highly skilled”, “skilled”, “semi-skilled” and “unskilled work” are therefore used in the central sphere:

- ▶ “unskilled work” means work involving simple operations that require little or no skills or experience on the job;
- ▶ “semi-skilled work” means work involving some degree of skill or competences acquired through experience on the job, which is capable of being performed under the supervision or guidance of a skilled employee and includes unskilled supervisory work;
- ▶ “skilled work” means work involving skills or competencies acquired through experience on the job or through training as an apprentice in a technical or vocational institute;

<sup>56</sup> The Expert Committee took the view that a reasonable rent for urban workers should be ₹ 457 monthly per consumption unit, or for an average labour income-based family of 3.6 consumption units, equal to ₹ 1,645 per month at July 2018 prices. In the non-food items for calculating the NMW, rent for housing was already estimated at ₹ 43.4 monthly per consumption unit in the median class as per CES 2011-12, and ₹ 65.9 at July 2018 prices. Therefore, an additional allowance required for rent should be equal to ₹ 391 monthly per consumption unit above the NMW.

<sup>57</sup> For instance the Punjab, Haryana and Delhi government have introduced the definition of ‘highly skilled’ for the fixation of minimum wages under the Minimum Wages Act, 1948.



- ▶ “highly skilled work” means work calling for a degree of perfection and full competence in the performance of certain tasks, including clerical work acquired through intensive technical or professional training or practical work experience for a certain reasonable period. It also requires a worker to assume full responsibility for the judgment or decision involved in the execution of these tasks.

4.47 Despite the aforementioned definitions, state governments have their own interpretations of the different skill levels of workers. Most state governments define the skill levels of workers based on the detailed National Classification of Occupation (NCO) 1968, and determine them according to the types of occupation in which they are engaged. In practice, the implementation of a skills-based minimum wage is highly subjective - and there is hardly any framework at present to recognize and compensate the different skills level of workers.

4.48 However, the Expert Committee’s proposed methods and estimation of the NMW do not address the issue of workers’ skill levels. They only apply to base-level minimum wages that are adequate to cover the need-based consumption expenditure of workers and their families. The Committee takes the considered view that the desirability - as well as the estimation - of minimum wages for different levels of skilled workers requires a detailed analysis of the National Skill Qualification Framework (NSQF) and a standard approach to define skill levels at the national and state levels. The Committee recommends that a separate Committee be set up to study this issue in detail, which would address skill-based minimum wages involving the various stakeholders in the field, i.e., the Ministry of Skill Development and Entrepreneurship, and the employers’ and workers’ organizations.

## The adjustment and revision of minimum wages

4.49 According to the provisions contained in the Minimum Wages Act, 1948, the appropriate government will revise the minimum wages in all the scheduled employments under its jurisdiction at an appropriate interval not exceeding five years.

4.50 Considering that the five-year period was too long to check price escalation, the Labour Ministers’ Conference in 1988 recommended the idea of a Variable Dearness Allowance (VDA), as stated in chapter 1. In the present system of minimum wages, the VDA is revised twice a year - on 1 April and 1 October. At present, the office of the Chief Labour Commissioner, Central (CLC-C), under the MoLE, issues a detailed notification relating to the revised rates of VDAs, on the basis of the average consumer price index for the preceding period of six months, with the base year 2001 (2001=100). This results in an increase in minimum wages for various categories of industrial workers. The VDA has been rounded off to the next higher rupee, as per the decision of the Minimum Wages Advisory Board. The final minimum wage rate reflects the basic rate plus the VDA<sup>58</sup>. The Expert Committee considers that the present system of adjusting minimum wages with the cost of living is implemented successfully, and that states/UTs where this practice is not yet operational may be advised to undertake a periodic revision and report VDA as a separate component<sup>59</sup>. Apart from the CPI (IW), the CPI data available through the CSO, Government of India is an alternative price index to adjust the minimum wages for price increase, and therefore may be considered.

<sup>58</sup> However, across States/UTs, there is no uniformity in the wage structure as some states pay consolidated wages (Basic + Dearness Allowances), and others report Dearness Allowances as a separate component (GoI., 2016). At present, 27 states and UTs have linked wages to the periodic revision of the Dearness Allowance (ibid).

<sup>59</sup> A similar recommendations was also made by the Conference Committee on Minimum Wages at the 44<sup>th</sup> Session of the ILC held on 14-15 February 2012 at New Delhi (See: [https://labour.gov.in/sites/default/files/44th\\_ILCL.pdf](https://labour.gov.in/sites/default/files/44th_ILCL.pdf)).

4.51 The Expert Committee acknowledges that the use of the CPI to reflect the changes in the cost of living will only prevent the purchasing power capacity of the minimum wage from deteriorating. It suggests that if the country's economic realities are to be factored into the minimum wage, adjustments should be made to consider inflation and the country's labour productivity. The Committee also recommends that further research be conducted to arrive at any labour productivity-linked revisions. A good starting point for this exercise would be to review the report of the Fifth Pay Commission, which fixed the new 1996 pay level for public sector employees by adjusting the previous minimum wage with respect to inflation and productivity. In addition, account may be taken of international experience in adjusting minimum wages to productivity, as is the case in Malaysia and Brazil. This is discussed in chapter 5 of this report.

4.52 Given the current procedure for adjustment in India and the lessons learned from international experience, the Expert Committee is of the opinion that the level of minimum wages depends crucially on the consumption basket. Given that consumption patterns may change over time, the Committee therefore recommends that the consumption basket be revised by an expert committee every five years, corresponding to the availability of NSSO CES data. This would enable the revision of the base level of minimum wages every five years. For the purpose of calculating the total food expenditure of households and setting base level minimum wage, the Committee recommends using the implicit prices of food items available through the CES of the NSSO. However, in between the NSSO surveys, there should be an intermediate adjustment to accommodate changes in prices at least every six months, on the basis of the CPI-IW made available by the Labour Bureau or CPI of the CSO.

## Conclusions

4.53 To sum up, the Expert Committee has estimated the NMW as of July 2018 by referring to the existing methodological framework recommended by the ILC 1957 and the SC's judgment 1992 and updating it with new evidence from the latest available consumer expenditure survey (NSS 2011-12) on nutritional intakes, per household consumption units, and food and non-food expenditure. We estimated an All-India average of NMW and regional level NMW. The All-India average daily NMW works out to be ₹ 375 as of July 2018. The Committee recommends fixing the daily NMW at ₹ 375 or the monthly NMW at ₹ 9,750. It also recommends an additional house rent allowance averaging ₹ 1,430 per month (₹ 55 per day) for the urban areas. However, with every passing month the price levels are likely to increase further, and the NMW may be updated to the current price levels on the date of announcement.

4.54 Given the large variations in actual prevailing wage rates across different states, it is quite possible that the prevailing wage rates in a few states are already far higher than the average NMW estimated at the national level. In contrast, many poorer states have currently lower wage rates than the NMW. This warrants estimating NMW at regional levels to take care of prevailing socio-economic situations in different states. The first NCL (1969), and the ILC (1985) had also advocated regional minimum wages, and the Code on Wages Bill, 2017, also leaves the option open to fix the NMW at regional levels. By considering an array of socio-economic indicators from four different dimensions - i) state income, ii) cost of living, iii) labour market situations and iv) levels of women empowerment - we grouped all major Indian states into four different regions and all north-east states except Assam into a fifth region, and estimated regional NMW. The NMW ranged from a low of ₹ 342 in Region I to a high of ₹ 447 in Region IV.



4.55 The states that currently have lower wage rates than the national minimum wage may start by fixing a NMW that is equal to the NMW average for the region to which they belong. They may like to catch up with the national average in the near future. In contrast, the current minimum wages may be far higher in other states than the recommended NMW. These states should not be allowed to bring down the current levels of state-specific minimum wages and should continue updating them every six months in line with price increases.

4.56 As explained earlier, the estimated NMW only represents the expenditure required to meet the basic level of needs (food and non-food expenditure) of workers and their families. In no way does this reflect any link with the paying capacity of employers and labour productivity. As recommended by the ILC 1957, the NMW must just meet the criteria maintaining the work efficiency of workers and the healthy living of their families.

## Chapter 5: International Experience with Minimum Wage Systems

5.1 Around the world, an estimated 90 per cent of all countries have some kind of minimum-wage setting procedure (ILO, 2008). During the past decades, minimum wage policy has been revived in many countries, with Brazil, China, the United Kingdom, Malaysia and Germany turning to or strengthening their minimum wage systems. South Africa has recently moved from a sectoral minimum wage strategy to a national wage policy, to address the high levels of low-paid workers and inequality in the country.

5.2 Given the increasing emphasis on minimum wage policy worldwide, this chapter examines the minimum wage system in the light of international experience. International experiences have been thematically developed in accordance with four key elements contained in the ILO Minimum Wage Fixing Convention, 1970 (No. 131) - discussed in chapter 3. Convention No. 131 is a major international instrument, which has been ratified by 54 member States including India's neighbours Sri Lanka and Nepal. This chapter takes country examples from the BRICS and select Asian countries (such as Viet Nam and Malaysia), and outlines the possible scope for improvement in India's minimum wage framework – including the wage-fixing and adjustment process.

### System of minimum wages: The ILO framework

5.3 As discussed in chapter 3, Convention No. 131 encourages member States to establish a system of minimum wages, which takes into account five essential elements<sup>60</sup>: (i) it should have as broad a scope of application as possible; (ii) it should ensure full consultation with the social partners, on an equal footing, in the design and operation of the minimum wage system and, where appropriate, their direct participation in the system; (iii) it should take into account such elements as the needs of workers and their families and economic factors when determining the level of minimum wages; (iv) it should allow for a periodic adjustment of the minimum wage rates to reflect changes in the cost of living and other economic conditions; and (v) it should implement appropriate measures to ensure the effective application of all provisions relating to minimum wages. This chapter analyses the minimum wage system in the BRICS and selected Asian countries, with a particular focus on the first four of these five elements contained in Convention No. 131.

### Comparing the minimum wage systems: Experiences of the BRICS countries

5.4 The BRICS members are all developing or relatively new industrialized countries. They are characterized by their size, and by their large economies that have a significant influence on regional or global affairs. The BRICS countries all have minimum wage systems, but they have their own features with respect to the four main elements contained in Convention No. 131 - which are addressed by this report. This country analysis will highlight best practices within each minimum wage system to provide India with international examples, which may help it develop and strengthen its own system.

5.5 China adopted a minimum wage in 1994 and has strengthened its policies since 2004; Brazil reactivated its minimum wage policy in 1995 and has accelerated its adjustments since 2005 in line with economic growth; the Russian Federation complemented its national minimum wage with regional floors in 2007; and South Africa established a system of minimum wages after the end of apartheid in 1997 and - now that

<sup>60</sup> These are the essential elements of a minimum wage system, as advocated by Convention No. 131, listed in the ILO *General Survey* (ILO, 2014).

President Cyril Ramaphosa has approved the national minimum wage in 2018 - it will adopt a national minimum wage policy. For the latter, South Africa went through a thorough process of consultation carried out by an Advisory Panel<sup>61</sup> established in August 2016. As part of an in-depth analysis the current literature on the national minimum wage was revised, and the Panel also received suggestions and proposals from the National Economic Development and Labour Council (NEDLAC) social partners (representatives from government, organized labour, business and community organizations) and international organizations such as the ILO (National Minimum Wage Panel, 2016).

5.6 ILO Recommendation No. 135 underscores that a broader coverage can be achieved either by a single rate or a series of minimum rates. On this issue some BRICS countries have regional minimum wage rates, like China; but on the whole large countries tend to use a combination of national and regional minimum wage rates, such as Brazil<sup>62</sup>, the Russian Federation and South Africa.

### Scope of the application

5.7 *Brazil:* Brazil has a national minimum wage, where all workers are included. Regions (federal district and states) can also define minimum wages above the national level, but in 2018 only five states<sup>63</sup> out of 26 had taken advantage of this possibility. In the absence of federal legislation or a collective labour agreement, these regions can establish specific remuneration floors for certain categories of workers (ILO, 2014).

5.8 *Russian Federation:* The Russian Federation has regional minimum wages that coexist with a national minimum wage (ibid). The regional minimum wages are fixed above the federal rate, and this is applied in 83 regions across the country. The minimum wage set in the Regional Agreement covers all workers in each respective region. Since September 2007, regions have had the right to define their own minimum wage (which may be sector-specific) above the federal threshold; and in three regions a special regional minimum wage was set for employees in the agricultural sector.

5.9 *China:* Minimum wage rates are established by province, autonomous region and municipalities. There is no national minimum wage. All workers in each province are covered, and minimum wage rates are established by province, autonomous region and municipality. Two types of minimum wages are set according to the 2004 minimum wage regulations: a monthly rate for full-time workers, and an hourly rate for part-time workers.

5.10 *South Africa:* Minimum wages are fixed for specific occupational categories or sectors (limited to those with low wages and low union density) including regional variations (ibid.). The 13 sectoral<sup>64</sup> minimum wage rates (approximately 120 different wage rates) are calculated to cover up to around one-third of all employees. A national minimum wage was approved in 2018, covering all groups of wage earners.

<sup>61</sup>The Panel consulted over 60 research reports and met with all the social partners, as well as experts from small businesses, youth, care workers and persons from the informal sector. It also wanted to make sure the institutional arrangements were clearly proposed in order to ensure that the best possible mechanisms were set up for compliance and enforcement.

<sup>62</sup>In countries like Brazil, statutory minimum wages are complemented by higher floors set through collective agreements. The national and state-level minimum wages are complemented by an estimated 40,000 collective labour contracts on wage readjustments for workers in the private sector.

<sup>63</sup>Parana, Rio de Janeiro, Rio Grande do Sul, Santa Catarina, and Sao Paulo.

<sup>64</sup>Minimum wages have been set by sectoral determinations (<https://www.labourguide.co.za/downloads>) for the following sectors: farm workers; forestry; wholesale and retail; taxi services; private security; civil engineering; cleaning services; domestic workers; learnerships; small business sector; Performance of Advertising, Artistic and Cultural Activities; clothing and knitting; and hospitality. A proposal to amend the Basic Conditions of Employment Act, currently being considered by Parliament, provides for the government to publish sectoral determinations for employers and workers who are not covered by another sectoral determination. (ILO, 2016, p. 75)

## Consultation with the social partners

5.11 *Brazil*: In 2005 the Federal Government set up a quadripartite commission (federal government, state government, employers and unions) to strengthen the minimum wage policy. However, this commission found it difficult to reach an agreement and the minimum wage for 2011 was set by an Act providing that annual adjustments for the period 2012-15 would be made by decree based on the criteria issued in this legislation. The new guidelines for adjusting the minimum wage over the period 2016–19 were published in the *Official Gazette* on July 30, 2015. It is important to be point out that the National Confederation of Industry (CNI) and the International Organisation of Employers (IOE) consider that there is a lack of participation by employers' organizations in determining the criteria used to increase the minimum wage (ibid.).

