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**ANALYSIS OF WAGE CODE REFORMS AND THEIR
IMPACT ON WORKERS' WELFARE IN INDIA**

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ABSTRACT

The 2019 Wage Code reforms in India represent a significant effort to completely transform the country's wage payment system through the standardization of minimum wage regulation and the extension of its coverage to all wage workers. Meant to benefit at least 224.7 million workers by enhancing their welfare through the provision of a minimum income guarantee – especially the workers in the immense informal sector – the Government seeks to create a level playing field for all businesses and ensure a fairer income distribution among the states and sectors.

However, the implementation of the reforms is extremely problematic, as almost all the non-standard types of employment – such as agricultural, domestic, and gig work – are excluded as a result of the designated legal exemptions or the kind of informality these groups characterize. Furthermore, as the complete effectiveness of the wage reforms is entirely dependent on the enforcement of the new wage regulation framework, the reforms employ on an inspection system and a great number of compliance awareness and monitoring mechanisms.

This paper examines the potential impacts of the Wage Code reform on income protection, wage inequality, and economic fairness, to both organised and unorganised sector emphasizing the importance and comprehensive implementation in realizing the benefits of the reforms.

INTRODUCTION:

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The Government of India published shortly the draft of the Wage Code (Central) Rules in the gazette on July 7, 2020. This publication followed the enactment of the Code on Wages on August 8, 2019. The new wage rules are a critical conclusion, setting the framework for the implementation of the wage code, which sets a keystone for a new period in India's wage policy by eliminating all existing laws and provisions on wages, minimum wages, bonuses, and equal remuneration.

While India's wage policy has a long history since 1936, rooted as it was early and pioneer, at the same time, it has been challenged by notoriously low wages and substantial wage gaps, as demonstrated in the India Wage Report, and recognized by the Expert Committee on the National Minimum Wage. These regulations will address these biases in a bid to increase economic dynamics and create jobs, promoting labour equity and welfare through wage structure simplification and minimum and floor wage harmonization.

Through the implementation of the pay rules, the first of three key reform measures in the wage code will be put into effect. This reform measure is the widening of legal coverage for floor wages and minimum wages to include all wage workers throughout the country. Based on the results of the periodic labour force survey, it is estimated that about 224.7 million wage workers would profit from this major progress in the 2018-2019 fiscal year³.

A major number of these supplemental income earners are members of the most disadvantaged elements of India's broad informal economy, which is mainly constituted of non-standard types of employment. As a result of the extension of legal safeguards and the standardisation of wage payment, it is envisaged that these vulnerable workers will be able to enjoy wage security.

Additionally, the establishment of a level playing field would encourage fair competition among businesses. Additionally, the introduction of a statutory minimum wage is the second component of the wage law that holds significant repercussions for persons who are receiving salaries. The law requires that state governments set minimum wage rates that are either equal to or higher than the floor wages. There are provisions in the legislation that restrict states from lowering their minimum wages, and these prohibitions apply to states that already have higher minimum wages.

³The Code on Wages Bill, 2017, Bill No. 163 of 2017: as introduced in the Lok Sabha" Ministry of Labour and Employment, Government of India, New Delhi"

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It is anticipated that the implementation of a legal floor wage would infuse the process of pay-setting in India with newfound vibrancy if it is carried out in an appropriate way. It is possible that this may result in a rise in the earnings of millions of low-income workers who are now either exempt from the minimum wage law or are given wages that are lower than the minimal threshold.

In addition to this, the pay code is burdened with the primary obligation of simplifying and rationalising the complex minimum wage system that exists in India. It is important to point out that the Economic Survey by Government of India in 2019-20⁴ found that there was a total of 1,915 occupational minimum pay rates in the state spheres, with 48 minimum wages in the central sphere. This information is relevant to highlight. Compliance has been considerably impeded as a result of these barriers, and attention has been diverted away from some of the most vulnerable low-paid workers in order to focus on minimum wage regulation. The variety of minimum salaries that are followed in India are often implemented as the set rates for each profession and scheduled job. This is in addition to the fact that they are the minimum pay requirements. It is possible that this scenario will make it more difficult for workers and employers to engage in collective bargaining.

