## T O P I C  N O : II

THEORITICAL FRAME WORK OF THE SUBJECT.

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# TOPIC NO. II

## ROLE OF WAGES :

Wages involves economic and non-economic factors. From the point of view of workers, wages are important not only because they constitute major portion of his income and determine standard of living but also because they determine his status and position in society. Worker is not only interested in money wages but also in real wages.

From the point of view of management, wages are a major item of cost and determine to a large extent the amount of profits. This is a major cause of conflict between management and workers. As a seller of labour the worker tries to sell it at the highest possible price, while the management wants to purchase it as cheap as possible. In addition to this wages can be used to provide incentives to increase production and to attract workers.

The problems of wages be viewed from the point of view of the community and the economy also. It is true that wages constitute an item of cost to an employer and it is natural that he should be interested in minimising it. In a free market where the bargaining power of an employer may be able to pay the lowest possible wage. Low wages will feduce efficiency of workers and will result in increased sickness, slum dwelling and other evils associated with poverty. The social cost of these evils may be greater than the savings in cost obtained by the employer.

From the point of view of economy, wage~~s~~ as a price of labour, performs the functions which are performed by any other factor price. In a capitalist economy and socialistic economy also relative wages performed the most important functions of allocation of labour among various industries, occupation and regions. Workers are attracted to high wage paying industries. The effect of wage on consumptions, employment amd prices are also important. This aspect is important in an underdeveloped economy, where it may become difficult greater employment and higher wages and it may become necessary to guard against the inflationary pressure caused by wages increased.

## WAGES MEANING AND DEFINITIONS :

In its broadest economic meaning the term wage~~s~~ is used to describe all types and forms of compensation for human resources. In somewhat most restricted economic wage, wages are regarded as the accepted method of paying those who work for and under the direction of other's as production, shops or hourly rated workers. In this sense wage~~s~~ is are distinguished from the fees of self employed professional workers and from the salaries of supervisors, managers and clerical and office workers.

DEFINITION OF WAGES :

1) According to Dale Yoder & H.G. Henaman.[1]

" The compensation of wage earners the number of employees who are the tools and equipment of their employers to produce goods and services that are sold of their employers."

2) Under the payment of wages Act.[2]

"Wages means all remunerations ( whether by way of salary, allowances or otherwise) express 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 and includes :

a) Remuneration payable under any award or settlement between the parties or order of a court.

b) Remuneration in respect of overtime, holiday work or any leave period.

c) Additional remuneration like bonus.

d) Any remuneration paid in terms of contract.

3) <u>Minimum Wages Act</u>.[3]

Wage~~s~~ means all remuneration, capable of~~x~~ being expressed in terms of money, which would, if the terms of the contract 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 and includes house rent allowances but does not include the value of -

1) house accommodation, supply of light, water medical attendance etc. or any other aminity excluded by government.

2) contribution paid by employer such as pension, P.F. etc.

3) travelling allowance or travelling conession.

4) Any gratuity payable or discharge.

4) <u>Under workman's compensation Act</u>.[4]

"Wages includes any privilege or benefit which is capable of being estimated, in money, other than a travelling allowance or a value of any travelling concession or a contribution paid by the employer of a workman towards any pension or provident fund or a sum paid to a workman to cover any special expenses entitled on him by the nature of his employment.

5) <u>Employees state Insurance Act</u>.[5]

The defination of wages under the above act also includes all remuneration paid or payable in cash to an employee in terms of the contract of employment express or implied.

6) <u>The Factories Act.</u>[6]

In section 9 of the factories act, while laying down the conditions for the payment of extra wages for over time. It has been stipulated that the ordinary rate of wages means the basic wage plus all allowances to which the worker for the time-being is entitled to accept the payment of bonus.

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1 to 6 P. GHOSH - Personnel Administration in India p. 299.

No critical evaluation

## DEFINITION OF SALARIES :

Salaries, as compensation for working, are paid uniformly either on monthly or annual basis where in the output of work cannot be measured in terms of output. The managerial, members of the supervisory staff, higher paid technical staff who are members of the management, and clerical employees who are paid on a long term basis than wages without any reference to fluctuations in employment, receives salaries.

