

Research Article

Designing an Effective Minimum Wage Policy for Sustainable Development in India

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Abstract

The articulated objectives of the minimum wage policy in India—specifically targeting poverty alleviation, reducing income inequality, promoting gender equity, and encouraging responsible consumption—are fundamentally aligned with the broader principles of the Sustainable Development Goals (SDGs). These policy goals, if effectively implemented, have the potential to make substantial contributions toward the achievement of multiple SDGs, particularly those related to ending poverty (SDG 1), reducing inequalities (SDG 10), promoting gender equality (SDG 5), and ensuring decent work and economic growth (SDG 8). However, the complex structure of minimum wages in India poses several challenges to achieving these outcomes. Among these challenges, we specifically discuss partial coverage, low rates of minimum wage fixation and a high incidence of noncompliance. The limited coverage undermines the effectiveness of minimum wage policies as a tool for poverty reduction and income redistribution. Noncompliance not only denies workers their rightful earnings but also perpetuates cycles of poverty and inequality. It particularly affects vulnerable groups, such as women and rural workers, who are more likely to be employed in sectors with weak enforcement of wage standards. By surveying some recent empirical literature, we identify the significance of minimum wages in mitigating poverty, income inequality and promoting gender equality and decent work. Literature from India suggests that minimum wages if implemented with full compliance would reduce poverty by 7-10 percent and gender wage gap up to 18 percent. Further, we elaborate briefly on strengthening the minimum wages. Universalising the legal coverage of minimum wages is the first step towards an effective minimum wage policy. Fixing adequate levels of minimum wages and then revising them from time to time with inflation indexing is the next important step. Lastly we argue that enabling a conducive environment for firms; compliance is the most crucial. This paper is intended to stimulate further discussion and reflection on the vital role that minimum wage policies can play in advancing the SDGs in India. By linking minimum wages more explicitly to the SDGs, policymakers can develop more integrated and effective strategies to tackle poverty, reduce inequality, and promote sustainable economic growth. The goal is to ensure that minimum wages not only provide a safety net for workers but also contribute to broader social and economic development objectives.

Keywords

Minimum Wages, Sustainable Development, Coverage, Fixation, Implementation

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1. Introduction

The minimum wage policy serves as a labour market intervention with the primary aim of poverty reduction and providing income support to workers, particularly those who lack access to collective bargaining and work in challenging conditions. Its potential as a redistributive tool, transferring income from employers to low-wage employees, has been widely acknowledged. Moreover, minimum wages have been identified as one of the institutional factors contributing to narrowing the gender pay gap [2]. In contemporary discourse, the minimum wage has assumed a critical role as a social justice instrument [1]. These articulated objectives of the minimum wage policy, namely poverty reduction, addressing income inequality, and promoting gender equity and responsible consumption, hold significant potential to align with the principles underlying the Sustainable Development Goals (SDGs). Globally embraced to foster human-centric development, the SDGs encompass a set of interrelated and aspirational targets that aim to create a sustainable and equitable future for all. By synergizing the goals of the minimum wage policy with the broader framework of SDGs, a cohesive approach to fostering inclusive growth and social well-being can be achieved.

Sustainable Development Goals (SDGs), also known as the Global Goals, are a set of 17 interconnected objectives established by the United Nations in 2015. These goals aim to address some of the world's most pressing challenges and create a more sustainable and equitable future for all. India, as a signatory to the United Nations' 2030 Agenda for Sustainable Development, has committed to achieving these goals by 2030. The SDGs encompass a broad spectrum of interconnected objectives, ranging from eradicating poverty and hunger to promoting health, education, gender equality, clean energy, climate action, sustainable cities, responsible consumption, and more.