5.12 *Russian Federation*: The federal minimum wage is set by law and after consultations with the Russian Tripartite Commission<sup>65</sup> for the Regulation of Social and Labour Relations (ILO, 2014). There is an institutional procedure for determining minimum wage policy in the Russian Tripartite Commission, and a particular subject of negotiation in the Commission is the General Agreement between the employers' associations, the trade unions and the government. In the Russian Federation, regional minimum wages may be introduced at the level of the federal subjects on the basis of agreements between representative employers' and workers' organizations, although these wages may not be lower than the national minimum wage rate (ibid.).

5.13 *China*: It is up to the administrative authorities, (provinces, Autonomous Regions and municipal level) in charge of labour and social security issues to prepare a programme<sup>66</sup> to fix and adjust minimum wages. This process takes place in consultation with social partners. The Ministry of Labour and Social Security receives the programmes for approval; and asks for comments from the All-China Federation of Trade Unions (ACFTU) and the China Enterprise Confederation (CEC) (ibid.). It is important to mention that the provinces also must follow the Central Government's *Employment Promotion Plan*<sup>67</sup> as a guideline to use and include in the programme design.

5.14 *South Africa*: The tripartite Employment Conditions Commission (ECC) advises the Minister of Labour on various matters concerning basic conditions of employment, including the determination of the minimum wage for specific identified sectors. It undertakes research related to "the conditions of employment in the sector and area which will be affected by the sectoral determination" in order to provide sound advice. In addition, the Commission may also hold public hearings to allow members of the public to express their views on the subject (Ibid.).

5.15 With respect to the structure of the ECC, the Minister of Labour must appoint one member nominated by the voting members of the NEDLAC representing organized labour, and another representing

<sup>65</sup> In the Russian Federation, the legislation does not require the same number of employers' and workers' members on the Russian Tripartite Commission for the Regulation of Social and Labour Relations. The decisions of the Commission are only adopted if they are supported by the three parties represented.

<sup>66</sup> A programme shall include the basis, applicable scope, drawn-out standards and explanations on the determination of the minimum wages jointly set by the local government, trade union, and enterprise confederation of each province. The draft programme would then be submitted to the Ministry of Labour and Social Security for review. The Ministry would then ask for opinions from the All-China Federation of Trade Unions and the China Enterprise Confederation. The Ministry of Labour and Social Security can request a revision within 14 days after receiving the proposed draft. If no revision request is brought up after the 14-day period, the proposed new minimum wage programme is considered to be passed. (Fang & Lin, 2015).

<sup>67</sup> In February 2016, the State Council released the *13th Five-Year Plan (2016-2020) on employment*, an overarching guideline to promote employment and entrepreneurship in China in the next five years. The Plan aims to create more than 50 million jobs by 2020 with reasonable rises in wages. Available at: [www.npc.gov.cn/npc/zgrdzz/site1/20160429/0021861abd66188d449902.pdf](http://www.npc.gov.cn/npc/zgrdzz/site1/20160429/0021861abd66188d449902.pdf)

organized business. In addition to Worker and Employer representatives, the ECC includes three persons<sup>68</sup> who are knowledgeable about the labour market and conditions of employment (ILO, 2014). Therefore the ECC (tripartite in its structure) recommends rates for all selected sectors<sup>69</sup>.

5.16 As for the new framework under consideration, there is a proposal to establish a National Minimum Wage Commission, and part of its mandate will be to establish a medium-term aspirational target for the national minimum wage taking into account appropriate benchmarks and ILO guidelines.

### Criteria for setting the minimum wage (Balancing needs of workers and the economy)

5.17 *Brazil:* The Constitution of Brazil establishes that “the minimum wage should be capable of satisfying the basic living needs and those of their families with housing, food, education, health, leisure, clothing, hygiene, transportation and social security, with periodical adjustments to maintain its purchasing power”. The setting of the new minimum wage takes into account inflation of the previous year plus the annual gross domestic product (GDP) growth from two years back (if >0). Brazil’s formula for determining adjustments in mathematical terms (where MW is minimum wage) is as follows:  $\Delta \text{MW } t = \Delta \text{CPI } t-1 + \Delta \text{GDP } t-2$ . This formula embodies social inclusion, as it not only aims to preserve the purchasing power of workers but also makes workers participate in the country’s economic success (Ibid). In 2005, the minimum wage covered nearly 1.5 times the poverty lines per capita; and in 2014 the minimum wage covered approximately 2.3 times the poverty lines per capita (ILO, 2017a).

5.18 In 2018, the adjustment of the minimum wage was only made using the change in the National Consumer Price Index (INPC), as annual 2016 GDP growth had been negative. The INPC<sup>70</sup> measures the price change for those who are in the salary bracket up to five minimum wages, and is widely used for wage adjustment, aimed at maintaining a worker’s purchasing power in the face of inflation. It is a national index, and data collection is taken from the main populous metropolitan regions. In 2019, the government will fix a minimum wage based on this formula for the last time, after which a new minimum wage correction format will have to be designed.

5.19 *Russian Federation:* According to the Labour Code of the Russian Federation<sup>71</sup>, the minimum wage is not allowed to be lower than the subsistence minimum, and the criteria for revision includes social and economic conditions – as well as the subsistence minimum level. In its government report to the ILO, the Russian Federation stated that the country’s economic situation was also taken into account for setting the minimum wage

<sup>68</sup> The independent members of the Employment Conditions Commission are appointed by the Minister of Labour after consultation with the NEDLAC, which includes representatives of employers’ and workers’ organizations.

<sup>69</sup> Employment Conditions Commission (ECC), Department of Labour, South Africa, available at: <http://www.labour.gov.za/DOL/contacts/statutory-bodies/employment-conditions-commission>

<sup>70</sup> IPCA and INPC cover different income levels. INPC is restricted to employees in the income bracket from 1 to 5 minimum wages, while IPCA includes household incomes of any nature up to 40 minimum wages. The INPC constitutes a Consumer Price Index for lower income households. The changes in commodity prices on food items greatly influence the budget of these households. The Extended Consumer Price Index (IPCA) is the official inflation index in the country, calculated by the IBGE on a monthly basis. It captures the average cost of living of households from the main metropolitan regions of the country, with a monthly income of between 1 and 40 minimum wages. See: <https://www.ibge.gov.br/estatisticas-novoportal/economicas/precos-e-custos/9258-indice-nacional-de-precos-ao-consumidor.html?=&t=o-que-e>

<sup>71</sup> Since 2002, the amount of the national minimum wage should have been in line with the national subsistence minimum (Labour Code of Russian Federation 2001). However, the government interpreted this legal provision as the long-term goal to be reached by 2018 (see: International Labour Conference, 103<sup>rd</sup> Session, May–June 2014, Provisional Record, 13, Part 1, paragraph 158); the special law on the minimum wage increase (according to Article 421 of the Labour Code) has not been adopted, and the difference between the minimum wage and the subsistence minimum has therefore continued to date.



(ILO, 2014). Regions may choose different criteria for fixing minimum wages but their regional subsistence minimum is used as their benchmark.

5.20 The subsistence minimum is a need-based income level that guarantees minimum consumption requirements. The 2000 methodology for estimating the subsistence minimum is based on a consumption basket of food and non-food goods and services, including tax and other payments<sup>72</sup>. The consumption basket is revised at least every five years for socio-demographic groups:

- ▶ The food component includes items calculated for an adult male, an adult female, a pensioner and children. The caloric intake<sup>73</sup> used to estimate the food basket is 2,730 kcal for adult males, 2,100 kcal for adult females, 1,610 kcal for pensioners and 2,360 kcal for children. In all nine regions, the varying socio-demographic groups have the same calorie intake, except for zones I and II that require a slightly higher value due to the extreme cold weather.
- ▶ The non-food basket takes into account goods such as: clothing and footwear, stationary materials, home appliances and others, as well as service items including housing, central heating, water, gas, and transportation. Each region can select regional specific goods and services for the non-food basket.
- ▶ The value of the consumption basket for each zone is calculated using the quantities of each item in the basket and local prices. The Russian Federal State Statistics Service collects on a quarterly basis the consumer price data of the basket in order to adjust the value of the subsistence minimum level.

5.21 The subsistence minimum<sup>74</sup> determination at the regional level is delegated to local governments. In 13 regions the minimum wage was equal to the regional subsistence minimum; in 28 regions minimum wage was lower than the regional subsistence minimum; and in 12 regions the minimum wage was higher than the subsistence minimum (Bolsheva, 2014).

5.22 The national minimum wage in the Russian Federation for the period 2002-2013 (ibid.) did not exceed 80 per cent of the national subsistence minimum, thereby failing to guarantee workers and their families a decent standard of living. This makes regional minimum wages all the more important. In 2017, the President of the Russian Federation signed a law to gradually increase the national minimum wage up to the subsistence level by 2019.

5.23 *China*: The Regulations<sup>75</sup> on Minimum Wages provide that for fixing minimum wages, local statistical information should be taken into account with regards to the minimum costs of living of workers and their dependants; the consumption price index; the average wages of workers; labour productivity; the urban economic situation; and the level of economic development. The minimum wage level should be fixed higher than the social relief fund and unemployment benefits - but lower than the average wage in the locality. The 12<sup>th</sup> Five Year Plan (2011-15) instructed that the average annual growth of minimum wages should reach 13 per cent, and in most regions the minimum wage should reach 40 per cent of the average wage of a local urban worker. The 13<sup>th</sup>

<sup>72</sup> The 2000 methodology is contained in a government decree No. 192 of 17 February 1999 – “Methodological recommendation of the definition of the consumption basket by socio-demographic groups in Russian Federation as a whole and regions of Russian Federation”. The methodological recommendation was revised in March 2000, August 2005 and June 2007.

<sup>73</sup> These recommended parameters have been taken from national specialists on nutrition and the WHO.

<sup>74</sup> The subsistence minimum is defined as the income level which guarantees the consumption to meet the minimum requirements for human beings both physically and socially.

<sup>75</sup> Taken from ILO Natlex at <https://www.ilo.org/dyn/natlex/docs/WEBTEXT/44000/65000/E94CHN02.htm>

Five Year Plan gives guidelines for the minimum wage to be adjusted at an average growth rate of 10 per cent per annum, and the level should account for between 40 and 60 per cent of the average wages.

5.24 It will also take into account the disparities between full-time and other workers, particularly in relation to the stability of employment, working conditions and the intensity of work in China (ILO, 2014). For example in 2017 the monthly minimum wage in Beijing for full-time workers was RMB 2,000, and for part-time workers RMB 22 per hour (proportionally higher than the monthly rate).

5.25 *South Africa*: The sectoral determination to set minimum wages is normally the result of a process that includes workers and trade unions claims, investigations on working conditions including wages, as well as consultations with employers and workers from the sector. The ECC, in formulating recommendations<sup>76</sup> with a view to setting sectoral wages, will consider the possible impact on current employment, as well as the capacity of employers to carry on their business successfully (ILO, 2014).

5.26 Revisions of or adjustments to sectoral minimum wages usually take into account the CPI for the lowest quintile. The new sectoral minimum wage will include the variation of the aforementioned indicator, supplemented by a few index points to ensure that workers increase their purchasing capacity. Other factors may be considered for these adjustments, such as conditions of employment, wage differentials and inequality in South Africa (ILO, 2014).

5.27 For the revision of the national minimum wage a number of indicators will be taken into account. These include: cost of living and minimum living levels, poverty alleviation, wage differentials and inequality, conditions of employment, occupational safety and health, employment levels, inflation, GDP, productivity, collective bargaining, aspirational targets, and the impact of adjustments.

### Regular adjustment

5.28 Brazil adjusts its minimum wage on an annual basis, while no particular frequency has been established for adjusting minimum wages in the Russian Federation. In China, minimum wage rates<sup>77</sup> have to be adjusted at least every two years, and whenever the indicators related to the criteria used to determine the minimum wage change (ILO, 2014). Lastly, in South Africa, there are regular annual adjustments for all selected vulnerable sectors.

5.29 The ILO's 2014 *General Survey* mentions that, more often than not, minimum wages are adjusted annually. However, in countries as diverse as Montenegro, Nicaragua, the Netherlands, Uruguay, and Costa Rica, minimum wage adjustment may take place every six months (ILO, 2014).

## Comparing minimum wage systems from the Asian Region: Experiences from Viet Nam and Malaysia

5.30 We have included two other country experiences in the Asian context – Viet Nam and Malaysia – both of which have a minimum wage system with regional minimum wages.

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<sup>76</sup>For example, in South Africa, the Ministry of Labour carried out a study in 2010 of all the sectors covered by sectoral wage fixing to establish the extent to which the minimum wage can improve the situation of vulnerable workers. (ILO, 2014).

<sup>77</sup> Provincial departments of human resources and social security establish proposed rates which are submitted to the Ministry and open to opinions from ACFTU and the CEC/CEDA.

## Scope of the application

5.31 *Viet Nam:* Viet Nam has seen its minimum wage policy evolve over the years. It was in 1947 when it first defined what constituted a minimum wage<sup>78</sup>. Since then, its legal framework has changed over four periods: - until 1985; from 1985 to 1992; from 1993 to 2012; and from 2013 onwards. The first period was dependent upon the state budget, and the government regulated all issues with regard to minimum wages. From 1985 to 1992, Viet Nam shifted from being a centrally planned to a market economy. Minimum wages were only set for unskilled workers. After 1987, a separate minimum wage was fixed for the sector of foreign direct investment.

5.32 In the period 1993-2012, the Labour Code adopted a comprehensive approach and set minimum wages according to the cost of living. The general minimum wage (for government employees), the regional minimum wage and a minimum wage for each sector were fixed every year. Regional minimum wages were only applied to foreign investment enterprises. This changed in 2006, when regional minimum wages were also extended to domestic firms. Since 2012, the system has once again evolved. There are now only differentiated minimum wages in four regions, and the general minimum wage (lowest level) applies solely to government officials.