## DISTINCTION BETWEEN WAGES & SALARIES :

The amount of money that is paid as wage~~s~~ to the workers depends on the rate~~s~~ of wage~~s~~. There may be an hourly rate, or time rate. Under the time rate system worker receives compensation remuneration on the basis of time spend on work. There is also a system of wage payment by piece rate, where the workmen receives their compensation on the basis of their output. There is also incentive wage plans for increased output. Wage~~s~~ payment~~s~~ are made on weekly, forthnightly or monthly basis.

All salary payments are on the basis of a long term such as a month and occasionally a quarter or a year. In the case of salary payments uniformity is observed in regard to long term base, without any reference to the measurement of output or fluctuation in employment.

The total earnings of an individual may vary related to piece work system or if there is a wage incentive scheme in operation, the earnings of the individual workers coming under the scheme may vary considerably. Similarly the total take home pay may also vary considerably depending upon the deductions made from an individual's salary or wage packet. The society dues, provident fund, ESI dues, deduction on account of repayable loans from provident fund or co-operative society, payment of special premiums for group medical insurance etc.

## WAGE AND SALARY ADMINISTRATION AS A PART OF PERSONNEL ADMINISTRATION :

Personal Administration is an integral but distinctive part of management, concerned with people at work and their relationship within the enterprise. It seeks to provide relationship within the enterprise that are conductive both to effective work and human satisfaction.

Wage and salary administration constitutes an important area of the personal administration. In private sector organisation, the personnel administration plays an important role in evolving fair and equitable wages and salary programme. Wage and salary administration policy of management is concerned with the establishment and implementation of sound policies and methods employees compensation.

Wage as a means of providing income for employees and as a cost of doing business for the employer have been assuming increasing importance in the modern complex and larger industrial units. Since it is the only sources of income to the employees. It determining their economic survival and status in the society. Therefore the amount of wage payable to the employees determines their attitude towards their work and work place.

Thus wage and salary administration is an important part of personnel administration.

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Para 74 of the Memorandum submitted by Institute of personnel Management ( U.K.) to Royal Commission Trade Union and Employer Association ( U.K.)

TYPES OF WAGES :

Money

1) Nominal Wages :

Labour

It is the amount of money paid to a worker in cash for the efforts put in by him in any industry and no other ~~advantages~~ benefits to the worker is made. This is also called money wage. The rates of wages at different places may differ from each other as per the availability (Supply) of the workers and necessities of life. The amount of payment is so calculated that every worker should get actual worth of his services (at least subsistence wage).

2) Real Wages :

Money wage & the purchasing power of money at a point of time decide real wage plus

It refers to the amount of necessaries comforts, luxuries and cash payment which a worker can get in returns for his efforts and work. For example uniforms, essential commodities, housing with free water and electric supplies, conveyance and other such facilities and generally provided by the factory, in addition to the money in cash. If all his amount as a whole is considered for wages, these becomes real wages.

3) Living Wages :

When the ~~rates~~ of wage ~~are~~ is such that can meet some of therequirements of a social family like education, food, clothes, and some insurance against the more important misfortune alongwith prime necessities of life are called living wages.

4) Fair Wages :

It is actually the wage which must be fair for the work of a worker and should provide him with other necessities of life in addition to food for his family.

The rates for the fair wages range between the minimum wage and living wage but between these two ranges the actuall wages will depend on :

i) Production capacity of the worker.

ii) Rate in a surrounding area.

iii) The level of national income and its distribution.

iv) The place of industry in the economy of the country.

v) The bargaining power of employer and employee.

5) Minimum Wages :

Wages can not be raised beyond the capacity of industry to pay. The productivity of industry is the source from which wages are paid. At the same time it can not be forgotten that labour is a human being, and from humanitarian point of view he is to be protected. Hence there is the problem of fixing a minimum wage for the worker. This minimum should be sufficient for allowing the worker to maintain himself according to his needs.

Minimum Wages may be deputed as the wages, which provides not only for bare substance but something more than this. It must be sufficient for the preservation of the efficiency of the worker. It must also provides for a some measure of education, medical requirements and other ammenities of life. This is fixing a minimum wage we have to take into consideration the cost of living. To ensure this in India minimum wage act 1948, has been in force, where wages have been fixed for different parts of the country and this has forced employers to give not less than this fixed minimum wages to any of their workers.