Minimum wage policies indeed have the potential to play a crucial role in advancing sustainable development goals (SDGs) in India. The intersection of minimum wages and SDGs opens up avenues for promoting social equity, economic growth and decent work, and mitigating poverty, inequality and hunger. For instance, minimum wage policies directly address SDG 1, which aims to eradicate poverty. By ensuring that workers receive fair wages, minimum wage policies lift individuals and their families out of poverty. Similarly, SDG 10 aims to reduce inequalities within and among countries. Minimum wage policies contribute to reducing income disparities and enhancing social inclusion. Workers at the lower end of the income spectrum, including marginalized communities, benefit significantly from minimum wage increases, promoting a more equitable society. They can play a critical role in advancing gender equality, the Goal 5 under SDGs. Women often face wage disparities and are more likely to be engaged in low-paying jobs. By setting minimum wages, gender wage gaps can be narrowed, ensuring equal pay for equal work and empowering women

economically. These considerations, as depicted in figure 1, indicate towards the efficacy of the wage policy in promoting specific goals under sustainable development. However, the minimum wage in India is currently faced with certain issues and challenges, which might preclude the unleashing of full potential of the minimum wage. These issues pertain to fixation, coverage, and implementation and compliance.



Source: Author's own design

Figure 1. An integrated schema of minimum wage and SDGs.

Against this backdrop, the purpose of the present paper is to build a motivating case for the potential of minimum wage policy for SDGs in India in the light of recent empirical studies from both the developing countries in general and India in particular. The paper then identifies some of the current issues and challenges confronting the minimum wage system in India. Lastly, we try to advance some policy prescriptions for enhancing the effectiveness of the minimum wage policy towards achieving sustainable development goals. We begin our discussion with a commentary on the enactment of the minimum wage policy in India.

2. Enactment of Minimum Wage Act, 1948

India is one among the first developing countries to extend a wage protection system to its workers by legislating the Minimum Wages Act, 1948 (henceforth MW Act) right after independence to show its commitment to the Constitutional principles of justice and fairness. The motivation of passing this Act comes from the Directive Principles of the State Policy, which confers upon the state the responsibility of ensuring fair payment, just and human working conditions

and a decent standard of living to all workers in all sectors. It also mandates for securing a living wage and avoiding gender-based discrimination in employment and payment. The enactment of the Minimum Wage Act in 1948 embodies the spirit of these Directive Principles. For example, Article 39 states: The State shall, in particular, direct its policy towards securing —(a) that the citizens, men and women equally, have the right to an adequate means of livelihood; and (b) that there is equal pay for equal work for both men and women. And Article 43 states: The State shall endeavor to secure, by suitable legislation or economic organization or in any other way, 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.

India's Labour market situation and external environment both played a role in the implementation of the minimum wage legislation. Right after India's Independence, the task of the policy makers was felt to provide a decent standard of living to its labouring class amidst growing industrial conflicts. India was ushered into a state-led development programme with focus on self-reliance, social justice and eradication of poverty. To meet these objectives, and maintain industrial peace, there were political commitments to raising wages, and thus the minimum wages came in handy [4]. As elsewhere, as a policy instrument for improving the living standards of many wage earners, minimum wage legislation which does not involve any significant government expenditure, was an easy direct intervention into the Labour market to provide the required protection and achieve developmental objectives [5]. In addition, the narrow coverage of collective bargaining or any other forms of wage regulation in most developing countries including India acted as an impetus.

On the other hand, the significant external factor was the ILO adoption in 1928 convention No. 26 and recommendation No. 30 relating to minimum wage fixing machinery, to which India sought to align its labour market policies. Convention No. 26 stipulates for the consultation with the representatives of workers and employers, and the representatives of their respective organizations, in equal numbers and on equal terms, in respect of the fixing of minimum wage machinery. Similarly Recommendation No. 30 elaborates more on the minimum wage fixing machinery by saying that representatives of workers and employers concerned should take a direct part in the deliberations and decisions of the wage fixing body and also their representatives should be selected with their consultation. An early motivation was already fostered by the evidence collected by the Royal Commission on Labour in 1929 that the wages outside the organised industries were low. The Commission alerted the then government towards the need to fix minimum wages in low paid trades. Subsequently, on the recommendation of the Standing Labour Committee and Indian Labour Conference, a Labour Investigation Committee was appointed in 1943 to look into the matters of wages and other conditions of employment.

The Indian Labour Conference at its 7th session in 1945 accepted a draft bill by the Labour Committee. Subsequent rounds of deliberations and discussions went on the draft bill. Then, the Standing Labour Committee at its 8th annual meeting in 1946 proposed to enact legislation for the unorganized sector including working hours, minimum wages and paid holidays. Finally, a Minimum Wages Bill was introduced in the Central Legislative Assembly on 11th April, 1946 to provide for fixation of minimum wages in certain employments. It was passed on 15th March, 1948, and came to be called as Minimum Wages Act 1948 [6].