5.33 *Malaysia:* The Wages Councils Act No. 1947 (Act No. 195) was the first piece of legislation in Malaysia to establish and fix minimum wages for certain categories of workers, but it lacked the framework for ensuring a regular revision and enforcement of minimum wages. On 15 September 2011, the National Wages Consultative Council (NWCC) Act (Act No. 732) was enacted, establishing the NWCC. It covered three distinct geographical areas: Peninsular Malaysia, Sarawak and Sabah (and Labuan), and included all groups of wage earners with the exception of domestic workers, apprentices and government workers. The first minimum wage was enforced from January 2013 onwards for enterprises with six or more workers. Enterprises with five workers or less had to comply with the minimum wage after July 2013. These economic units were given a threshold to better adapt to the new system, and if they found it difficult to implement minimum wages, they could apply for a deferment of three to nine months or more depending on their case (Ibrahim and. Said, 2015).

## Consultation with the social partners

5.34 In Viet Nam there are two consultative processes. The general minimum wage adjustment for government workers is contingent upon the national budget, and there is no proper consultation mechanism. In the case of the regional minimum wage, it is the National Wages Council (NWC) that recommends the adjustment. The NWC has a consultation process through negotiation, and the final agreement must come from the three parties<sup>79</sup>.

5.35 The NWC has an assistant technical board with 20 representatives, which include members from the Central Institute of Economic Management, the General Statistics Office of Viet Nam, representatives from the employers' and trade unions' sides, as well as other wage experts and academia. The technical board collects the data, undertakes data analysis, and calculates the minimum wage - as well as the minimum wage impact.

<sup>78</sup> "The amount determined by the government for a non-professional worker who lives alone to cover their daily cost of living in a given area" (Thanh, et al., 2017).

<sup>79</sup> The parties that form the NWC are five member representatives from the Ministry of Labour, Invalids and Social Affairs, five representatives from the trade unions at the central level (Viet Nam General Confederation of Labour), and five representatives of the employers at the central level.

5.36 In Malaysia, the Council is obliged to review the minimum wage at least once in every two years. A methodology has been developed for this purpose<sup>80</sup>. This implies the following steps: a) a study on the impact of the minimum wages on the economy, workers and employers; b) public consultation by means focus group discussions (FGD) throughout the country, with the participation of employers, employers' association, workers, trade unions and other associations; c) an analysis of secondary data on socio-economic indicators such as employment and income; d) inputs from the public through a web portal and memoranda, and from NGOs, and the Ministry's programme; e) inputs from research findings and studies by various parties; f) inputs from the Labour Department; and g) opinions from other organizations, such as the ILO.

5.37 The National Wages Technical Committee<sup>81</sup> calculates the value of a reference minimum wage based on an agreed set of criteria, and the NWCC votes and approves the recommended minimum wage by a simple majority.

### Criteria for setting the minimum wage (Balancing the needs of workers and the economy)

5.38 In Viet Nam, the minimum wage rate is determined per month, day or hour. In practice, however, calculations are mostly focused on the basis of the monthly minimum wage. As regards the component pertaining to the needs of workers and their families, the most important elements<sup>82</sup> considered are the cost of living in relation to minimum basic needs (2,300kcal/person/day, Vietnam Household Living Standards Survey (VHLSS) data for every two years). The component of economic factors includes GDP, labour productivity, the enterprises' ability to pay and the ratio of minimum to median and mean wages. The same criteria are applied to the four regions. Basically, the government makes the necessary adjustment to minimum wages when there are changes in economic growth, the consumer price index (CPI), and labour supply and demand. However, this adjustment also depends on the capacity of the state budget and enterprises to pay.

5.39 Malaysia uses indicators and combines them in a formula to identify the minimum wage for each region. The formula considers important variables. It uses the regional poverty line<sup>83</sup> income (PLI) per worker to address the cost of living level, and the median wage to address the firms' ability to pay (Ibrahim and Said. 2015). Both variables constitute the base criteria of the minimum wage and are calculated for the initial period.

<sup>80</sup> Presentation by the Secretariat of the National Wages Consultative Council (Ministry of Human Resources).

<sup>81</sup> Its functions and powers include: a) to advise the NWCC on all matters relating to minimum wages, including their development at the international level; b) to make recommendations to the NWCC on the minimum wage rates and coverage according to the various sectors, types of employment and regional areas, and on other matters relating to minimum wages; c) to consult the public on the minimum wage rates and coverage; d) to collect and analyse data and information, and to conduct research on wages and the socioeconomic indicators; e) to coordinate and supervise, as well as to evaluate the impact of, the implementation of minimum wages; f) to review the minimum wages order; g) to deliberate on all matters relating to minimum wages; and h) to carry out any other functions as it deems fit to enable it to perform its functions effectively, or which are incidental to the performance of its functions

<sup>82</sup> Taken from the presentation made by the Viet Nam delegation at the regional training programme, organized by the International Training Centre of the ILO in collaboration with V.V. Giri National Labour Institute, NOIDA: "Designing and implementing effective wage policies", in Delhi on 20-22 August 2018.

<sup>83</sup> The national poverty line income (PLI) is an absolute poverty line; where food expenditure is calculated from a standard food basket meeting the nutritional requirements of each surveyed household; daily requirements - 2,385 kcal per day per person. The non-food component of the PLI is based on the expenditures of surveyed households whose total expenditure are 20 per cent higher than that of the food component of the PLI. Malaysia's (PLI) was MYR 800 for 2010; and the average size of poor households is 6.4 persons, according to the 10<sup>th</sup> Malaysia Plan. The PLI is also tracked for each region: Peninsular Malaysia MYR 763, Sarawak MYR 912 and Sabah MYR 1,048. Data is compiled by the Department of Statistics during its Household Income Survey and Household Expenditure Survey. See: <http://www.thepovertyline.net/malaysia/>

$$\text{Base Criteria MW}_i = \text{Avg} \left( \frac{PLI_i}{\text{Avg workers per household}} + \text{Median Wage}_i \right)$$

5.40 The rates are then adjusted by the percentage change in labour productivity and the consumer price index. If the unemployment rate is above the natural unemployment rate of 4 per cent, this difference constrains the adjustment factor by the value expressed in percentage points.

$$\text{Adjustment Criteria} = \left( 1 + \left( \frac{P_i}{100} \right) + \left( \frac{CPI_i}{100} \right) + \left( \frac{UE_i}{100} \right) \right)$$

Where:

MW<sub>i</sub> = Minimum wage

PLI<sub>i</sub> = Poverty line income<sup>84</sup>

P<sub>i</sub> = Productivity growth (%)

CPI<sub>i</sub> = % change in consumer price index

UE<sub>i</sub> = Real unemployment rate (%): Actual unemployment rate minus natural unemployment rate of 4%

i = Region

### Regular adjustment

5.41 In Viet Nam, minimum wage adjustments are carried out on an annual basis, and the new statutory minimum wage is implemented from 1 January in the New Year. In Malaysia, adjustments are made at least once in every two years, according to section 25 of the National Wages Consultative Council Act 2011 (Act No. 732).

### Current minimum wage system in India and scope for improvement

5.42 The previous sections have given an overview of international experiences with respect to four essential elements of ILO Convention No. 131 pertaining to a minimum wage system. These have provided critical information to better understand minimum wage policy. The practices described will now be compared to India's current minimum wage system, with a view to addressing possible gaps and suggesting improvements for the minimum wage framework in India - including in the wage-fixing and adjustment process.

### Scope of the application

5.43 In India, minimum wage legislation applies only to certain categories of scheduled employment<sup>85</sup>, which are set by either by the Central Government, states or Union Territories (UTs) (GoI., 2016). In the period 2009-10, it was estimated that approximately 66 per cent of wage workers in India were covered by minimum wage legislation (Rani et al., 2013). Incomplete coverage makes the minimum wage system ineffective, limits the

<sup>84</sup> The average workers per household are focused on the households with the lowest 40 per cent of income, which have 1.2 persons per household. Care was taken to not average the number of workers for all households in the country, as the higher income households tend to have more people in the house who work. Consequently, this would not reflect the true value for the relatively poor households.

<sup>85</sup> Four hundred and twenty-nine schedules of employments where the minimum wages are fixed under Minimum Wages Act, 1948, according to the *Report on the Working of The Minimum Wages Act, 1948, for the year 2014* (GoI., 2016).

benefit to workers, and can also create unfair competition for sectors where coverage is higher (ILO, 2018). Indeed, this seems to be a major gap in the current system, which has been pointed out in various fora - including at the 44<sup>th</sup> session of the ILC in 2012 - which support the universalization of minimum wages and the introduction of statutory coverage for wage workers in all sectors, industries and areas of India.

5.44 The question remains as to whether this should be achieved by means of a statutory national floor level minimum wage, or a regional variation in line with the level of development and the cost of living in a particular state. The Code on Wages Bill (2017), leaves this option open as it gives the central government the authority to fix the national minimum wage - provided that varying national minimum wage rates may be fixed for different states or different geographical areas. As may be seen from the international examples given earlier in this chapter, three countries have extended coverage through regional minimum wages: China, Viet Nam and Malaysia. All of them have provided clear guidelines to set the regional floor levels. China allows each region to set their minimum wages according to local indicators. Nevertheless the five-year plans have targeted an overall average increase in the minimum wage each year, which regions have to follow. Viet Nam and Malaysia use the same indicators and parameters to fix their regional minimum wages according to local realities. In both cases, the disparities in regional minimum wages have been reduced over the years. Other BRICS countries all have national minimum wages, and usually at a higher level, depending on the country; in some cases, regions, provinces, states or sectors can set their own minimum wages accordingly. India may learn from this. If regional minimum wages are to be fixed, a uniform sound methodology - such as the one proposed in chapter 4 - should be applied to all geographical regions. This has never been attempted, despite recommendations by the NCL (1969) and the ILC (1985), as discussed in chapters 2 and 4.

### Consultation with the social partners

5.45 In India, two methods – the appointment of committees and notification in *the Official Gazette* - are used to fix and revise minimum wages in accordance with section 5 of the Minimum Wages Act, 1948. There has been an erosion of faith in the system, both among employers and employees, as, in some cases, the procedure for decision-making in the Wage Boards and the government has taken almost five years (Anant and Sundaram, 1998). The system provides a mechanism for consultation by means of statutory tripartite boards and the notification method. The notification method may not be a direct method for consultation, but by publishing the proposal it provides a timeframe for persons likely to be affected to submit their views.

5.46 The Code on Wages Bill (2017) does not change the mechanisms of consultation; and even if the notification method is used, it encourages the appropriate government to consult the Advisory Board concerned, constituted under section 42 for the revision of minimum wage rates. Both the Central and State Advisory Boards, depending on the case, will – as at present - be constituted by “persons representing employers” and an equal number of “persons representing employees”, as well as independent persons.

5.47 There is a process of consultation in all international examples, and in three countries (Malaysia, Viet Nam and South Africa), technical boards make a contribution by formulating sound evidence-based information and analysis that is brought before the social partners.

5.48 Further, Convention No. 131, as discussed in chapter 3, states that there should be full consultation in the design and operation of the minimum wage system and, where appropriate, the direct participation of the social partners. It is pertinent to adequately define the responsibilities and roles of the employers, trade unions and governments in the minimum wage system, and in the consultation process.

5.49 The lessons learned from the international experience indicate that the process of consultation could be strengthened with the use of timely statistical information and evidence-based arguments. Strengthening the technical capacity of the advisory boards, by providing them with timely access to official data, analyses and studies undertaken by specialized agencies, can enhance the level at which social dialogue and consultation takes place.

### Criteria for setting the minimum wage (balancing the needs of workers and the economy)

5.50 Most countries have included, in their legislation or rules, the procedures and elements that need to be considered when setting minimum wages. International experiences shows there is no specific model to follow. Most countries use a set of balanced indicators to address both the needs of workers and their families, as well as economic factors. For the latter, countries usually look at GDP or GDP per capita for economic performance and productivity. Average or median wages, or the ratio of the minimum to the average wage, are used to capture the level of wages in the current economic context. Identified practices include impact studies on employment and other variables. Similarly, the capacity of employers to carry on their business successfully are also taken into account to set the minimum wage level. In order to have reliable studies, it is important to have regular statistical information and the use of different methodologies to contrast the results.

5.51 As regards need-based indicators, the use of poverty lines or the calculation of baskets of goods and services to meet the requirements of an average household are found in almost all international country experiences. In some cases, such as Brazil and the Russian Federation, poverty lines or subsistence minimum are benchmarks with which to compare minimum wages. In China, the Russian Federation, Viet Nam, Malaysia and South Africa, these indicators are also used to determine when there should be a revision of the minimum wage.

5.52 In India, as in other countries, the methodology to address the needs should be evidence-based, and there should be agreement upon the elements that constitute a basket of food and non-food items. The regional realities should be captured in these need-based benchmarks.

5.53 As in the case of the Minimum Wages Act, 1948, the Code on Wages Bill, 2017, does not determine the factors or criteria to take into account when setting minimum wages. The existing methodological framework recommended by the ILC 1957 and the SC's judgment 1992 still represent the need-based norms. Chapter 4 has proposed an update of these norms in the light of new evidence from the consumer expenditure survey (NSS 2011-12) in reference to nutritional intakes, per household consumption units, and food and non-food expenditure.

### Regular adjustment

5.54 The Minimum Wages Act, 1948, empowered the states to set a wide variety of minimum wages and to revise them regularly at appropriate intervals - not exceeding five years using the same method as for fixing minimum wages (ILO, 2018).

5.55 The Code on Wages Bill, 2017, similar to the Minimum Wages Act, 1948, encourages the appropriate government to review or revise minimum rates of wages at an interval of five years.

5.56 The regular adjustment of minimum wages is to ensure that changes in the socio-economic conditions in a particular state are taken into account. In India, we find that the practice of adjustment is somehow discretionary at the state level, and the ILO's *India Wage Report* (ILO, 2018) has highlighted this situation. States like Kerala are well known for their higher minimum wages, although during the 2008-13 period real minimum



wages decreased in some scheduled employments such as brick kilns, oil mills and printing presses, whereas they increased in others such as agriculture, stone breaking and the crushing industry. Meanwhile, during the same period in Maharashtra, real minimum wages decreased in agriculture, construction and printing presses (Ibid.). The six-month adjustment on a regular basis only takes place at the central level under the Minimum Wages Act - and for government staff under the Pay Commissions. However, the NFLMW, which is not a statutory minimum wage, is adjusted by the central government on a regular basis every two years, taking into account the cost of living through the CPI-IW.

5.57 In most international experiences, minimum wages are adjusted by reference to the consumer price index or other similar indicators that may reflect the changes in cost of living of lower income households – such as in the cases of Brazil and South Africa. It would therefore be advisable for the appropriate governments in India to adjust the minimum wages at a uniform and fixed interval, not exceeding six months, to offset changes in the cost of living.