Additionally, this circumstance renders the minimum wage ineffective. The practice of establishing occupational minimum pay rates and wage fixation via planned employment has been virtually removed as a result of the wage code, which is something that should be mentioned. The only action that has been kept is the practice of setting the minimum wage based on geographic areas, skill categories, or both. The total number of rates that are applicable to each state will be lowered to a minimum of three and a maximum of twelve if this act of simplification is carried out.

It is predicted that interventions that are focused at enhancing the knowledge of both employers and workers about lowered rates would result in an increase in compliance with minimum wage regulations and may even generate adequate opportunity for collective bargaining. In spite of this, the path that leads to the achievement of this target can turn out to be more difficult than it first looks, taking into consideration the long historical history of

⁴ Economic Survey, 2019-20. Available from <https://www.indiabudget.gov.in/budget2020-21/economicsurvey/doc/echapter.pdf>

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different pay rates at the state and federal levels. When it comes to this matter, state governments will need a systematic approach as well as aid from technical experts.

With regard to the reduction of poverty and inequality, the substantial first-order consequences that may be expected from any minimum wage policy are anticipated to be the result of the combined influence of the key reform initiatives that were described earlier. It is thus possible that the wage code will make it possible for the minimum wage policy to serve as an important redistributive tool, which would ultimately result in an improvement in the welfare and quality of living of lowest-paid workers. This finding is confirmed by a large number of empirical investigations, the most noteworthy of which is a thorough research that was carried out in India by Belser and Rani (2011)⁵. This study, if implemented fully and properly, found that the extension of legal coverage can reduce wage inequality by ten percentage points; reduce poverty among low-paid workers by eight to nine per cent; and compress the gender wage gap by six percentage points among regular and eighteen percentage points among casual workers.

UNIVERSAL COVERAGE OF MINIMUM WAGES

As one examines the definition of "establishment" more closely, it becomes evident that it may not include wage workers in the agricultural sector or private families. This is because the term does not include incorporating agricultural holdings or owners within its scope. It is possible that individuals who are not included in this definition may have a difficult time preserving their eligibility to universal coverage and may be unable to establish their right to minimum wage. The wage law has an extra provision that exempts businesses that participate in domestic and agricultural operations with less than five employees from the responsibilities of keeping employee registers, displaying notice boards outlining category-specific pay rates, and distributing wage papers to workers. This exemption is granted to firms who engage in activities that are domestic or agricultural.

The rule essentially stipulates that the employers in issue are required to be able to give "reasonable proof of payment of wages" in response to a request made by the inspector-cum-

⁵ Rani, U. and Belser, P. (2012): "The effectiveness of minimum wages in developing countries: "The case of India" International Journal of Labour Research, 4(1), p.45. Available from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1838088

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facilitator. Because this definition does not address the issue of whether or not these workers are covered by the minimum wage, they are placed in a vulnerable situation. The maintenance of registers and the distribution of pay papers, which serve as reference documents to demonstrate the work connection in the case of a dispute, are both essential to the successful execution of the program. Hence, substituting them with a provision requiring reasonable proof of wage payment without providing any clarification on the definition of "reasonable proof"⁶ (including in the wage regulations) and employing an establishment-specific definition of an employee would be tantamount to exacerbating the plight of vulnerable workers who are excluded from the universal coverage.

Due to the fact that it will be difficult for these persons to establish a connection of employment, it is possible that millions of farm labourers, domestic workers, home workers, and other workers who are hired by homes will be excluded from the actual implementation of the wage code. Because of the gendered structure of the agricultural and domestic sectors, there are significant implications for female workers in these workplaces.

Furthermore, the wage code does not take into account emerging worker categories and new forms of employment relationships, such as "gig and platform workers," which fall under the category of employees despite the fact that they are a substantial and growing number of workers and that they carry out tasks under the supervision and direction of an employer. It is possible that various non-standard kinds of employment, such as temporary workers, part-time workers, agency workers, and other multiparty employment arrangements, might not get the same degree of protection as standard forms of employment. This is because these individuals are "on the run" in pursuit of economic possibilities that provide them with the means to maintain their subsistence. As was said before, it is possible that some of these workers are not engaged in labour that is associated with the institution, despite the fact that they are receiving income via non-traditional employment arrangements. It may be concluded that the pay law defines a usual definition for the word "contractor."

