Factory Wages in India*

C.P. Chandrasekhar and Jayati Ghosh

Discussions in Indian media are now full of talk of the need to reform labour laws so as to encourage more manufacturing investment in India. It is not just that current labour laws are presumed to deter investment because of the difficulties involved in firing workers in the event of business failures or other causes. It is also the underlying perception that labour laws are forcing real wages to remain at levels that are higher than are warranted by the state of the labour market, and this is impeding profitability, especially in the manufacturing industries.

To anyone familiar with Indian manufacturing, this latter argument does appear surprising. Not least because wages in the factory sector of Indian industry have never been lower in relation to total costs. According to the Annual Survey of Industries for 2011-12, total wages and salaries (or emoluments, as the ASI quaintly prefers to name them) amounted to only 4.5 per cent of the total input costs in the factory sector, while wages of workers accounted for only 2.1 per cent! It is hard to think of how lowering this ratio (say, to 2.0 per cent or even less than 2 per cent) would make any significant difference to profitability of firms operating in this sector.

In any case, the argument that high wages in the factory sector are a significant concern for employers is also countered by the fact that the total emoluments also include the salaries and other perks received by those who are not classified as workers. This includes supervisory and managerial categories, who in 2011-12 accounted for just under half (around 45 per cent) of other workers. Chart 1 indicates that although workers dominate as a proportion of all employees at around 78 per cent, the number of other employees – and within those, the category of supervisors and managers – has also been growing. (Data in all charts are from the Annual Survey of Industries Report for the Factory Sector, 2011-12.)

Chart 1

Chart 2

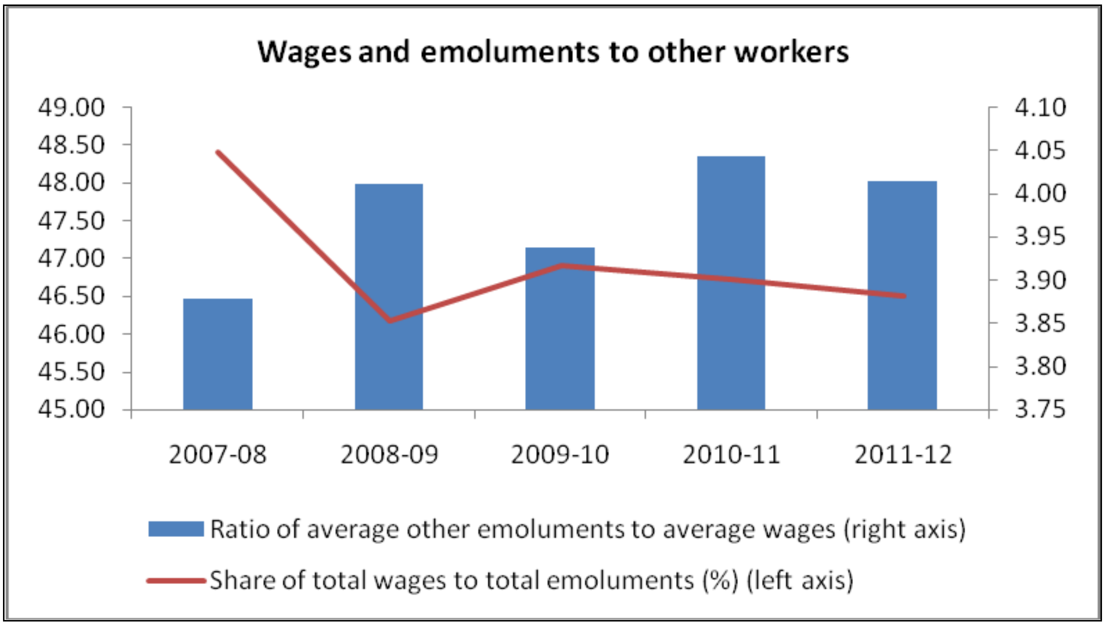

Chart 2 points to the fact that even though workers per se dominate in total factory employment, they account for well below half of the total emoluments paid. And furthermore, the share of workers' wages to total emoluments has been declining over the recent period. Correspondingly, the ratio of these other emoluments per capita (not just salaries but presumably other perks and incentives to the managerial and supervisory class, not all of which can be hidden in "other running costs") to average workers' wages has been going up in the period since 2007-08. In other words, wages are a smaller share of the total wage and salary bill, and payments to non-workers have on average been rising faster than payments to workers.

This is similar to the recent global trend, as many countries in both developed and developing worlds have witnessed a significant increase in wage dispersion, driven by the higher salaries and income accruing to managers as compared to those actually engaged in production. But the point is that this form of remuneration is not one that is affected by any of the laws relating to labour protection; rather it reflects the relatively greater bargaining power of more skilled and professional workers as well as the likelihood that managerial remuneration is closely linked to the obvious self-interest of the managers who make these decisions.

Clearly, many different but coterminous factors have been associated with this trend of widening gap between the wages of workers and the remuneration provided to managers and supervisory staff. But in the Indian case, this is clearly also affected by another tendency that has become increasingly marked among organised sector employers in India: the increasing reliance on contract labour, which has operated to keep wage bills relatively low.

Chart 3 shows how the share of contract workers in total workers has risen dramatically over the past decade and more than doubled since 1998-99, from around 15 per cent in that year to nearly 35 per cent in 2011-12.

Chart 3

For obvious reasons, contract workers have lower bargaining power and it is easier to suppress their wages, especially as it has been found that they often tend to be younger and so lack of experience can be used against them in wage fixing. Most important, they are a means of simply side-stepping many legal provisions for workers' protection, ranging from collective action to safety and health provisions to pension and other obligations. Since more than one-third of workers in the factory sector are now hired through contractors who presumably circumvent the labour laws, this renders the argument of employers for further deregulation and undermining of labour standards even more hypocritical.

In any case, it should be borne in mind that these trends occur in a sector which itself accounts for a minuscule proportion of the total workforce and a small proportion of the non-agricultural workforce. This makes the clamour for labour market reform even more absurd.

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