5.58 It is important to notice that adjustments made only on the basis of the cost of living will only maintain purchasing power. For economic growth to be translated fully into wages, adjustments should not only take account of changes in the cost of living, but also refer to other indicators related to the country's economic growth (GDP growth and growth in labour productivity). Some countries have explicitly used both indicators (GDP growth and CPI) to adjust minimum wage levels on a regular basis<sup>86</sup>.

## Conclusions

5.59 Most countries have a minimum wage system in place with some kind of minimum-wage setting procedure. These countries use wage policy either to provide protection to their low-paid workers, reduce inequalities, diminish gender pay gaps or even to stimulate economic development.

5.60 While India has introduced a national minimum wage with the Code on Wages Bill (2017), it is important to review different international experiences with a view to understanding their minimum wage system structures. This Committee has drawn upon four important features of a minimum wage system, as conceived in ILO's Convention No. 131, to capture the way in which minimum wage policy operates in different countries.

5.61 The BRICS countries are distinguished by their size; they are large economies with a significant influence on regional or global affairs. Most BRICS countries have a national minimum wage, and other minimum wage rates may be fixed above this level. However, China, Viet Nam and Malaysia extend the coverage through regional minimum wages. In these three countries, there are specific methodologies or guidelines to address the way they should revise the regional minimum wage. If India decides to establish regional minimum wages, it is important to formulate a uniform sound methodology to calculate the minimum wage in these regions, which the present Expert Committee has addressed in Chapter 4. The international examples demonstrate that a universal wage floor is common; India's the Code on Wages Bill, 2017 is therefore in line with these showcased minimum wage systems.

5.62 In all international examples, there is some process of consultation. In Malaysia, Viet Nam and South Africa, technical boards also make a contribution by providing the social partners with sound evidence-based studies, information and analyses that they might use in their deliberations. India has specialized institutions

<sup>86</sup>In Brazil, Costa Rica, South Africa, and Viet Nam, minimum wages are revised on a regular basis, taking into consideration GDP growth over the previous two years (Brazil), productivity (Costa Rica, Peru, Viet Nam), or sectoral growth (South Africa), as well as inflation (ILO, 2014).



that may strengthen the capacity of the advisory boards, by delivering timely statistical data and analysis, as well as evidence-based information, for improving the process of consultation.

5.63 The regular adjustment of minimum wages is to ensure that account is taken of the changes in the cost of living and other economic circumstances. Most countries make annual adjustments that include at least the changes in the consumer price index in the minimum wage. India has different practices of adjustment. In the case of government employees, a Dearness Allowance is granted every six months. This allowance also exists in some states for certain scheduled employments - but on a discretionary basis. The NFLMW adjusts its value every two years; and in accordance with the Minimum Wages Act, 1948, the revision of minimum wages takes place at least every five years.

5.64 National or regional minimum wages should be adjusted at more frequent intervals than five years. If the consumer price index is available, the periodic adjustment could be made every six months - to emulate the practice used to adjust the wages of government employees.





## Chapter 6: Recommendations

In the light of the discussions in the foregoing Chapters, the Committee makes the following recommendations:

6.1 The Committee recommends that the existing norms for fixing minimum wages should be updated in the light of the latest available evidence relating to per household consumption units, food and nutritional requirements, changing consumption pattern and non-food expenditure requirements.

6.2 Recognizing the changes in the population composition over time, the Committee recommends increasing the previously established three consumption units per worker's family to 3.6 consumption units in order to calculate the minimum wage.

6.3 Considering the overall framework and guiding principles of the Indian Labour Conference (ILC) of 1957 and the Supreme Court (SC) judgment of 1992 in the case of *Workmen v. Reptakos Brett & Co.*, the Committee recommends that the national minimum wage (NMW) should be able to meet a working family's minimum required expenditure on food and non-food, which should be adequate to preserve the efficiency of workers at their job and the health of their families.

6.4 The minimum required food expenditure should be sufficient to ensure that workers and their families are able to meet their minimum nutritional requirements. The Committee recommends elaborating a nationally representative and culturally palatable food basket, by adopting an approach that would focus on a balanced diet rather than merely its calorie intake. This approach should not only concentrate on the minimum requirement of calories but also on the minimum requirement of protein and fats.

6.5 Recognizing that there have been changes in the population's level of activity, implying a reduction in the proportion of workers engaged in heavy work and an increase in the number of workers in moderate and sedentary occupations, the Committee recommends setting the minimum wage at a level that would allow for a minimum recommended intake (per adult person per day) of 2,400 calories, 50 grams of protein and 30 grams of fats.

6.6 The Committee recommends using the unit values (implicit prices) of food items available through the Consumer Expenditure Surveys (CES) of the National Sample Survey Office (NSSO) for calculating the total food expenditure of households and setting the base level minimum wage. However, in between the NSSO surveys, there should be an intermediate adjustment to accommodate changes in prices at least in every six months, on the basis of the CPI made available by the CSO.

6.7 For estimating the required expenditure on non-food items, the Committee complies with the ILC of 1957 and SC judgment of 1992 norms and identifies two groups of commodities: i) essential non-food items, namely clothing, fuel and light, house rent, education, medical, footwear, and transport (or conveyance); and ii) other non-food items, (such as entertainment, durable goods, toilet articles, other household consumables, consumer services excluding conveyance, and consumer taxes. The Committee recommends that the required expenditure of essential non-food items be equal to the median class of the expenditure distribution, and that of the other non-food items be equal to the expenditure for the sixth fractile (25-30 per cent) of the distribution in the NSSO-CES 2011/12 survey data.

6.8 On the basis of this approach, the Committee is of the considered view that the single value of the NMW for India should be set at ₹ 375 per day as of July 2018. This would be equivalent to ₹ 9,750 per month, irrespective of sectors, skills, occupations and rural-urban locations.

6.9 Alternatively, the Committee recommends the NMW for five different regions with diverse socio-economic and labour market situations. Four of these five regions may be constituted by using varied socio-economic and labour market factors, while the fifth group may include all north-eastern states except Assam. A regional NMW calculated in this matter would have the potential to address varying economic situations in different states.

6.10 For estimating the NMW at the regional level, the Committee recommends using the nationally representative food basket for all regions instead of estimating and using regional representative food baskets for each of the five regions. This will help dissociate the consumption pattern from the level of poverty and ability to pay in a region, while maintaining the palatability of the food basket. However, the Committee recommends using the regional average unit price of each food item to arrive at the total minimum consumption expenditure required for households. The required expenditure for non-food items – both essential and other – will be estimated separately for each region. Following the above approach, the Committee recommends that NMW per day (per month) for Region I, Region II, Region III, Region IV and Region V should be set at ₹ 342 (₹ 8,892); ₹ 380 (₹ 9,880); ₹ 414 (₹ 10,764), ₹ 447 (₹ 11,622) and ₹ 386 (₹ 10,036), respectively, as of July 2018, irrespective of sectors, skills, occupations and rural-urban locations<sup>87</sup>.

6.11 As house rent accounts for a significant proportion of the overall non-food component, the Committee recommends an additional house rent allowance, averaging up to ₹ 55 per day i.e., ₹ 1,430 per month for urban workers over and above the NMW. However, this - city compensatory rent allowance may be allowed to vary in accordance with the type of city and town. The Committee recommends that a separate study should be undertaken to determine the city compensatory rent allowance by type of city and town.

6.12 The Committee recommends that minimum wages be fixed at round numbers, which are much easier to disseminate. This will also facilitate the minimum wage enforcement process.

6.13 The estimated single value of the NMW, or its different value at the regional levels proposed by this Committee, only accounts for the expenditure required to meet the basic level of needs (food and non-food expenditure) of workers and their families. In no way does it reflect any link with the paying capacity of employers, labour productivity and other similar economic criteria. As recommended by the ILC in 1957 and the SC 1992 judgment, the NMW just meets the criteria for maintaining the work efficiency of workers and the healthy living of their families.

6.14 The Committee recommends that the period during which the minimum proposed wages are implemented, and the terms under which they are applied, should be defined through a full consultation process with the stakeholders.

<sup>87</sup> The states and UTs under each of the regions are as follows: Region I (Assam, Bihar, Jharkhand, Madhya Pradesh, Odisha, Uttar Pradesh and West Bengal); Region II (Andhra Pradesh, Chhattisgarh, Rajasthan, Jammu & Kashmir and Uttrakhand); Region III (Gujarat, Karnataka, Kerala, Maharashtra, Tamil Nadu), Region IV (Delhi, Goa, Haryana, Himachal Pradesh and Punjab) and Region V (Arunachal Pradesh, Manipur, Meghalaya, Nagaland, Sikkim, Mizoram and Tripura).

6.15 Since the level of minimum wages is inextricably tied to the consumption basket, and consumption patterns may change over time, the Committee recommends that an expert committee review the consumption basket every five years, subject to the availability of NSSO-CES data. However, as stated earlier, the Committee recommends that, during the interval period, the basic minimum wage should be revised and at least updated in line with the CPI every six months, to reflect changes in the cost of living.

6.16 The Committee acknowledges that referring to the CPI to ascertain the changes in the cost of living will ensure that the purchasing power of the minimum wage will not deteriorate. The Committee suggests that if the country's economic realities are factored into the minimum wage, any adjustments should take into account inflation and productivity. The Committee recommends that further research is required to arrive at any productivity-linked revisions.

6.17 The Committee recommends the creation of a research unit in the Ministry of Labour and Employment to support the Central Advisory Board and State Advisory Boards at the time of formulating recommendations to set and adjust minimum wages. This research unit should provide information, evidence-based studies and minimum wage impact analyses to pave the way for the discussion on the revision and adjustment of the minimum wage level.

6.18 The Committee recommends adhering to the provisions of the ILO Minimum Wage Fixing Convention, 1970 (No.131) to address the design and operation of the Indian minimum wage system.

6.19 The Committee recognizes the need for measures to be put in place to ensure the effective application of all provisions relating to minimum wages. Once the national or regional minimum wages have been fixed, the Committee recommends that a minimum wage campaign be launched with awareness-raising activities and information dissemination strategies at the national and subnational levels. Other measures might include capacity-building activities and the use of technology, inter alia, to better enforce compliance with minimum wage payments.





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## Appendix Tables

**Appendix table 2.1: NFLMW norms suggested by the Working Group and accepted by CAB in 2003**

1. The norm of 3 consumption units i.e. 2 adults plus 2 children for one earner.
2. Minimum food requirement of 2700 calories per average Indian adult. This incidentally synchronizes almost with 2668 calories of basket of food items worked out as per capita food consumption in rural area reported by NSSO (55th Round) Consumer Expenditure Survey in 1999-2000, which may be accordingly calibrated with reference to NSSO quinquennial Surveys.
3. The clothing requirement in terms of per capita expenditure as estimated by NSSO Consumer Expenditure Survey.
4. The expenditure on fuel, lighting and miscellaneous as per ILC norms and expenditure on children's education, medical requirement etc. as per SC Judgment should also be determined by the results of Consumer Expenditure Survey conducted by NSSO.
5. The minimum wages so determined using the guidelines as enumerated in a) to d) above would be applicable to the unskilled labour each for rural area and the urban area and in respect of each scheduled employment.
6. The minimum wages for semi-skilled, skilled and highly skilled workers need not be fixed separately as these would automatically get settled at relatively higher levels.

**Source:** Information provided by the Wage Cell, Ministry of Labour and Employment (MoLE), Government of India.

Appendix table 2.2: Seventh Central Pay Commission calculation of minimum pay

Calculation of minimum pay as at 1 January 2016 by the Commission								
Sl. No.	Food and non-food items	Per day PCU*	Unit	Per month 3 PCU	Unit	Price/unit (₹)	Expenses (₹)	
1.	Rice/wheat	475	gm	42.75	kg	25.93	1,108.30	
2.	Dal (toor/urad/moong)	80	gm	7.20	kg	97.84	704.44	
3.	Raw vegetables	100	gm	9.00	kg	58.48	526.28	
4.	Green vegetables	125	gm	11.25	kg	38.12	428.85	
5.	Other vegetables	75	gm	6.75	kg	32.80	221.42	
6.	Fruits	120	gm	10.80	kg	64.16	692.93	
7.	Milk	200	ml	18.00	litre	37.74	679.26	
8.	Sugar/jaggery	56	gm	5.04	kg	37.40	188.48	
9.	Edible oil	40	gm	3.60	kg	114.02	410.4	
10.	Fish			2.50	kg	268.38	670.95	
11.	Meat			5.00	kg	400.90	2,004.51	
12.	Egg			90.00	no.	4.27	383.98	
13.	Detergents etc.			₹/ per month		291.31	291.31	
14.	Clothing			5.50	metre	164.88	906.83	
15.	<b>Total (1-14)</b>							9,217.99
16.	Fuel, electricity, water charges							2,304.50
17.	Total-(15) divided by 0.8							11,522.49
18.	Marriage, recreation, festivals, etc.							2,033.38
19.	Total-(17) divided by 0.85							13,555.87
20.	Provide for skill by adding 25% to (19)							3,388.97
21.	Sum (19+20)							16,944.84
22.	Housing @							524.07
23.	Total-Divide No.21 by 0.97							17,468.91
24.	Step up of 3% on No.23 as DA is projected at 125% on 01.01.2016							524.07
25.	Final minimum pay as on 01.01.2016 (23+24)							17,992.98
26.	<b>Rounding off</b>							<b>18,000</b>

Source: Report of the Seventh Pay Commission, GOI 2015.

Note: \*PCU = Per-capita consumption unit

Appendix table 4.1: Scale for converting number of persons (in different age groups and according to gender) to consumer units

Gender	Number of consumer units assigned to a person											
	Age in completed years											
	<1	1-3	4-6	7-9	10-12	13-15	16-19	20-39	40-49	50-59	60-69	70+
Male	0.43	0.54	0.72	0.87	1.03	0.97	1.02	1	0.95	0.9	0.8	0.7
Female	0.43	0.54	0.72	0.87	0.93	0.8	0.75	0.71	0.68	0.64	0.51	0.5

Source: Report on *Nutritional intake in India, 2011-12* (NSSO, 2014c), p.8.