3. Impact on Wage Inequality, Poverty and Consumption

In this section, we will review some of the scholarly studies examining the effects of minimum wages on poverty, inequality, consumption and other such development outcomes. The motive of the review is to advance a case for the potential of the minimum wages in ameliorating poverty and inequality, and at the same time enhancing consumption and income of the vulnerable sections of the population, without affecting their employment in any significant negative way.

Evidence from India

Belser and Rani [10] have done a simulation exercise to find out the effects of minimum wage on poverty and wage inequality if the national minimum wage floor was made mandatory or if the mandatory state-level minimum wages are extended to all workers instead of covering workers in scheduled employment. At the existing wages that workers earn, the Gini coefficient for wage inequality is 0.499. By simulation they find that inequality would decline by 9 percentage points to 0.410. The decline is much steeper in rural than in urban areas, indicating that a larger proportion of those in rural areas currently earn below the minimum. By imputing the state-level minimum wages for all workers who earn below the minimum wage, the inequality further declines by another percentage point to 0.398. They argue that full coverage of minimum wages would not only reduce inequalities across and within sectors, but would also reduce the gender wage gap. Their findings reveal that, with the assumption of full coverage, among salaried workers, the gender wage gap would narrow by 6 percentage points, and by 18 percentage points among casual workers. It is also found that full coverage of national minimum wage would reduce the poverty among wage earners by somewhere between 7-10%. Even when authors consider the disemployment effects, the potential of minimum wage to compress wage inequality is reduced, yet has positive impact, and the level of inequality is still 5% lower than the actual wage inequality. Similarly, minimum wage is found to reduce poverty by 5%-8% for casual and salaried workers respectively.

Mansoor and O'Neill [7] have investigated the impact of minimum wage compliance on household welfare in India.

They analyze data on over 1500 minimum wage policies implemented in the country. The key findings of their study suggest that minimum wage compliance plays a crucial role in improving household welfare. When employers comply with minimum wage regulations, it positively affects the economic well-being of households. Workers receiving minimum wages experience increased daily wage, which in turn leads to improved living standards and reduced poverty rates within households. Their analysis also shows that minimum wage help raise the household consumption in India. They find that when employers adhere to minimum wage regulations, it results in a notable increase in workers' wages. This wage effect is particularly significant for low-wage workers, helping to uplift their earning levels and improve their economic conditions.

The authors also highlight the significance of effective enforcement of minimum wage policies. In cases where compliance is weak or sporadic, the positive impact on household welfare is not fully realized. Therefore, proper enforcement mechanisms and monitoring are essential to ensure that workers receive fair wages and the intended benefits of minimum wage policies are achieved. Overall, the paper provides valuable insights into the relationship between minimum wage compliance and household welfare in India, emphasizing the importance of effective policy implementation and enforcement to enhance the economic conditions of workers and their families.

Khurana et al. [17] present a pioneering study on the impact of minimum wages on wage inequality in India. Their research reveals that a 1 percent increase in minimum wages results in significant wage improvements for different wage quintiles in rural areas. Specifically, wages for the lowest quintile rise by 0.17 percent, and for the third and fourth quintiles by 0.14 and 0.07 percent, respectively. They further find that minimum wages account for 26 percent of the decline in wage inequality during the period spanning 1999 to 2018. This indicates a substantial influence of minimum wage adjustments in mitigating wage disparities over the years. The authors project that if minimum wages had remained stagnant at their 1999 levels, wage inequality would have surged by 16.08 and 18.49 percent in rural and urban areas, respectively, by 2018. This underscores the pivotal role of minimum wage policies in curbing inequality trends over time. Notably, the positive effects of minimum wages are particularly significant for the least skilled workers and those with minimal educational qualifications. Remarkably, these improvements in wages have not led to a reduction in employment rates for this group, demonstrating the potential of minimum wage policies to enhance the earnings of vulnerable workers without adversely impacting their employability.

Evidence from other developing countries

Gindling and Terrell [8] in their study on Honduras for the period 2001 to 2004 show that a 10% rise in minimum wage reduces extreme poverty by 1.8 per cent and overall poverty by 1 per cent. But authors note that this reduction in extreme

poverty is driven by higher wages in the large firms than in small firms because there is no compliance in the small sector. Further it is also found that the negative relationship between minimum wage increase and poverty is stronger among the low-paid workers (unskilled, rural, women) than among high-paid workers (skilled, urban, men).