<u>The main objects of minimum wages are</u> :

i) To protect those sections of the working population whose wages are very low and whose conditions are materially unsatisfactory.

ii) To prevent exploitation of workers and to secure a wage according to the values of work done.

iii) To provide peace in industry.

iv) To improve the normal standard of living.

<u>Wage Differentials</u> :

In any industry or office different workers or employees get different wages. Workers with some qualification engaged in similar work in different industries get different wages or salaries. This different in wages is called wage differentials.

<u>Reasons for wage differentials</u> :

1) Difference in marginal productivity of the workers.

2) Difference in qualification, experience and training of the workers.

3) Difference in skill and specialisation of the workers.

4) Difference in hardworks and risk involved in fulfilling the jobs.

5) Difference in degree of responsibility required for the jobs.

6) Difference in exploitation by the employer.

7) Availability of workers.

## THEORIES OF WAGES :

The problems of wages should be studied scientifically. There are different theories of wages according to which wages are determined. The wage theory has passed through three stages of development.

I) The 'Just Wage' of middle ages.

II) The classical theory of wages. Under this theory there are five theories.

1) Adam Smith's contribution to wage theory.
2) The substance theory of Ricardo.
3) The standard of living theory.
4) The wage and fund theory.
5) Residual claimant theory.

III) Neo-classical theories of wages. Under this theory there are five theories.

1) The marginal productivity theory.
2) The Bargaining theory of wages.
3) Taussig's theory of wages.
4) Kalecks theory of wages.
5) Contribution of Keynes to wage theory.

<u>The ' Just Wage ' of middle ages</u> :

This was the first stage marked as the just price during the medieval period of church domination. The 'June Price' means the price which would enable the craftsman to maintain himself and his family according to their established position in the community. The just price was prepared by churchman and given moral importance. It is a theory, from which both intellectual and natural progress were absent. Im this theory there was just historical interest. In this way the just price of the middle ages was a wage concept rather than a theory of wages.

THE CLASSICIAL THEORY OF WAGES :

1) Adam Smith's Contribution to Wage Theory :

Classical economists provided the theory after the publication of Adam Smiths 'Wealth of Nation' in 1776 and carried through 19th century. Adam Smith stated that, the full value of any commodity is equal to the quantity of labour which, it enables him to purchase. Therefore labour means the real measure of exchangeable value of all commodities. Labour was the first price that was paid for all things. The real price of every thing is the toil and trouble of acquirity if what is bought with money is purchased by labour by the toil of our own body. This theory became the main point in the doctrine of Karl-Marx. Smith enquires into the question that what determines the out come of the bargain between masters and workmen. Master keep wages down to the minimum possinle level. Considering the minimum level. Adam Smith suggest that to bring up a family the labour of husband and wife together must be able to earn something more than their own maintainance. Therefore we consider here the physical substance theory, Adam Smith has analysed the causes of differences in wages. As long as there are disadvantages of occupations, the wage must differ.

2) The subsistence theory of Ricardo :

This theory was first formulated by the who have been the condition of French labourers, living on bare necessaries, concluded that nature itself was working out wages to the subsistence level. The theory was commonly accepted during 19th century, Adam Smith have accepted this theory of wages. Four decades later, Ricardo wrote that the natural price, of labour is that price which is necessary to enable the labourers to subsistence and perpetuate their race without either increase or decrease. The German economist Lasselle called it, Iron Law of Wages. Karl Marx made it the basis of his theory of exploitation. According to this theory wages are just sufficient to maintain the worker and his family at minimum subsistence. It was rise above this level the workers are encouraged to marry and have larger families. The larger supply of labour bring wages down to subsistence level. On the other hand if wages are below the subsistence leve; marriages and births are discouraged and labour supply is decreased until wages rise again to subsistence level. The subsistence theory is based on the Malthusian law of population. It is assumed that every increase in wages must be followed by a higher standard of living. This theory has not given the importance of productivity. Because productivity of labour determines his remuneration. The subsistence theory itself is not a correct explanation of wages. The rate of wages can not be permanently below the subsistence. It therefore indicates the maximum level.