Emerging contractual arrangements, such as "concessionaire" and "licensee," which are mostly employed by establishments in the infrastructure sector and employ a substantial number of non-standard kinds of labourers, are considered to be excluded from the

⁶ Engbom, Niklas and Christian Moser (2018): "Earnings Inequality and the Minimum Wage: Evidence from Brazil, Columbia Business School "Research Paper No. 18-50, 10 October 2018"

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competition. Furthermore, an additional danger that these "abnormal" workers face is the possibility of being refused access to universal health care. The omissions and exclusions that have been discussed above in the pay law will make it more difficult to put minimum wage rules into practice on a global basis. Therefore, it is of the utmost importance that the pay rules explicitly declare that the wage code provides complete protections to each and every employee, irrespective of the work arrangement they have or the establishment-affiliated employment connection they have. Even if they are engaged in non-standard types of work, individuals who are in a relationship⁷ with an employer are nevertheless entitled to minimum wages and quick payment of earnings.

IMPACT OF WAGE CODE ON ESTABLISHED WAGE AGREEMENTS AND COLLECTIVE BARGAINING PRACTICES

Decentralised bargaining became the dominant form of industrial relations in India⁸ when a segment of the economy was liberalised in the middle of the 1980s. Centralised bargaining had been the dominant model of industrial relations in India. For the most part, collective bargaining in the private sector has shifted to the level of the firm or plant in the most recent decades. As a matter of fact, the majority of talks simply involve a single production site or facility, as opposed to the whole of a company's activities. Neither the management of the factory nor the choices made by the unions are uniform, therefore the mechanism for bargaining is determined by both of these factors. In the private sector, the prospect of sectoral collective bargaining is quite low; yet it does exist in specific industries, such as the cotton industry and ports and harbours.

The link that exists between collective agreements that have been negotiated at different levels is not regulated across India. India currently lacks an institutional framework for coordinating collective negotiation. Pattern bargaining exists to some extent, as wages established by major The Indian Labour Conference is a tripartite consultative committee comprised of employers, labourers, and government representatives in equal numbers. The organisation's function is to facilitate consistency in labour legislation by establishing

⁷ "Bhagoliwal, T.N., Economics of Labour and Industrial Relations" (Agra: Sahitya Bhawan, 1995)

⁸ Loyed, L. and Raynolds, G, Labour Economics and Labour Relations: Prenticehall Inc, Englewood Cliffs, New Jersey, "1974"

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protocols for resolving industrial disputes and deliberating on matters pertaining to employment⁹.

The Code on Wages¹⁰, which was ratified in 2019, serves to streamline legislation pertaining to compensation and bonuses, while also ensuring that all employees in India are subject to the same minimum wage provisions and are paid their wages in a punctual manner. Furthermore, it establishes a floor wage, the precise implementation of which is still pending, with the objective of mitigating discrepancies in state and national minimum wage rates. Adopted in 2020, the Industrial Relations Code consolidated and amended legislation pertaining to labour organisations, employment conditions, and the resolution of industrial disputes.

ENFORCING MINIMUM WAGES UNDER NEW WAGE CODE

It is equally vital to have a minimum wage system that is streamlined and a consistent enforcement strategy that includes information distribution and awareness-raising, efficient labour inspections, and harsh consequences for violators in order to ensure a high percentage of compliance within the minimum wage system.

As was said before, the purpose of the pay regulations and wage code is to accomplish the goal of streamlining and redesigning the minimum wage system in order to achieve a higher level of compliance. The adoption of uniform standards, the rationalisation of the structure of the minimum wage, and the universalisation of the application of the minimum wage are the means by which this objective is realised.

On the other hand, this is not really the case with regard to the enforcement method. It needs to comprise measures relevant to the generation of awareness, the implementation of an inspection system, and the use of statistical data, all of which are touched discussed in the succeeding paragraphs. Both employers and workers are required to get training on the different articles of the code, and statistical data must be employed in order to detect instances of noncompliance and carry out inspections that are specifically targeted. These are essential components of both enforcement and compliance. There is no mention of them in the pay rules that are now in place.