The potential of minimum wage to reduce poverty also depends on who in the household is affected by it. Studies provide evidence that there is a greater incidence of a household being pulled out of poverty when the minimum wage is applied to its head than when it is applied to secondary workers. The paper by Alaniz et al. [14] shows that 1% increase in the minimum wage in Nicaragua reduces the incidence of poverty as well as increases the transition of a household from being poor to being non-poor by 0.12% when it impacts the head of the household. When the minimum wage applies to non-head members, the poverty-reducing effect of minimum wage becomes insignificant.

Bird and Manning [18] present compelling findings on the situation of low-wage workers in Indonesia. Through simulations, they demonstrate that an increase in the minimum wage could potentially alleviate poverty for a substantial number of people. Specifically, they estimate that such an increase could reduce the number of individuals living below PPP US\$2 by approximately 2.7 million out of a total of 90.4 million poor individuals in the country.

The above review, though not exhaustive, indicates that the policy of minimum wages hold the potential in mitigating poverty, wage inequality, and income disparity, and enhancing consumption. These desirable outcomes are in line with the global agenda of the Sustainable Development Goals.

4. Issues with Minimum Wage Policies in India

Though the minimum wage can be an effective in reducing poverty and inequality, the MW Act in India confronts some issues and challenges relating to the setting and implementation. In this section, we briefly discuss some of the issues concerning coverage, fixation, implementation and compliance. While each of the issues is discussed separately, it is nevertheless important to note that these issues are closely linked in practice.

Problems with coverage

The coverage of minimum wage in India is not universal but partial. A little more than half of the workforce which is self-employed in India is not included under the Act. The Act applies to wage earners and among them to only those wage earners who work in the Schedules of Employment under the Act. According to one estimate, around two thirds of wage earners in India are covered by the MW Act in 2009-10, with coverage varying between 93.4% (agricultural workers) and 30.5% (construction workers) [1]. Coverage is higher in rural areas than in urban areas.

The coverage of the minimum wage legislation can be expanded by the state governments by including an occupation or activity in the Schedules on the condition that there are at least 1000 workers working in that particular occupation or activity in the state. This condition is restrictive and may exclude some sections of workers from the purview of the minimum wages. In fact, in the survey of Ahmadabad city carried out by [19], it was found that only 26% of women were engaged in the industries covered under the Act.

As the coverage in terms of schedules of employments varies across states, this gives rise to a complex system of minimum wage. As of 2013, there were 45 different schedules of employments in the Central, and 1699 schedules in states/UTs for which minimum wages have been fixed [20]. In some cases, a further differentiation is made for regions and skill levels. The complexity arises out of the multiplicity of minimum wage rates –varying wage rates across states for the same occupation and different wage rates for different occupations within a state. For example, the minimum wage for agriculture in 2014 ranged from INR 55 (the lowest) in Puducherry, INR 100 in Tamil Nadu, INR 122.10 in Manipur to INR 288.65 in Karnataka, INR 305.38 in Chandigarh and INR 332 (the highest) in Delhi [20]. Though, the variations in minimum wages across different states may be conceivable as reflective of differences in the cost of living, the variations within a state are difficult to rationalize and lead to huge wage disparities [9]. The complex structure of minimum wage with diverse rates across different occupations in different states makes it not only cumbersome in fixing and revision and costly to administer, but even workers face a lack of awareness [1].

Given the great deal of disparity in minimum wage rates across states in India, the concept of a National Floor Level Minimum Wage (NFLMW) was raised based on the recommendations of the National Commission on Rural Labour in 1991. But it was not given a statutory status; it is revised from time to time. It was 35 in 1996, raised to 100 in 2010, 110 in 2011, and then to 137 in 2013. As in 2015, it was further raised to 160. There have been concerted voices for making national minimum wage statutorily binding [15, 10, 11]. The state governments are encouraged not to fix any minimum wage below the national floor. The National Commission for Enterprises in the Unorganized Sector had also pushed for a binding national minimum wage. The same proposal from the Code on Wages Bill (2017) has come.