3) The standard of living theory :

The subsistence theory was modified during the 19th century. Wages should be to the standard of living of the workers. Karl Marx stated that the value of labour informed by two elements i.e. physical and social. To maintain and produce itself and to keep physical existence, the worker must receive the necessaries for living. The value of labour in every country is determined by a traditional standard of life was determined by the mode of production, which is not static. Thus standard of living, by reducing supply of labour and increasing demand of labour. Further the higher standard of living increases the marginal productivity of labour. The standard of living depends on wages as wages depends on standard of living higher wages are paid for higher productivity.

4) <u>The wage fund theory</u> : Outdated theory

J.S.Mill has developed this theory. Wages depends upon the relationship between supply of population and capital available to employ workers. Population means those members of labouring population who render services on hire. Capital means the amount to be used for the payment of wages i.e. circulating capital only. According to this theory wages can not rise unless wage fund increases or number of workers decreaser. If wages fund is fixed then wages will rise due to reduction in number of workers. According to the theory, the efforts of trade unions to raise wages are worthless. But the theory is criticised and stands rejected now. The main criticism is that it ignores the possibility of increased wages leading to greater efficiency. Extra remuneration may be given due to greater productivity. It is wrong that wages are decided by stock of capital, Wages changes with the prices of labour. The theory does not give the reasons of wages differences in different occupations.

5) Residual claimant theory : outdated

American economist worker has advanced this theory. Wages are the residue left over after the other factors of production have been paid. Worker believed in the fact that rent was fixed by differential principle of Ricardian rent theory. Profits are decided by degree of skill of enterprise. Interest is determined by the return which seves capital accumulation out of the total production. Therefore after rent, profits and interest have been paid. The remaining amount goes to worker as wages. It is due to greater productivity of labour, the national divident increases, then wages will also incease. The theory accept the possibility of increase in wages through greater efficiency of labour. The main draw back of the theory is that wages ignores the supply of labour consideration in determining.

**NEO CLASSICAL THEORIES OF WAGES :**

Austrian school of Economics was formed in modern period of developed theories during the modern period are given as under :

1) <u>The Marginal Productivity Theory</u>[1]:

This theory is the most generally accepted theory of wages, to day developed by Prof. J.B.Clark. According to him the price of labour was decided by its marginal productivity utility to the employer. The wages paid are equal to the productivity of the last worker hired or to the marginal productivity of the labour force. The theory explains not only the general level of wages for various grades of labour. The theory assumes that the employer will continue to hire each of the productive factor upto the point where the cost of the last additional unit of each factor is equal to the price paid for that factor value of the additional product to him. The marginal productivity of a factor establishes a limit to a price profitable to employer. It is assured that employer will distribute their assets business expenditure among the various factors of production according to their marginal productivity.

Prof. Marshal views that, wages of every class will be equal to the productivity net product due to additional labour of the marginal labour of that class but in increasing returns. The payment of wages on the net product is disadvantage for an employer to employ extra worker. To attract the extra worker the employer has to offer higher wages and has to pay an equally higher wages to all other workers.

The marginal productivity theory is based on certain assumptions, and it true only under certain assumptions like, perfect compitition, perfect mobility of labour, homogeneous character of all labour, constant rate of interest and rent etc. But actual world is dynamic. Therefore assumptions will not hold good in changing conditions. Competition is never perfect. Mobility of labour is restricted, all labour is not of the same grade. Remuneration to other factors of production changes and prices of products of labour also changes. Therefore this theory has little applicability in reality.

2) The Bargaining Theory of Wages[2] :

The theory has been developed recently. Since 1933 due to the disadvantages of marginal productivity theory. The bargaining theory states that, wages are decided by the relative bargaining power of employers and employees. Workmen should combine and resist the down word pressure on wages. Equality of bargaining factor through collective effects is the only factor to avoid the bad effect of compitition. Webbs stated that the marketing conditions, determines the conditions of employment, occurs in a chain of bargaining linking of manual worker capitalist, wholesale trader, shopkeeper and the customer. The validity of this theory depends upon the accuracy and adaptability. It is doubtful whether it is the most important influence in wages determination it is not a complete theory.