⁹“Saxena, Labour Problems and Social Welfare” (Meerut: Educational Publishers and Printers, 1981)

¹⁰“Subramanian, K.N., Wages in India”, (New Delhi: Tata McGraw Hill Publishing Company, 1977)

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As a result, wage rules need to provide an incentive for the execution of a campaign strategy for minimum wage legislation that is appropriately financed. Because of the predominance of the informal labour market and the obvious lack of proper compensation, it is of the utmost importance to prioritise the ease of knowledge of the legal¹¹ requirements that apply to the enforcement of minimum wage. The implementation of this strategy should ensure that pertinent information is disseminated to a large number of people via various print and electronic platforms. This strategy should also include hotlines that are accessible to every employee and employer in the country. By doing so, it would help to cultivate a culture that is committed to obeying the law.

Furthermore, it is of the utmost importance that the wage standards stipulate the procedure and protocol that will be followed in order to identify gaps and patterns of non-compliance. The implementation of appropriate measures to enforce the terms of the wage code and increase the degree of adherence will be made possible as a result of this. In order to accomplish this goal, the wage rules may allow for the gathering of administrative and survey data as well as big data (technology) in order to determine the degree of noncompliance with the minimum wage policy and to carry out labour inspections that are both targeted and planned.

A labour inspection system that is both effective and efficient is an extra vital component that is essential for achieving adherence. This essential component is essential for achieving adherence. The wage code has accordingly implemented significant cultural reforms to the inspection system in order to counteract inspections¹² that are arbitrary and corrupt that have been conducted. As part of the code, the appointment of an inspector-cum-facilitator is required. This individual is accountable for monitoring compliance and imposing fines, in addition to providing workers and employers with information and advice.

On the other hand, the wage regulations are not very clear about the method that will be used to enforce them. Rule 58(1) only specifies that the Chief Labour Commissioner (Central), with the approval of the Central Government, would be responsible for developing a comprehensive inspection plan at a later time. In addition, the fact that the web-based

¹¹ “Coale, A.J. and Hoover, E.M, Population Growth and Economic Development in Low Income Countries, Oxford, India, 1959”

¹² “Gary, George and Heller, W.W, “Savings and the Problems of Inflation in the United States” Savings in the Modern Economy, University of Minnesota, Minneapolis, 1953”

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inspection system is the only one that is used makes it incompatible with the Labour Inspection Convention, 1947, which is an international agreement that India officially accepted in 1949¹³. As a consequence of this, wage rules need to specify the particulars of the inspection scheme.

This scheme should not be restricted to a web-based system, but rather should include other approaches such as surprise inspections, risk-based inspections, and complaint-based inspections. In order to guarantee that non-compliance is recognised across a wide range of industries, this all-encompassing strategy places a special focus on the informal economy. In addition, the establishment of a national information centre and the provision of an online grievance resolution system would make a significant contribution to the improvement of compliance.

As a result, it is of the utmost importance that the government reexamine the wage legislation in order to add clauses about statistical data and awareness-raising, as well as to broaden the scope of the inspection program. Taking this course of action will lead to more compliance as well as more efficient enforcement. The improvements that have been made to the wage laws will help to the improvement of low-paid workers by increasing the effectiveness of the minimum wage system and magnifying the redistributive impacts of the pay code.

CONCLUSION

It is apparent that the Wage Code reforms in India are a radical shift in the approach to regulating wages. If properly implemented, this will correct historical injustices and promote the well-being of millions of the country's workers. By extending the applicability of minimum wage laws to all categories of wage workers while establishing a statutory floor wage, the reforms have the potential to improve the conditions of the most marginalized part of the workforce, especially those in the informal sector. The newer, more straightforward wage structure brought about by the elimination of multiple category-specific minimum wage rates is also intended to enhance ease of administration and compliance, leading to a more transparent and equitable wage system.

However, the success of this reform rests squarely on its extensive and proper implementation. Issues such as the fact that the wage code only protects standard and formal

¹³ Gopalan Sarala, *Women and Employment in India*, Har-Anand, "New Delhi, 1995"

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sector workers against those in the informal sector, when the implementation requires strong enforcement mechanisms exemplifies the intricate dynamics involved in the comprehensive reform of a national wage policy.

For the reforms to have any significant impact on workers' welfare, they must be wholly and rigorously implemented. This must be facilitated by widespread awareness and training of inspectors, for monitoring and enforcement promoted by technology. Such measures are essential to ensure that the reforms do not stop at good-sounding legislation but are practiced and lead to the direct beneficial outcomes for workers. The proper and continued evaluation and refinement of the Wage Code as India goes through these changes are critical to ensuring that their objectives are relevant to the country's ever-evolving labour market.



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