Challenges in minimum wage fixation and revision

The Act does not define the minimum wage nor does it offer any criteria for fixing the wage. However, the wage-fixing boards/authorities follow the recommendations of the 15th Indian Labour Conference (1957) and the 1992 Supreme Court judgment. But how much these recommendations are adhered to, is subject to question. Doubts also arise as to whether the minimum wages so fixed are able to offer people the required subsistence [12]. The author [19] found that the

minimum wages fixed in nearly half of the schedules of employment in Gujarat informal sector were not sufficient to offer even a poverty-level income to the wage earners. In spite of this, a majority of workers especially women were paid below the legislated minima. Similarly, [15] notes that the minimum wages fixed by Madhya Pradesh government were insufficient to enable an agricultural labourer's family to move above the poverty line, though percentage differences between the monthly incomes of labourers and poverty lines have reduced in the period 1973-74 to 1996-97. Our calculation also shows that in many of the states, minimum wages fixed are lower than what is called poverty-line wage.

Because of no fixed criteria in wage-setting practice, one also finds very large variations in minimum wages in the same employment across different states. These differential rates may not necessarily reflect differences in costs of living. It is also noted that state-level minimum wages in some activities were fixed even below the national floor level minimum wage below which the government discourages any occupational wage being set at the state level. For instance, in 2013 Arunachal Pradesh had set a uniform rate of INR 80 in all the schedules of employment, while the national minimum wage was declared at INR 137.

As the Act does not define the term minimum, nor does it provide any criteria, this leaves large discretionary powers in the committees and wage boards in fixing and revising the rates, often resulting in arbitrariness in the rates [11, 15]. While it is easy to conceive of the variations in minimum wages across states as reflecting different costs of living, variations across different occupations within a state can't be easily explained merely in terms of cost of living. It seems more accurate to say that the variations in minimum wages, not just across states but even across different occupations within a state, reflect in part 'considerations of political economy operating in different sectors' [13].

The Act stipulates the state governments to revise the minimum wages at regular intervals not exceeding more than 5 years. However, based on some studies which found large gaps in revisions (see [13]), there is doubt that minimum wages have been revised from time to time and in tune with the cost of living. Cases of payment much below the minimum wages fixed have come from construction industry in Delhi and small units of leather industries in Kanpur [12]. Some studies have even found that some state governments fixed minimum wages below the actual wages paid in certain employments. Evidences also pertain to the fact that minimum wages have been revised, but the court has quashed the notifications. Recently, the Delhi government's decision of raising the minimum wages by 50% to all workmen has been quashed by the Delhi High Court [21]. This is hardly doubtful that the determination, notification and enforcement of the minimum wages have received inadequate attention from the authorities concerned [15].

Though the Minimum Wage Act 1948 does not delineate any criterion for fixing the minimum wage, it is believed that

the minimum wages so fixed must be sufficient to provide the worker with his sustenance and also maintain the preservation of the worker's efficiency by offering some measure of education, medical requirements, and amenities. This means that minimum wages should be at least equivalent to poverty line, so that workers and their families can subsist. Let's analyze whether this is the case in India. Based on poverty lines for different states taken from Tendulkar committee report, and considering a three member family for a wage earner, the wage which a worker should get daily to sustain him/her and his/her family is estimated (we call it poverty-line wage). We match these poverty-line wages with state-level legislated minimum wages as reported in Labor Bureau report. For our current purpose, we report figures for only rural area in table 1.

Table 1. Comparison of poverty lines with minimum wages in 2011-12 (Rural).

States	Poverty line wage in Rs	Minimum wages in Rs	
		Lowest	Highest
Andhra Pradesh	132.3	69.27	298.59
Arunachal Pradesh	143.07	80	80
Assam	127.38	68	137.41
Bihar	119.69	145	157
Chhattisgarh	113.53	121.66	189.19
Goa	167.69	150	150
Gujarat	143.38	100	222.6
Haryana	156.15	192.04	191.04
Himachal Pradesh	140.46	150	150
Jammu & Kashmir	137.07	110	110
Jharkhand	115.07	150.38	150.38
Karnataka	138.76	159.22	279.97
Kerala	156.61	150	510
Madhya Pradesh	118.61	148	212
Maharashtra	148.7	100	272.31
Meghalaya	136.61	100	100
Manipur	172	122	122
Mizoram	164	170	170
Nagaland	195.38	115	115
Orissa	106.92	126	150
Punjab	162.15	200	210
Rajasthan	139.23	147	182
Sikkim	143.07	130	130

States	Poverty line wage in Rs	Minimum wages in Rs	
		Lowest	Highest
Tamil Nadu	135.38	93.9	273.36
Uttarakhand	135.38	124.66	215.96
Uttar Pradesh	118.15	125	185.49
West Bengal	120.46	131.46	220.73

Source: Author's own calculation based on poverty line of Tendulkar Committee for year 2012 and Annual report of the minimum wage.