3) Taussig's Theory of Wages[3] :

American Economist Taussig has modified marginal productivity theory and developed the marginal discounted product of labour output. Because production takes time and final product of labour can not be obtained immediately. But in meantime workers must be supported. Employer does not pay the full amount of marginal product of labour. He deducts certain percentage for the risk he takes. According to Taussig this production is to be made at the current rate of interest. The present value of product is decided by discounting its future returns. But this theory has also weaknesses. It is a dim and abstract one remote from the problem of real life. The joint product is discounted at current rate of interest. The rate of interest is a result of advance to workers, because it depends upon the excess of what workers produce in the future, over what is advance to them in the present Taussig suggest that we determine the rate of interest of marginal productivity by the rate of time and with the interest determine discount of the marginal productivity of labour.

4) Kaleckies Theory of Wages[4] :

This theory has been developed by the Polish economist Dr. Michael Kalecki just before the second war. He stated that it was the sum of the expenditure of the capitalist class; that decided the size of the capitalist income wages is a residual part. The level or real wages depends upon what was left out of total product after capitalist class had its cuts. This theory throws light on the demand side only. It does not consider the degree of monopoly. It is not clear whether collective bargaining by trade unions influences upon the share of wages and its influence on the degree of monopoly. Because such trade unions may push up money wages and the existing degree of monopoly will always enable business enterprenures to raise their selling prices.

5) Contribution of Keynes to Wage Theory[5] :

Keynes has rejected the classical theory of wages. He stated that a flexible wage policy maintains a state of continuous full employment. A reduction of wages will mean some reduction in prices leading to further wage cuts. It results in the postponement of investment and consumption. He does not believe free market wage adjustment at individual level and also collective bargaining in factor of nation wide regula-tion to stabilise earnings. The Keynesian wage analysis is a part of continuous full employment. The three essential ideas in this theory may be : (1) National Wage Policy (2) Stable (rigid) money wage level in the short run and(3) A rising money wage level in the long run.

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1 to 5 : T.S. Bhagoliwal, Economics of Labour and Social Welfare, pp 238 to 240.

FACTORS INFLUENCING LABOUR REMUNERATION :

There are several factors which influence the wage and salary administration problem. These factors are as follows :

1) Relationship among wages, prices and profits :

Wages prices and profits are negatively related. While the wage is a reward to employees and hence they are interested in every increasing and high standard of wage scales. It is looked by management as an important factor of cost. Which by increasing expenditure reduce profit margin and increases the price of the commodity. In profits are interested its shafe holders, but in price the consumers. Hence there is a conflict of interest between employees, share holders and consumers over the determination of wage scales and structure. It is therefore a complex problem to feconcile the three interests.

2) Attitudes of employers unions and employees :

Again there is a difference in attitude towards wage structure and scales of employers, union and employees and its reconcilation becomes a practical problem. The collective bargaining is an important factor affecting wage problem.

3) Needs and economic security :

In principle, management, union, employees and public agree that there should be adequate payment in terms of economic needs to the workers so as to provide economic security, minimum guarantee payment, adjustment of wages with cost of living, special allowances in case of emergency needs be made. But in practice it is difficult to evaluate the economic needs, basic for economic security and adjust cost of living index with wage scales for obvious reasons.

4) Governments Policy and Legislation :

The Govt. are not now passive onlookers towards the labour problems but they actively interfere with the problems concerning labour and labour welfare wage and salary is an important aspect of labour legislation, minimum wage payment, fair wage payment, stability of wage structure, equitable methods of payment, stability of wage structure, equitable methods of payment of wage, extra labour welfare and security compensation are some of theprinciple aspects which are regulated. Hence the problem is not purely a financial one but also requires a co-ordination of legal provisions.

5) Productivity :

In principle productivity as a basis of wage payment is most equitable and fair. But in practice it is difficult to measure it fairly in all thecases. Then it applied in each case, it will provide a very comprehensive complicated and unstable structure, moreover the legal provisions and stabilisation policies and labour unions may oppose it.

6) Prevailing labour market conditions and rates :

The determination of wage and salary rates also depends ṻpon the supply of and demand for labour in the market and the rates and the scales offered by other organisations.