**Appendix table 4.2: Average monthly per consumption unit quantity (kg.\*) and value of different food items consumed by households meeting balanced dietary norms at three different calorie levels (Contd.)**

Food items	2,100 calories		2,400 calories		2,700 calories	
	Quantity (kg.*)	Value (₹)	Quantity (kg.*)	Value (₹)	Quantity (kg.*)	Value (₹)
rice – PDS	1.64	33.54	1.63	33.52	1.67	34.43
rice – other sources	4.74	97.12	5.12	105.34	5.46	112.21
chira	0.09	2.47	0.10	2.73	0.10	2.79
khoi, lawa	0.00	0.12	0.00	0.14	0.00	0.18
muri	0.08	2.56	0.08	2.65	0.09	2.92
other rice products	0.02	0.51	0.02	0.54	0.03	0.71
wheat/atta – PDS	0.86	11.45	0.87	11.59	0.89	11.68
wheat/atta – other sources	4.71	62.74	5.20	69.01	5.72	75.43
maida	0.06	1.18	0.06	1.19	0.06	1.27
suji, rawa	0.10	2.51	0.12	2.85	0.13	3.09
sewai, noodles	0.02	1.23	0.03	1.55	0.03	1.83
bread (bakery)	0.07	2.79	0.08	3.30	0.09	3.66
other wheat products	0.00	0.13	0.00	0.11	0.00	0.11
jowar & products	0.25	5.76	0.24	5.49	0.23	5.18
bajra & products	0.27	2.94	0.29	3.09	0.32	3.46
maize & products	0.12	1.46	0.13	1.57	0.17	2.04
barley & its products	0.00	0.01	0.00	0.02	0.00	0.03
small millets & products	0.00	0.10	0.00	0.14	0.01	0.16
ragi & products	0.10	1.23	0.11	1.43	0.12	1.47
other cereals	0.01	0.25	0.01	0.26	0.01	0.31
cereal substitutes (tapioca, jackfruit seed, etc.)	0.04	1.36	0.04	1.43	0.05	1.58
arhar, tur	0.31	19.33	0.32	20.39	0.34	21.52
gram (split)	0.10	4.88	0.12	5.47	0.13	6.01
gram (whole)	0.05	2.36	0.06	2.77	0.07	3.17
moong	0.13	8.45	0.14	9.38	0.16	10.20
masur	0.13	6.90	0.13	7.10	0.14	7.69
urd	0.11	6.60	0.12	7.33	0.14	8.32
peas	0.05	1.54	0.05	1.67	0.05	1.67
khesari	0.01	0.28	0.01	0.26	0.01	0.28
other pulses	0.04	2.28	0.05	2.68	0.06	3.13
gram products	0.01	0.67	0.01	0.68	0.01	0.71
besan	0.07	3.48	0.08	3.94	0.09	4.48
other pulse products	0.02	0.94	0.02	0.99	0.02	1.11
milk: liquid (litre)	6.04	157.88	7.19	186.37	8.65	223.48
baby food	0.00	1.03	0.00	0.91	0.00	0.75
milk : condensed/ powder	0.00	0.91	0.00	0.80	0.01	1.04
curd	0.04	1.64	0.05	2.04	0.06	2.34

Food items	2,100 calories		2,400 calories		2,700 calories	
	Quantity (kg.*)	Value (₹)	Quantity (kg.*)	Value (₹)	Quantity (kg.*)	Value (₹)
ghee	0.03	10.63	0.04	13.82	0.05	16.74
butter	0.00	0.36	0.00	0.51	0.00	0.72
ice-cream (rural)	0.00	0.72	0.00	1.02	0.00	1.32
other milk products (rural)	0.00	0.85	0.00	1.06	0.00	1.25
other milk products (urban)	0.31	3.17	0.32	3.32	0.34	3.51
sugar – PDS	0.13	4.17	0.13	4.25	0.14	4.55
sugar – other sources	0.83	27.13	0.92	30.06	1.02	33.30
gur	0.06	2.28	0.08	2.78	0.10	3.48
candy, misri	0.00	0.13	0.00	0.18	0.01	0.25
honey	0.00	0.15	0.00	0.22	0.00	0.25
vanaspati, margarine	0.02	1.64	0.03	1.84	0.03	2.26
mustard oil	0.34	27.54	0.37	30.08	0.40	33.03
groundnut oil	0.06	5.51	0.07	6.64	0.08	7.68
coconut oil	0.02	1.49	0.02	1.43	0.02	1.59
refined oil [sunflower, soyabean, saffola, etc.]	0.34	26.30	0.36	28.27	0.37	28.48
edible oil: others	0.09	5.99	0.08	5.60	0.08	5.53
eggs (number)	1.76	6.13	1.87	6.55	1.97	6.95
fish, prawns	0.23	20.78	0.24	21.66	0.26	23.38
goat meat/mutton	0.05	13.12	0.06	14.92	0.07	17.48
beef/ buffalo meat	0.04	4.13	0.04	3.91	0.04	4.20
pork	0.01	0.81	0.01	0.83	0.01	0.87
chicken	0.16	18.59	0.17	19.70	0.18	20.65
others: birds, crab, oyster, tortoise etc.	0.00	0.13	0.00	0.19	0.00	0.22
potato (includes sweet potato and green plantain)	1.69	16.32	1.83	17.53	2.08	19.46
onion	0.81	10.95	0.87	11.70	0.93	12.57
tomato	0.56	9.05	0.61	9.90	0.66	10.74
brinjal	0.32	5.34	0.34	5.68	0.37	6.03
radish	0.12	1.25	0.14	1.45	0.16	1.61
carrot	0.09	1.68	0.10	1.87	0.11	2.06
palak/other leafy vegetables	0.40	5.87	0.43	6.29	0.47	6.70
chillis: green	0.14	4.33	0.15	4.62	0.16	5.00
lady's finger	0.19	4.33	0.20	4.50	0.21	4.73
parwal, patal/kundru	0.09	1.95	0.10	2.04	0.10	2.19
cauliflower	0.23	3.79	0.26	4.15	0.28	4.45
cabbage	0.20	2.93	0.21	3.03	0.22	3.08
gourd, pumpkin	0.26	3.36	0.28	3.57	0.29	3.85
peas	0.09	1.75	0.10	2.07	0.12	2.35
french beans, barbati	0.10	2.46	0.11	2.65	0.12	2.80
lemon (number)	1.12	1.86	1.24	2.07	1.38	2.27

Food items	2,100 calories		2,400 calories		2,700 calories	
	Quantity (kg. *)	Value (₹)	Quantity (kg. *)	Value (₹)	Quantity (kg. *)	Value (₹)
other vegetables (rural)	0.41	7.31	0.43	7.81	0.47	8.53
banana (number)	3.40	7.05	3.96	8.26	4.59	9.73
jackfruit	0.01	0.11	0.01	0.12	0.02	0.19
watermelon	0.06	0.76	0.07	0.82	0.07	0.84
pineapple (number)	0.01	0.20	0.02	0.29	0.01	0.28
coconut (number)	0.50	4.53	0.52	4.74	0.57	5.27
coconut: green (number)	0.07	0.79	0.08	0.98	0.09	1.10
guava	0.06	1.01	0.07	1.24	0.09	1.63
singara	0.01	0.12	0.01	0.15	0.01	0.19
orange, mausami (number)	0.41	1.68	0.52	2.13	0.62	2.59
papaya	0.04	0.78	0.05	1.01	0.07	1.36
mango	0.12	4.14	0.14	4.65	0.16	5.24
kharbooza	0.02	0.23	0.02	0.27	0.02	0.32
pears, naspati	0.00	0.08	0.00	0.09	0.00	0.11
berries	0.00	0.06	0.00	0.08	0.01	0.12
leechi	0.00	0.19	0.00	0.24	0.01	0.29
apple	0.07	5.89	0.09	7.61	0.11	9.62
grapes	0.04	2.12	0.04	2.42	0.05	2.74
other fresh fruits (rural)	0.00	1.33	0.00	1.75	0.00	2.20
coconut, copra	0.02	1.52	0.02	1.72	0.02	1.84
groundnut	0.06	4.49	0.08	5.25	0.09	5.86
dates	0.01	0.58	0.01	0.70	0.01	0.83
cashewnut	0.00	1.12	0.00	1.62	0.00	2.22
walnut	0.00	0.16	0.00	0.28	0.00	0.36
other nuts	0.00	0.38	0.00	0.61	0.00	0.93
raisin, kishmish, monacca, etc.	0.00	0.88	0.00	1.18	0.01	1.56
other dry fruits	0.00	0.67	0.00	0.90	0.00	1.22
ginger (grams)	47.48	2.54	52.12	2.76	57.82	3.07
garlic (grams)	61.04	4.43	65.97	4.80	70.93	5.21
jeera (grams)	22.18	4.39	24.07	4.77	26.00	5.18
dhania (grams)	40.49	3.81	44.27	4.15	47.96	4.58
turmeric (grams)	35.26	5.86	38.08	6.36	41.91	7.01
black pepper	5.38	1.70	5.70	1.79	6.15	1.91
dry chillies (grams)	57.87	7.21	61.15	7.66	64.63	8.16
tamarind (grams)	25.43	2.19	26.08	2.25	26.77	2.26
curry powder (grams)	10.21	1.96	11.22	2.16	11.57	2.28
oilseeds (grams)	12.77	0.95	13.61	1.01	14.34	1.06
other spices (grams)	22.47	4.11	24.12	4.55	26.28	5.03
tea : cups (number)	3.06	12.43	3.64	14.86	4.40	17.93
tea : leaf (grams)	75.61	16.24	82.57	17.90	89.01	19.31

Food items	2,100 calories		2,400 calories		2,700 calories	
	Quantity (kg.*)	Value (₹)	Quantity (kg.*)	Value (₹)	Quantity (kg.*)	Value (₹)
coffee : cups (number)	0.05	0.25	0.07	0.45	0.11	0.75
coffee: powder (grams)	2.87	0.93	3.46	1.14	3.80	1.31
mineral water (litre)	0.38	0.40	0.43	0.53	0.48	0.66
cold beverages: bottled/canned (litre)	0.03	1.00	0.04	1.31	0.05	1.88
fruit juice and shake (litre)	0.02	0.78	0.02	1.06	0.03	1.56
other beverages: cocoa, chocolate etc. (rural)	0.00	1.10	0.00	1.31	0.00	1.50
cooked meals purchased (number)	0.33	12.69	0.72	23.54	1.67	51.98
cooked meals received as assistance (number)	0.00	1.69	0.00	4.41	0.00	7.72
cooked meals received free at work place (number)	2.26	18.15	2.64	21.95	2.77	23.03
cooked snacks purchased [samosa, puri, paratha, burger, chowmein, idli, dosa, vada, chops, pakoras, pao bhaji, etc.] (rural)	0.00	14.44	0.00	16.92	0.00	22.37
other served processed food (rural)	0.00	1.16	0.00	1.50	0.00	2.12
prepared sweets, cake, pastry	0.00	7.68	0.00	9.47	0.00	11.62
biscuits, chocolates, etc.	0.00	11.36	0.00	12.55	0.00	14.00
papad, bhujia, namkeen, mixture, chanachur	0.06	6.04	0.06	6.97	0.07	7.88
chips (grams)	0.01	0.98	0.01	1.17	0.01	1.33
pickles (grams)	0.01	0.70	0.01	0.88	0.01	1.09
sauce, jam, jelly (grams)	0.00	0.31	0.00	0.47	0.00	0.64

**Source:** Computed from unit level data of NSS-CES, 2011-12

**Note:** \* units are in kg. unless otherwise mentioned



**Appendix table 4.3: Average monthly per consumption unit values (₹) of different non-food\* consumption expenditure items by fragile groups, 2011-12**

Fractile Groups	Fuel & light	Medical	Transport	Rent	Clothing	Footwear	Education	Entertainment	Personal and toiletries	Consumer services	Personal taxes	Durable goods
1	92.0	25.3	12.8	3.5	52.7	8.2	13.8	4.3	36.4	23.8	1.6	13.2
2	108.4	37.6	19.4	5.9	65.8	10.5	22.5	7.7	45.6	33.3	2.6	17.7
3	117.4	43.1	25.1	8.8	75.8	11.6	29.0	9.7	52.5	39.1	3.4	22.5
4	124.5	53.7	31.6	11.8	82.4	13.5	33.4	12.2	59.2	48.3	3.9	24.2
5	130.6	59.1	39.3	15.9	89.7	14.5	37.3	13.0	62.5	51.0	5.0	27.1
6	135.7	62.5	46.5	18.6	94.4	15.7	46.3	15.4	68.3	54.3	5.3	31.3
7	142.6	73.6	54.6	22.3	99.0	16.7	54.3	17.0	74.2	62.3	6.6	33.9
8	151.5	77.3	62.7	27.3	105.0	18.0	55.8	20.1	78.0	69.2	7.2	37.0
9	157.1	86.5	72.0	30.0	111.8	19.2	71.2	21.1	82.5	71.6	7.4	42.4
10	160.1	94.6	77.8	43.4	120.0	21.0	73.7	23.7	90.2	78.8	8.9	47.0
11	167.5	110.2	89.0	51.5	122.3	22.0	82.3	25.0	94.3	86.7	9.5	52.7
12	174.1	111.6	99.4	51.0	129.5	23.3	95.9	28.7	100.1	94.1	10.6	61.0
13	184.4	130.7	116.4	57.7	138.3	24.7	108.2	31.4	107.3	102.4	11.5	67.7
14	195.8	144.7	132.6	65.0	147.4	26.5	120.5	32.8	117.1	115.9	13.0	87.9
15	201.5	164.5	150.9	78.0	155.9	28.4	139.0	38.7	122.9	126.5	13.0	100.3
16	212.2	183.9	180.8	85.4	166.1	30.8	161.4	42.1	129.0	142.8	15.9	120.9
17	226.3	226.0	216.8	104.1	181.4	33.6	200.4	47.6	143.8	169.4	20.6	149.3
18	250.2	280.6	270.8	134.8	214.4	39.6	268.4	57.0	164.2	217.2	24.4	209.5
19	275.3	412.6	382.2	241.8	251.0	46.9	381.9	70.9	193.5	307.5	31.3	355.5
20	354.2	830.5	713.6	531.1	354.7	67.3	682.6	118.1	262.8	541.0	52.4	1176.4
<b>Total</b>	<b>168.2</b>	<b>136.3</b>	<b>117.2</b>	<b>64.3</b>	<b>127.1</b>	<b>22.5</b>	<b>112.5</b>	<b>27.9</b>	<b>95.7</b>	<b>105.4</b>	<b>11.0</b>	<b>105.2</b>

Source: *ibid*

Note: the non-food item groups in the table include subtotals of the item categories under CES 2011-12 item codes: 349 (fuel and light), 419 and 429 (medical), 519 (transport), 529 (rent), 379 and 389 (clothing), 399 (footwear), 409 (education), 439 (entertainment), 449, 459 and 479 (personal and toiletries), 499 (consumer services), 549 (personal taxes), 659 (durable goods).