By doing this simple exercise, one finds that in many states, the minimum wages so fixed by state-level wage boards in 2011 are lower than what would be sufficient to subsist a worker and his/her family. States where the lowest minimum wages so notified are lower than even poverty-line wage include Andhra Pradesh, Assam, Gujarat, Kerala, Maharashtra, Tamil Nadu and Uttarakhand. The situation appears grimmer in those states which have a uniform rate of minimum wage for all the schedules of employment. For example, states like Goa, Arunachal Pradesh, Jammu & Kashmir, Meghalaya, Manipur, Nagaland, and Sikkim have a uniform minimum wage which is well below than the required wage for daily subsistence. One more point to remember, while constructing poverty-line wage, an assumption of standard 26 days of work in a month was made. However, we know that many workers who are daily-wage labourers are unable to get work on a daily basis. The recognition of this fact will further debilitate the conditions of workers.

Issues of implementation and compliance

The implementation of minimum wage in India is far from satisfactory because of insufficiently staffed labour inspectorate, weak sanctions, widespread rent-seeking behaviour of officials, and weak unionization at local levels or even at the state levels, and lack of transparency and communication [3, 11]. So far as compliance is concerned, it was found in 2009-10 that the overall rate of compliance was about 61 percent. As noted above, the coverage is higher in rural areas than in urban areas, yet the rate of compliance is lower in the former than in the latter [10].

A quick estimate of compliance level with the minimum wage is done here by calculating the proportion of workers which is earning less than the indicative national minimum wage of Rs. 122.08 in 2011-12. Almost 51% among casual workers and 22% among salaried workers are paid below the minimum wage. Rural workers are disproportionately more affected. Unexpectedly, underpaid female workers outnumber their male counterparts by a huge percentage in both rural and urban areas.

Table 2. Proportion of workers earning wages below NFW level of INR 122.08 in 2011-12.

		Male	Female	Total
Salaried Workers	Rural	23.37	59.13	30.35
	Urban	13.18	34.96	17.42
	Total	16.83	43.65	22.06
Casual Workers	Rural	43.93	79.06	52.98
	Urban	30.53	72.13	37.8
	Total	41.93	78.39	50.91

Source: Author's own calculation based on EUS NSS 68th round.

Table 3. Share of workers earning < Rs.375 MW in 2017-18.

Labour Status	Rural Persons	Urban Persons	Total Persons
Casual (C)	88.22	69.23	84.62
Regular (R)	62.34	47.34	52.83
Self-Emp (SE)	75.40	48.72	67.90
Combined (C+R+SE)	77.61	50.94	68.07

Source: [16].

Another possible measure of compliance is by looking at the proportion of workers (rural, urban and combined) earning less than the national floor level minimum wage of Rs. 375, which was recommended by the expert committee formed under the Ministry of Labour and Employment, Government of India in 2019. We find from Table 3 that approximately 68% of the workforce is documented to receive wages/earning that fall below the suggested national minimum of 375. Within this group, 84.62% of those in casual employment and 52.83% of regular salaried employees do not surpass this threshold national minimum wage. Moreover, their wages or earnings typically lag behind the recommended minimum by an average of 41%, indicating that they are earning 41% less than the specified minimum threshold.

What causes low rate of compliance? The lack of enforcement arrangements that could cover the innumerable small and scattered places of employment, the weakness of worker's organizations especially at local levels, the transient character of most work relationships, the prevalence of extended family or near feudal relationship with employers, the system of payment in kind, and perhaps most importantly the ready availability of persons at least certain seasons of the year who desperately need to find work no matter how poorly paid, all these obstacles make compliance poor.