**Appendix table 4.4: Estimation of daily minimum wage rates (₹) with 3.6 consumption units using alternative scenarios of a balanced diet**

		2,100 calories	2,700 calories
<b>Monthly per consumption unit expenditure</b>		<b>Value (₹)</b>	<b>Value (₹)</b>
Food expenditure (MPCU)		905.3	1,169.6
Non-food expenditure (MPCU)	Essential	591	591
	Other	175	175
<b>Total expenditure (MPCU)</b>		<b>1,671.3</b>	<b>1,935.6</b>



<b>Total monthly household expenditure (MPCU x 3.6 consumption units) – Jan 2012</b>	<b>6,016.68</b>	<b>6,968.16</b>
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<b>Total Monthly Household Expenditure Updated Jul 2018</b>	<b>9,145.4</b>	<b>10,591.6</b>
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<b>Daily wage to cover 26 days (Monthly household expenditure / 26)</b>	<b>351.7</b>	<b>407.4</b>
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Source: ibid.

**Appendix table 4.5: Estimation of daily minimum wage rates (₹) for 3 (three) consumption units per family with alternative scenarios of balanced diets**

		2,100 calories	2,400 calories	2,700 calories
<b>Monthly per consumption unit expenditure</b>		<b>Value (₹)</b>	<b>Value (₹)</b>	<b>Value (₹)</b>
Food expenditure (MPCU)		905.3	1,020.2	1,169.6
Non-food expenditure (MPCU)	Essential	591	591	591
	Other	175	175	175
<b>Total expenditure (MPCU)</b>		<b>1,671.3</b>	<b>1,786.2</b>	<b>1,935.6</b>



<b>Total monthly household expenditure (MPCU x 3 consumption units) - Jan 2012</b>	<b>5,013.9</b>	<b>5,358.6</b>	<b>5,806.8</b>
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<b>Total monthly household expenditure Updated July 2018</b>	<b>7,621.1</b>	<b>8,145.1</b>	<b>8,826.3</b>
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<b>Daily wage to cover for 26 days (monthly household expenditure / 26)</b>	<b>293.1</b>	<b>313.3</b>	<b>339.5</b>
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Source: ibid

**Appendix table 4.6: Estimation of daily minimum wage rates (₹) using CPI (IW) for 3.6 consumption units per family**

		2,400 calories	2,700 calories
<b>Monthly per consumption unit expenditure</b>		<b>Value (₹)</b>	<b>Value (₹)</b>
Food expenditure (MPCU)		1,135.9	1,338.0
Non-food expenditure (MPCU)	Essential	591	591
	Other	175	175
<b>Total expenditure (MPCU)</b>		<b>1,901.9</b>	<b>2,104.0</b>



<b>Total monthly household expenditure (MPCU x 3.6 consumption units) - Jan 2012</b>	<b>6,846.8</b>	<b>7,574.4</b>
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<b>Total monthly household expenditure Updated July 2018</b>	<b>10,407.2</b>	<b>11,513.1</b>
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<b>Daily wage to cover for 26 days (monthly household expenditure / 26)</b>	<b>400.3</b>	<b>442.8</b>
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Source: ibid.

**Appendix table 4.7: Estimation of daily minimum wage rates (₹) using CPI (IW) for 3 (three) consumption units per family**

		2,400 calories	2,700 calories
<b>Monthly per consumption unit expenditure</b>		<b>Value (₹)</b>	<b>Value (₹)</b>
Food expenditure (MPCU)		1,135.9	1,338.0
Non-food expenditure (MPCU)	Essential	591	591
	Other	175	175
<b>Total expenditure (MPCU)</b>		<b>1,901.90</b>	<b>2,104.00</b>



<b>Total monthly household expenditure (MPCU x 3 consumption units) - Jan 2012</b>	<b>5,705.7</b>	<b>6,312.0</b>
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<b>Total monthly household expenditure Updated July 2018</b>	<b>8,672.7</b>	<b>9,594.2</b>
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<b>Daily wage to cover for 26 days (monthly household expenditure / 26)</b>	<b>333.6</b>	<b>369.0</b>
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Source: ibid.

**Appendix table 4.8: Values of different indicators used for indexing of states**

States	Income		Cost of living		Labour market		Women empowerment	
	Per person state domestic product (₹)	Agricultural labour productivity (₹)	Monthly per person consumption expenditure (₹)	Share of non-food consumption in household total expenditure (%)	% Regular workers	Average weekly workdays of employment	Women WPR (%)	Women literacy (%)
Andhra Pradesh	58,733	53,713	1,889.75	58.2	17.94	5.4	35.6	0.55
Assam	33,087	46,696	1,164.84	46.17	14.19	6.06	11.85	0.75
Bihar	19,111	24,988	1,011.43	47.05	5.77	6.06	5.23	0.5
Chhattisgarh	41,165	44,597	1,090.17	55.62	9.74	5.36	37.84	0.62
Delhi	145,129	234,815	3,123.55	64.18	62.92	5.81	10.68	0.78
Goa	168,024	193,131	2,702.86	60.27	60.11	6.19	18.4	0.76
Gujarat	77,485	77,449	1,852.42	54.85	24.69	5.54	22.06	0.64
Haryana	93,852	117,536	2,355.33	56.84	23.91	6.18	14.14	0.64
Himachal Pradesh	68,297	67,281	1,949.19	57.76	18.17	6.05	49.15	0.71
Jammu & Kashmir	40,089	111,372	1,762.54	52.61	20.46	5.6	22.33	0.57
Jharkhand	34,721	44,422	1,120.81	50.51	10.24	5.72	16.97	0.55
Karnataka	62,251	51,850	1,940.23	61.83	22.55	5.34	24.28	0.64
Kerala	69,943	95,646	2,536.54	63.45	22.48	4.61	21.31	0.85
Madhya Pradesh	32,453	51,403	1,232.82	55.55	11.34	5.49	20.72	0.58
Maharashtra	84,858	51,769	2,128.33	60.15	26.48	5.36	28.62	0.69
Odisha	39,537	50,251	1,044.6	51.39	10.56	4.91	23.33	0.59
Punjab	69,582	136,567	2,356.32	60.55	27.48	5.79	19.91	0.68
Rajasthan	44,644	61,512	1,625.98	54.83	12.97	5.77	29.91	0.48
Tamil Nadu	78,473	42,017	2,000.18	60.29	25.54	5.01	29.97	0.7
Uttar Pradesh	26,698	52,118	1,258.39	53.97	10.64	5.19	16.08	0.5
Uttaranchal	73,819	67,572	1,778.84	55.08	17.49	4.88	25.23	0.69
West Bengal	47,245	74,513	1,521.39	51.83	16.82	5.05	18.51	0.64
<b>All India</b>	<b>54,021</b>	<b>55,891</b>	<b>1,627.13</b>	<b>56.49</b>	<b>17.85</b>	<b>5.91</b>	<b>21.95</b>	<b>0.6</b>

Source: ibid.

**Appendix table 4.9: Index values of each indicator and average index for each state**

States	Income		Cost of living			Labour market		Women empowerment		Average Index
	Per person state domestic product	Agricultural labour productivity	Monthly per person consumption expenditure	Share of non-food in household total consumption expenditure	Regular workers	Average weekly workdays of employment	Women WPR	Women literacy		
Andhra Pradesh	26.61	13.69	41.58	66.83	21.29	49.93	69.15	18.84	38.49	
Assam	9.39	10.35	7.26	0.00	14.73	91.62	15.07	72.81	27.65	
Bihar	0.00	0.00	0.00	4.91	0.00	91.75	0.00	5.79	12.81	
Chhattisgarh	14.81	9.35	3.73	52.47	6.95	47.21	74.25	36.97	30.72	
Delhi	84.63	100.00	100.00	100.00	100.00	75.81	12.41	81.11	81.74	
Goa	100.00	80.13	80.08	78.33	95.08	100.00	29.99	76.22	79.98	
Gujarat	39.20	25.00	39.82	48.23	33.11	58.57	38.32	44.61	40.86	
Haryana	33.03	20.16	44.40	64.38	21.70	90.93	100.00	63.69	54.78	
Himachal Pradesh	50.19	44.11	63.63	59.29	31.74	99.11	20.29	43.24	51.45	
Jammu & Kashmir	14.09	41.17	35.56	35.79	25.70	62.65	38.93	25.94	34.98	
Jharkhand	10.48	9.26	5.18	24.13	7.82	70.18	26.73	17.96	21.47	
Karnataka	28.97	12.80	43.97	86.97	29.36	46.31	43.37	43.24	41.88	
Kerala	34.14	33.67	72.21	95.98	29.24	0.00	36.61	100.00	50.23	
Madhya Pradesh	8.96	12.59	10.48	52.13	9.75	55.79	35.27	26.45	26.43	
Maharashtra	44.15	12.76	52.88	77.65	36.24	47.14	53.26	58.33	47.80	
Odisha	13.72	12.04	1.57	28.98	8.38	18.93	41.21	28.86	19.21	
Punjab	33.89	53.18	63.67	79.84	37.99	74.31	33.42	55.85	54.02	
Rajasthan	17.15	17.41	29.10	48.13	12.60	73.59	56.19	0.00	31.77	
Tamil Nadu	39.86	8.12	46.81	78.41	34.59	25.62	56.33	58.94	43.59	
Uttar Pradesh	5.09	12.93	11.69	43.32	8.52	36.67	24.70	5.23	18.52	
Uttaranchal	36.74	20.29	36.33	49.50	20.51	17.18	45.54	58.12	35.53	
West Bengal	18.89	23.60	24.14	31.43	19.34	27.81	30.24	44.69	27.52	
All India	23.44	14.73	29.15	57.32	21.14	82.20	38.07	33.99	37.51	

**Source:** *ibid.*

**Appendix table 4.10: Estimation of the regional level daily minimum wage rates (₹) at 2,400 calorie levels of a balanced diet with 3 (three) consumption units per household**

Monthly per consumption unit expenditure (MPCU)		Region I (₹)	Region II (₹)	Region III (₹)	Region IV (₹)	Region V (₹)
Food expenditure (MPCU)		949.6	1,007.9	1,116.7	1,141.3	1,124.4
Non-food expenditure (MPCU)	Essential	521.6	596.1	642	779.2	553.9
	Other	151.4	202.5	210.5	201.3	154.8
<b>Total expenditure (MPCU)</b>		<b>1,622.6</b>	<b>1,806.5</b>	<b>1,969.2</b>	<b>2,121.8</b>	<b>1,833.1</b>



<b>Total monthly household expenditure (MPCU x 3 consumption units) - January 2012</b>	<b>4,867.8</b>	<b>5,419.5</b>	<b>5,907.6</b>	<b>6,365.4</b>	<b>5,499.3</b>
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<b>Total monthly household expenditure Updated July 2018</b>	<b>7,399.1</b>	<b>8,237.6</b>	<b>8,979.6</b>	<b>9,675.4</b>	<b>8,358.9</b>
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<b>Daily wage to cover 26 days (Monthly household expenditure / 26)</b>	<b>284.6</b>	<b>316.8</b>	<b>345.4</b>	<b>372.1</b>	<b>321.5</b>
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Source: *ibid.*



**Appendix table 4.11: Estimation of regional level daily regional minimum wage rate (₹) at the 2,100 and 2,700 calorie level balanced diet with 3.6 consumption units per household**

Monthly per consumption unit expenditure (MPCU)	Region I (in ₹)		Region II (in ₹)		Region III		Region IV		Region V	
	2,100 calories	2,700 calories	2,100 calories	2,700 calories	2,100 calories	2,700 calories	2,100 calories	2,700 calories	2,100 calories	2,700 calories
Food expenditure (MPCU)	838.8	1,096.4	895.4	1,159.4	983.0	1,279.3	1,004.4	1,303.6	1,002.5	1,278.2
Non-food expenditure (MPCU)	Essential	521.6	596.1	596.1	642.0	642.0	779.2	779.2	553.9	553.9
	Other	151.4	151.4	202.5	202.5	210.5	201.3	201.3	154.8	154.8
<b>Total expenditure (MPCU)</b>	<b>1,511.7</b>	<b>1,769.3</b>	<b>1,693.9</b>	<b>1,957.9</b>	<b>1,835.5</b>	<b>2,131.9</b>	<b>1,984.9</b>	<b>2,284.0</b>	<b>1,711.2</b>	<b>1,986.8</b>



<b>Total monthly household expenditure (MPCU x 3.6 consumption units) - January 2012</b>	<b>5,442.1</b>	<b>6,369.5</b>	<b>6,098.0</b>	<b>7,048.4</b>	<b>6,607.8</b>	<b>7,674.8</b>	<b>7,145.6</b>	<b>8,222.4</b>	<b>6,160.3</b>	<b>7,152.5</b>
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<b>Total monthly household expenditure - Updated July 2018</b>	<b>8,272.0</b>	<b>9,681.6</b>	<b>9,269.0</b>	<b>10,713.6</b>	<b>10,043.9</b>	<b>11,665.8</b>	<b>10,861.4</b>	<b>12,498.0</b>	<b>9,363.7</b>	<b>10,871.8</b>
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<b>Daily wage to cover 26 days (Monthly household expenditure / 26)</b>	<b>318.2</b>	<b>372.4</b>	<b>356.5</b>	<b>412.1</b>	<b>386.3</b>	<b>448.7</b>	<b>417.7</b>	<b>480.7</b>	<b>360.1</b>	<b>418.1</b>
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Source: ibid

**Appendix table 4.12: Estimation of regional level daily minimum wage rate (₹) at the 2,100 and 2,700 calorie level balanced diet with 3 (three) consumption units per household**

Monthly per consumption unit expenditure (MPCU)	Region I		Region II		Region III		Region IV		Region V	
	2,100 calories	2,700 calories	2,100 calories	2,700 calories	2,100 calories	2,700 calories	2,100 calories	2,700 calories	2,100 calories	2,700 calories
Food expenditure (MPCU)	838.8	1,096.4	895.4	1,159.4	983.0	1,279.3	1,004.4	1,303.6	1,002.5	1,278.2
Non-food expenditure (MPCU)	Essential	521.6	596.1	596.1	642.0	642.0	779.2	779.2	553.9	553.9
	Other	151.4	151.4	202.5	202.5	210.5	201.3	201.3	154.8	154.8
<b>Total expenditure (MPCU)</b>	<b>1,511.7</b>	<b>1,769.3</b>	<b>1,693.9</b>	<b>1,957.9</b>	<b>1,835.5</b>	<b>2,131.9</b>	<b>1,984.9</b>	<b>2,284.0</b>	<b>1,711.2</b>	<b>1,986.8</b>