The summary of the above discussion is that the minimum

wage has a potential to ameliorate the conditions of workers, informal workers in particular, by cushioning against the persistence of low wages and thereby reducing poverty and wage inequality, but this potential may be marred by an ineffective enforcement mechanism and low levels of compliance.

5. Towards Designing an Effective Minimum Wage Policy

Our discussion so far has highlighted the importance of minimum wages in fulfilling some of the SDGs especially poverty eradication, reducing inequality, and enhancing consumption on the one hand, and challenges facing the current design of minimum wages in India. Some of the issues and challenges include partial coverage, low fixation, high non-compliance and inadequate enforcement. Therefore, in order to design an effective minimum wage policy, we need to address these challenges.

Universalising legal coverage

The ILO emphasizes that minimum wages should offer adequate protection to all workers, including women, youth, and migrant workers, irrespective of their contractual arrangements. Convention No. 131 urges broad coverage, and Recommendation No. 135 suggests minimizing the number of uncovered groups. Universalizing the minimum wage and providing statutory coverage to wage workers in all sectors and industries would extend legal protection beyond scheduled occupations, encompassing all wage earners. Hence, extending the legal coverage beyond scheduled employment is the first step to building an effective wage policy. However, in such broadening the coverage, special attention should be paid to those sectors where the concentration of vulnerable sections of workforce such as disadvantaged communities, women, youth, domestic workers, migrant, gig or platform workers etc, is higher. An inclusive coverage will ensure the representation of diverse workforce in the Indian labour market.

Fixing minimum wages at adequate levels

A recurrent problem encountered in the minimum wages is their low levels of fixation, as noted above. The level at which a minimum wage is set is a critical factor in determining its impact on inequality. Finding the right balance is a challenging task, as it requires the active involvement of social partners and evidence-based social dialogue. If set too low, minimum wages may not effectively protect workers and their families from low pay or poverty. Conversely, setting them too high may lead to poor compliance and adverse employment effects. Establishing an adequate minimum wage level requires considering the country's social and economic context, as well as the existing number of rates. The ILO Centenary Declaration for the Future of Work emphasizes the importance of ensuring an adequate minimum wage. Convention No. 131 on Minimum Wage Fixing recommends a balanced and evidence-based approach, taking into account workers' needs and economic factors. Striking the right balance between these con-

siderations is crucial to tailor minimum wages to the national context, ensuring effective worker protection and sustainable business development.

Ensuring effective enforcement and compliance

Minimum wages, to be useful, need to be accompanied with credible enforcement mechanism and effective compliance measures. Compliance is a major issue in India, as we have seen above. It is well established in the existing literature that compliance is a function of the probability of firms being inspected, and structure of penalties. In India, the state of enforcement is far from satisfactory. As per the reported data from the Annual Report on the Working of Minimum Wages Act, 1948 for the year 2012, around 4964 inspectors were expected to cover an estimated 7.70 million establishments. This is far from reaching the ILO-prescribed labour inspector-working population benchmark ratio of 1:40,000 for the under-developed countries. Apart from strengthening labour inspectorate, labour inspectors also need to be provisioned with greater resources and more powers. However, policies of persuasion, reconciliation and consultation should also be focussed. Only when employers are made aware of the potential benefits of minimum wage compliance, and congenially persuaded, should the minimum wage succeed. In India with vast informal sector, a stringent enforcement may not work in favour of social justice. Additionally, awareness-raising campaigns and capacity-building programmes for informal sector should be pursued in order to foster a conducive climate of compliance.

6. Conclusion

The potential of minimum wage policies in ameliorating poverty, income inequality and hunger and promoting employment and gender empowerment is well established in the literature. These policy targets happen to be some of the SDGs. In this paper, we have attempted to show how an effective minimum wage system can help achieve these targets. Nonetheless, the minimum wages encounter several challenges. The recently enacted Code on Wages (2020) by the government of India is a step towards addressing some of these challenges, especially partial coverage and multiple wage rates. It is expected that once the Code gets implemented, the efficacy of minimum wages will strengthen. We further believe that more thinking should be devoted on linking the labour policies especially minimum and living wage policies to the SDGs.

Abbreviations

SDGs Sustainable Development Goals

Author Contributions

Kashif Mansoor is the sole author. The author read and

approved the final manuscript.

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Conflicts of Interest

The author declares no conflicts of interest.

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Biography

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