<b>Total monthly household expenditure (MPCU x 3 consumption units) - January 2012</b>	<b>4,535.1</b>	<b>5,307.9</b>	<b>5,081.7</b>	<b>5,873.7</b>	<b>5,506.5</b>	<b>6,395.7</b>	<b>5,954.7</b>	<b>6,852.0</b>	<b>5,133.6</b>	<b>5,960.4</b>
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<b>Total monthly household expenditure - Updated July 2018</b>	<b>6,893.4</b>	<b>8,068.0</b>	<b>7,724.2</b>	<b>8,928.0</b>	<b>8,369.9</b>	<b>9,721.5</b>	<b>9,051.1</b>	<b>10,415.0</b>	<b>7,803.1</b>	<b>9,059.8</b>
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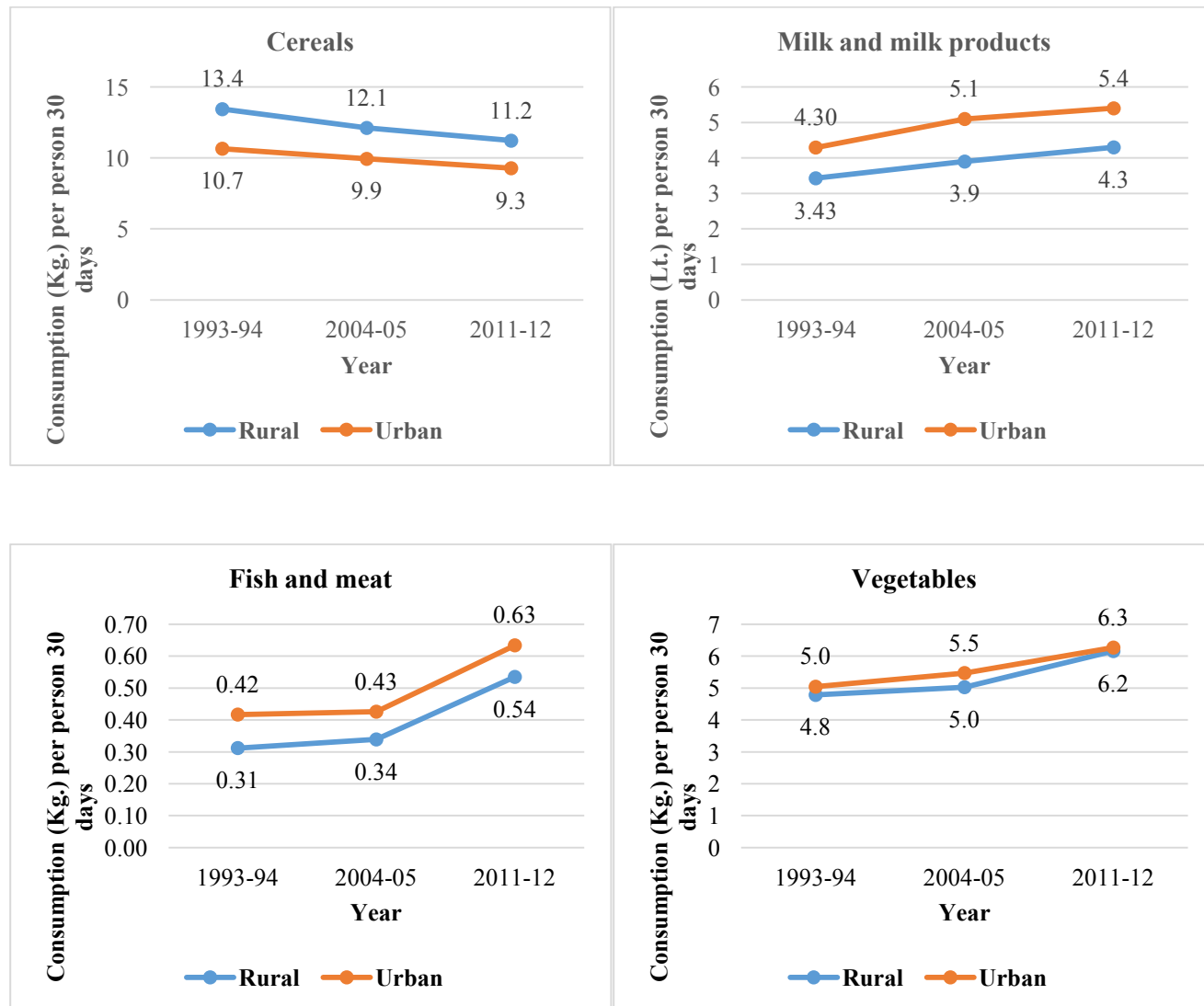


<b>Daily wage to cover 26 days (Monthly household expenditure / 26)</b>	<b>265.1</b>	<b>310.3</b>	<b>297.1</b>	<b>343.4</b>	<b>321.9</b>	<b>373.9</b>	<b>348.1</b>	<b>400.6</b>	<b>300.1</b>	<b>348.5</b>
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Source: ibid

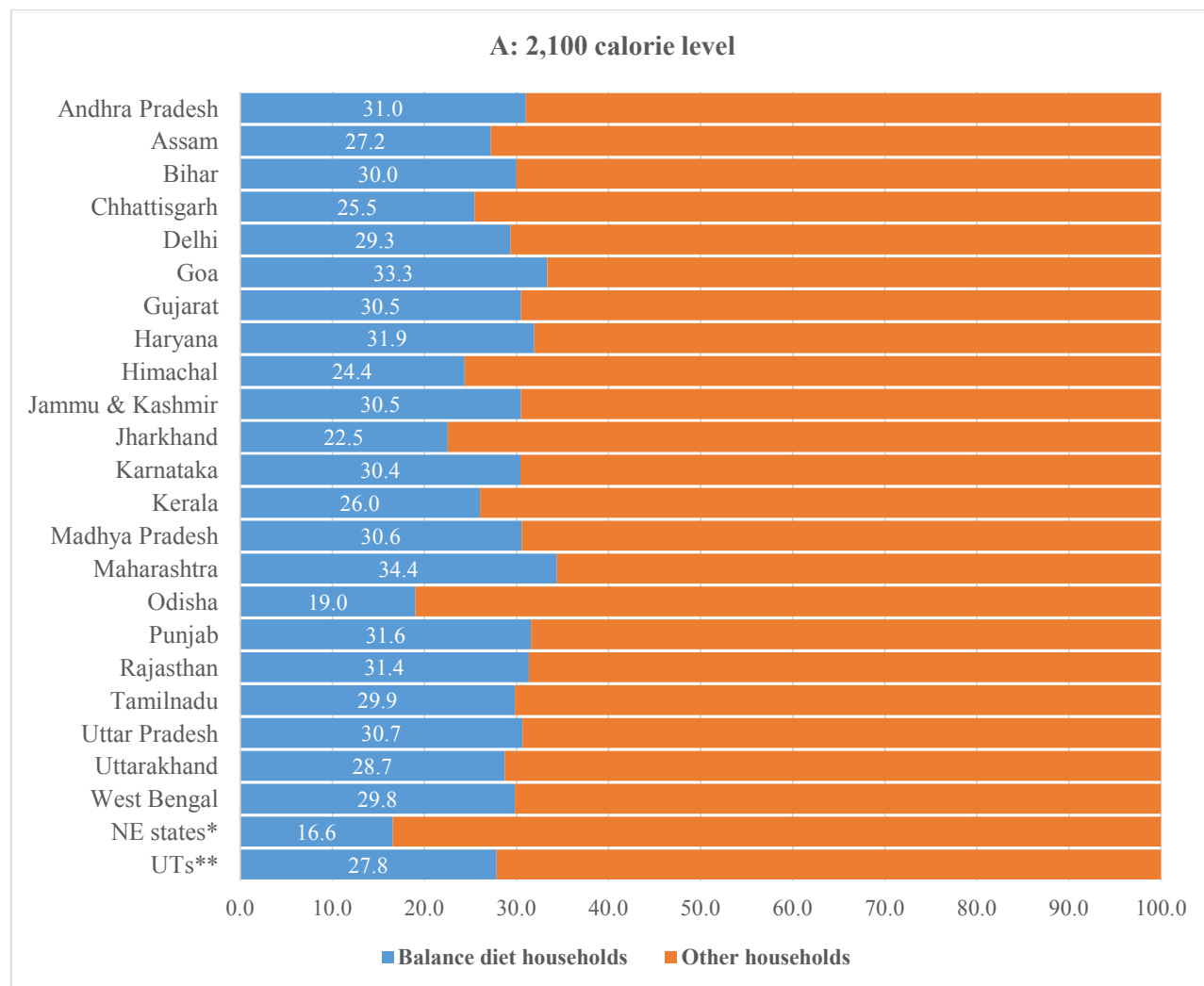
## Appendix Figures

Appendix figure 4.1: Trends in consumption of different food items



Source: Computed from unit level data of NSS-CES, 1993/94, 2004/05 and 2011-12

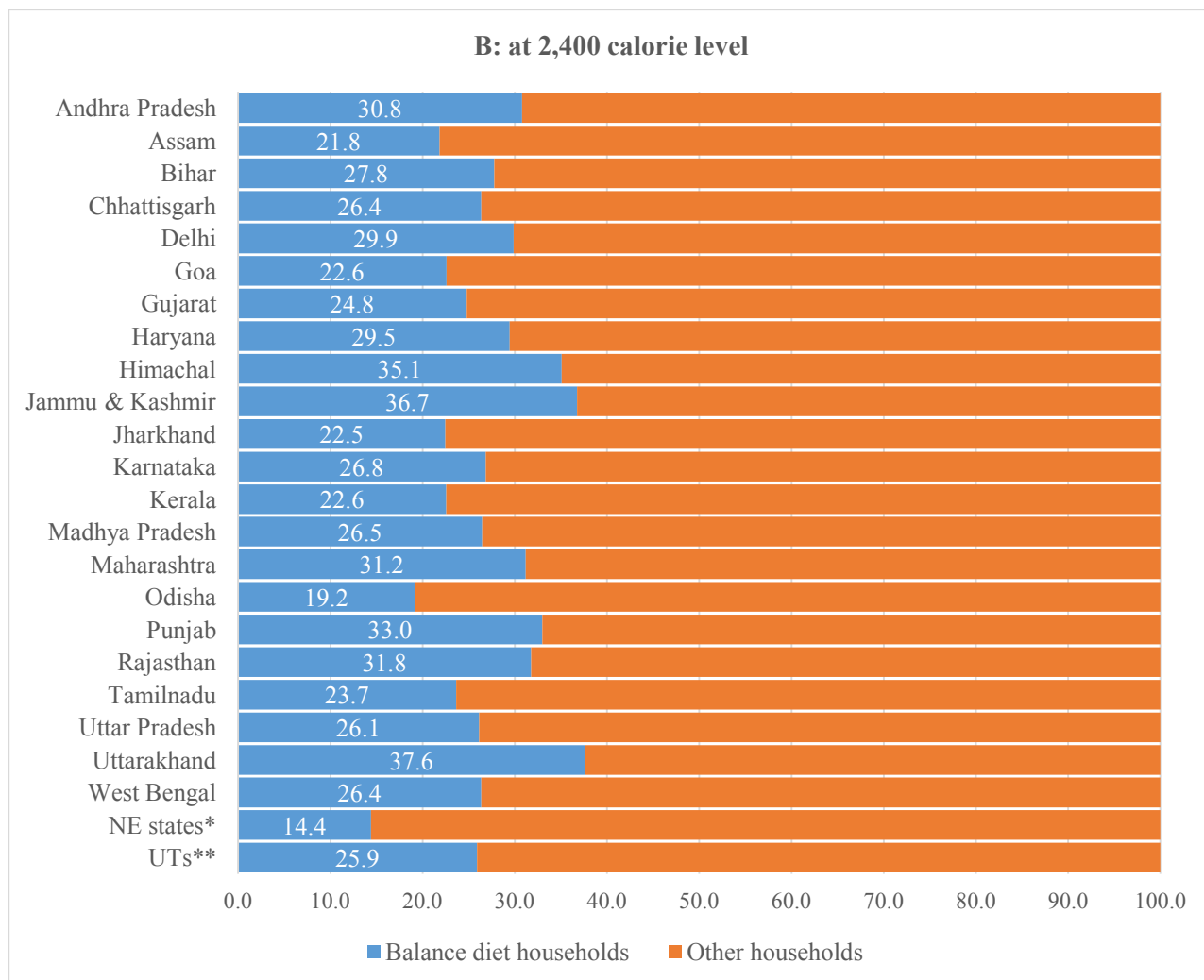
**Appendix figure 4.2: Percentage of households reporting consuming balance diet at the three different levels of calorie intake (Contd.)**



**Source:** Computed from unit level data of NSS-CES, 2011-12

**Notes:** \* North East states excluding Assam; \*\* Union Territories

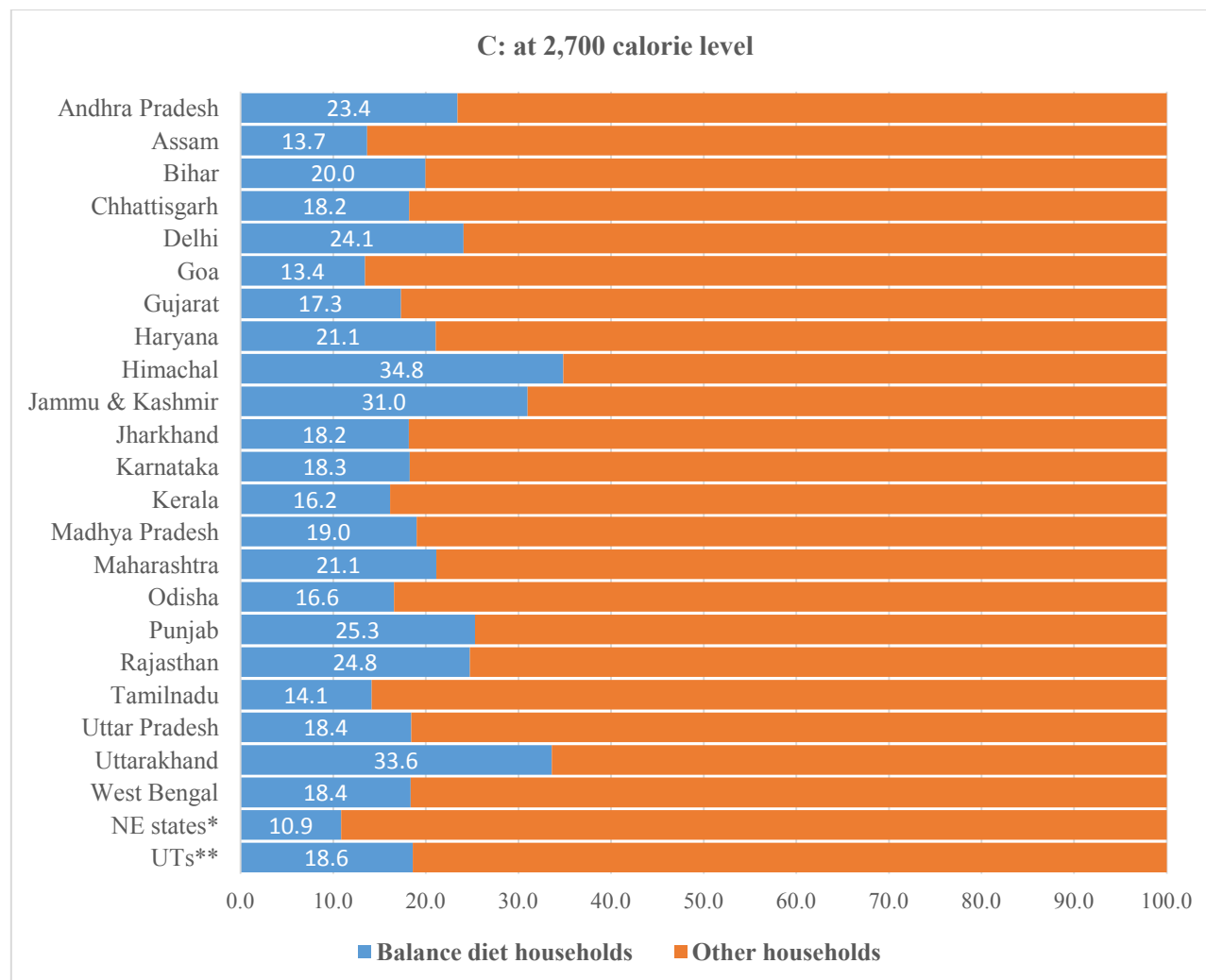
**Appendix figure 4.2: Percentage of households reporting consuming balance diet at the three different levels of calorie intake (Contd.)**



**Source:** ibid

**Notes:** \* North East states excluding Assam; \*\* Union Territories

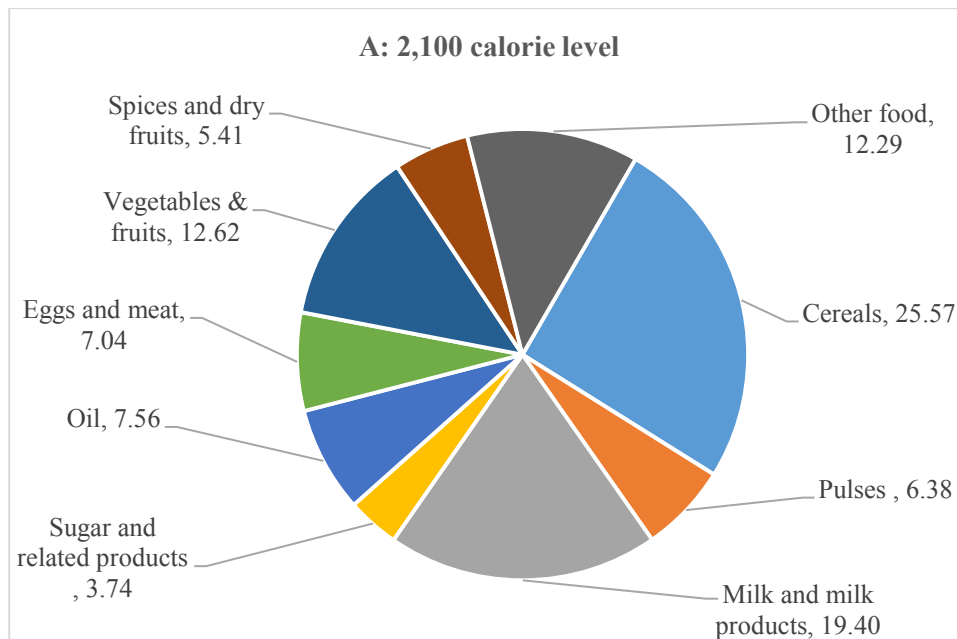
**Appendix figure 4.2: Percentage of households reporting consuming balance diet at the three different levels of calorie intake**



**Source:** ibid

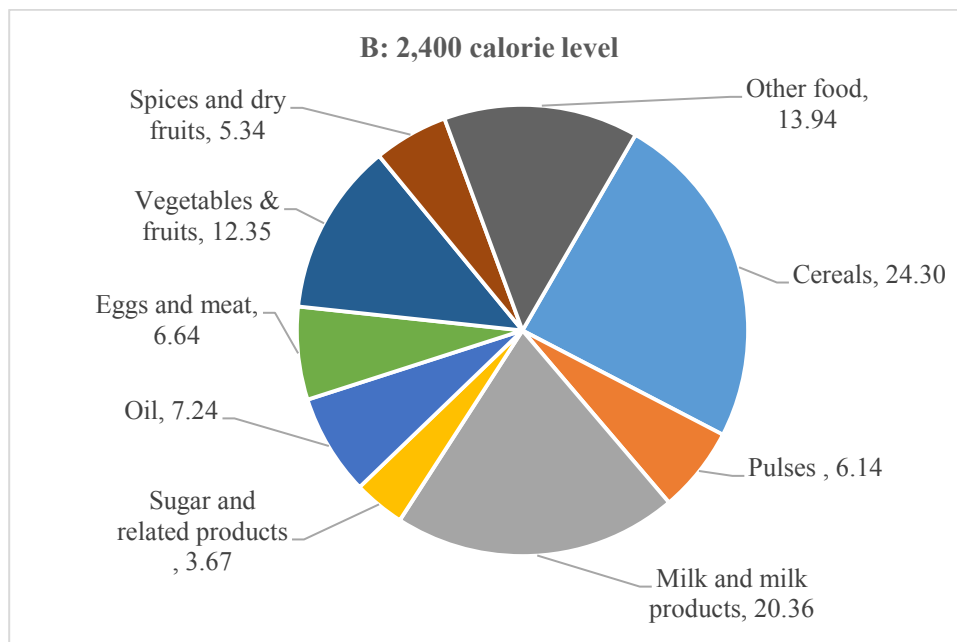
**Notes:** \* North East states excluding Assam; \*\* Union Territories

**Appendix figure 4.3: Proportional contribution (%) of different food items by broad categories in per consumption unit monthly values of food consumption (Contd.)**



Source: ibid

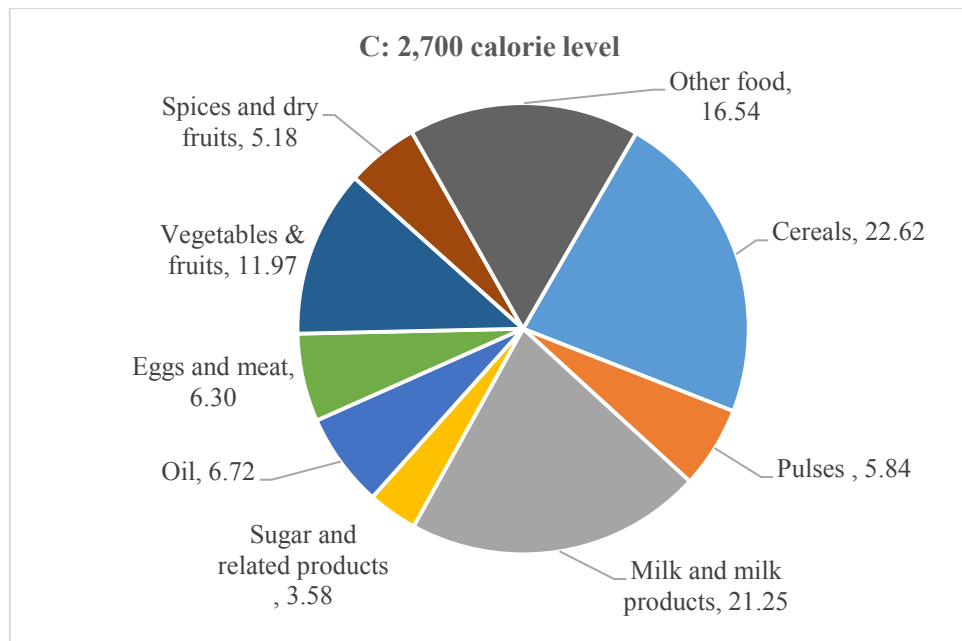
**Appendix figure 4.3: Proportional contribution (%) of different food items by broad categories in per consumption unit monthly values of food consumption (Contd.)**



Source: ibid

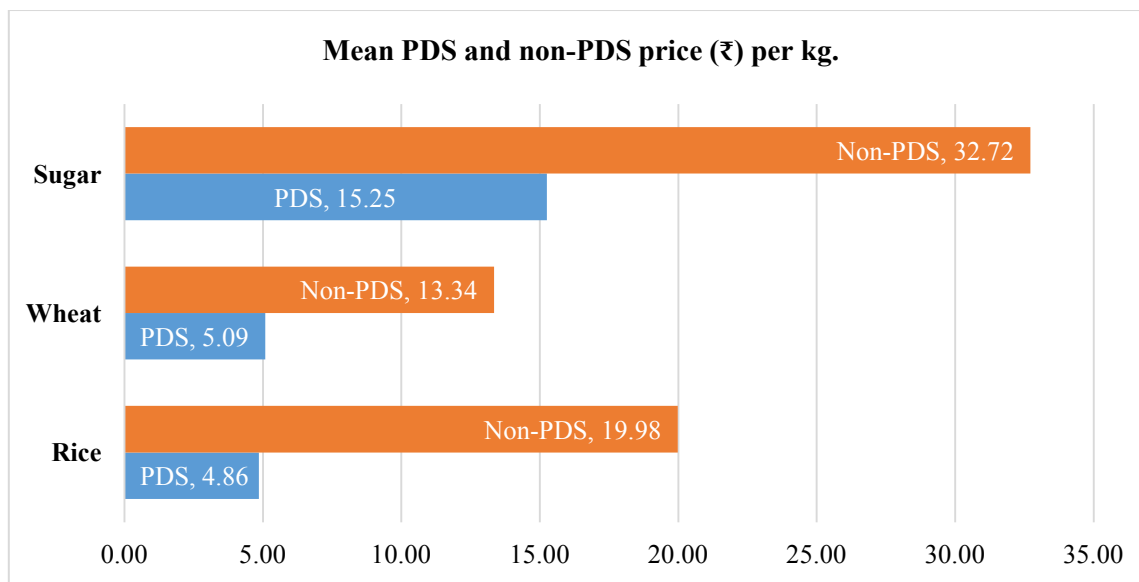


**Appendix figure 4.3: Proportional contribution (%) of different food items by broad categories in per consumption unit monthly values of food consumption**



Source: ibid

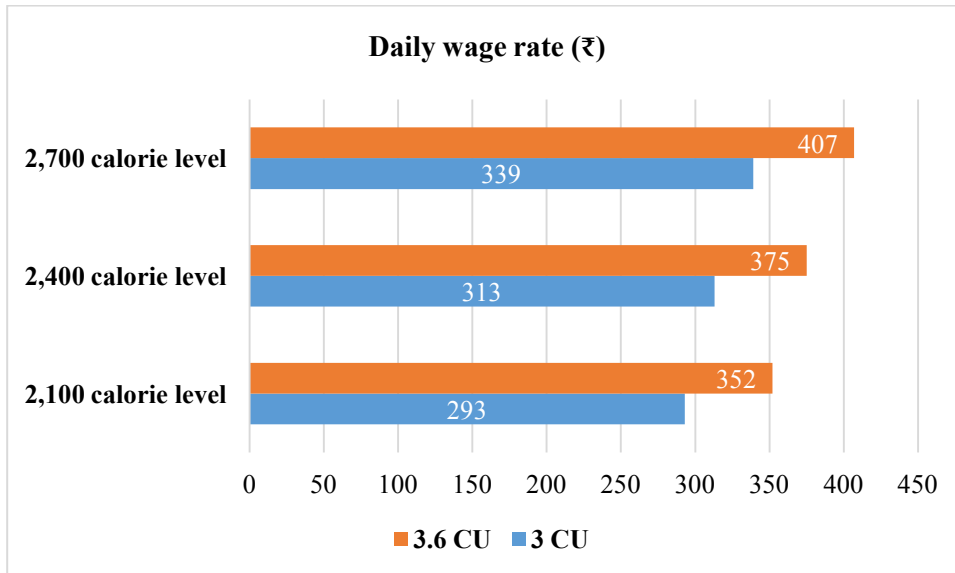
**Appendix figure 4.4: Per Kg. PDS and non-PDS price of rice, wheat and sugar**



Source: ibid

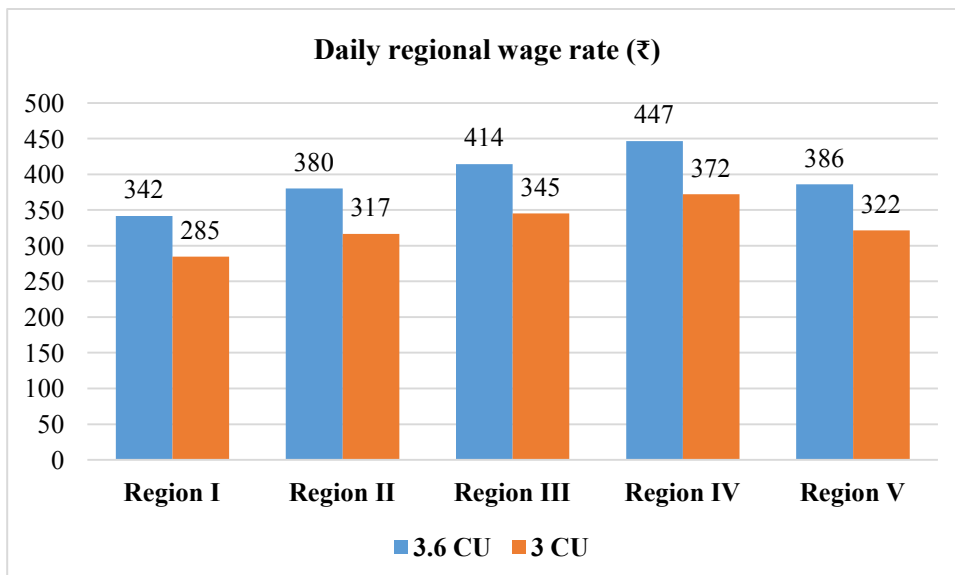


**Appendix figure 4.5: Daily wage rates (₹) at three different levels of calorie intakes along with balance diet at 3 and 3.6 consumption units (CU)**



Source: ibid

**Appendix figure 4.6: Daily regional wage rates (₹) at 3 and 3.6 consumption units at the 2,400 calorie level (CU)**



Source: ibid









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