7) Psychological and sociological factor :

Man is not solely motivated by money. Psycological and sociological factor, influence the wage problem in a number of ways. Since wage level is a symbol of status. It is a measure of one's success in comparison with others. This being so relative wages become as important as absolute wage. Even if a person gets adequate wages which probably he would get else where but if he feels he occupies a labour position and status and he is not properly recognised by the management, he may remain dissatisfied or leave the job. Similarly if the relative wages are lower in organisation as compared to other having almost the same functions and responsibilities or their status is lower, they remain dissatisfied.

All the above factors and numerous others such as ability of the organisation to pay cost of labour substitute, incentives programmes etc; influence the problem and need a happy reconciliation of conflicting interest and proper balancing.

## NATIONAL WAGE POLICY :

Wages and earnings play an important role in the economic development of the country. The prime object of economic activities in any country is to attain a better standard of living forthe wage earners by increased individual real earnings whereby a large section of the employed population can satisfy their various needs and can live better and fuller life. Unemployment or under-employment is an indication of the level of poverty in a country. Whereas real earnings can be considered as an index of economic stability of a nation.

To a worker, it is his monthly income which really matters. Most of the Indian families have only one wage earner. In many communities, however there are two or three wage earners. In case, however the employment is not steady and the workmen are compelled to work at the low wage levels, the income may be inadequate to meet the economic and social needs of a family. The size of the family is another consideration. Even if a worker had adequate monthly earnings, he has to support a large family, he may be compelled to live a life of mere subsistence along with the members of his family. The family planning movement in India is still at its infancy and majority of the Indian workers havelarge families. Poverty, frustration, indebtedness often over-shadow the satisfaction of human needs.

We do recognise that in India the income inequality constitutes a real problem. Major portion of the labour in India still remains unorganised and as such constitutes a threat to the economic security of the labour class as a whole. Very few Indian workers attain an income level where in they can visualise what constitutes a maximum, at the same time, a decent standard of living. It is difficult to draw precisely a poverty line. By and large people in India are poor. Why? What is the precise definition of poverty? It is reported that in spite of the taxation major portion of the wealth in the private sector is concentrated in the hands of a few families. Does it mean that their savings would flow in the capital market and thus would result in the better prosperity of the nation? There are the questions for the economists and politicians to answer.

From the point of view of Industrial relations, we must recognise that poverty constitutes a great threat to democrary. The wage policy in any country should be a rational one based on social and economic consideration. The national policy should ensure that the workers because of lack of effective organisation or lack of bargaining power, are not compelled to work at unreasonably low levels of wage and to live a life at human level of existence. They are however human beings and like any other human beings any where in the world, they have their attitudes, frustration, dissatisfaction and resentments.

If there are unleashed they may endanger the very foundation of democracy and result in class conflicts. If we fail to raise the real wage level to a level where in the workers do not have adequate command over material resources to meet their needs. This may be considered as the very negation of the principles of social economic justice. How can the poverty striken workers attain a level of efficiency whereby they too can contribute their quota towards productivity. Inefficient work force always constitutes a danger to the economic prosperity of a nation and India is no exception.

OBJECTIVES OF WAGE POLICY :

The concept of paying as little as possible with a view to maximise profit is no larger valid. These days wages are used as a method of increasing profitability through increase in productivity induce by suitable wage adjustment. A purposeful wage policy should help in achievement of the overall objectives of the firm. The objective of profitability, efficient service to the consumer, healthy relations with labour, less labour turnover, better quality of work high employee motivation are the major considerations governing the policy. Human dignity, social economic equality. Financial capacity are the prime factors to be borne in mind in designing a wage policy or compensation plan.

CRITERIA OF WAGE FIXATION :

1) Productivity :

Productivity represents the contribution of the workers towards increased output. Wages, it is felt, should be commensurate with the productivity of the respective workers. Wages are fixed and further raised in proportion as the output rate increase.

Productivity is the yard stick of labour efficiency wage linked incentive and stimulates. For quicker, accurate and higher performance wages fixed according to productivity would also help the firm in keeping close grip over costs.

2) Comparative wage level :

Wages are fixed on the pattern followed in other enterprises. Comparative wages levels are used both by labour and management to prove their contentions in any bilateral negotiation for wage fixation. Wages paid by competing firms or other enterprises for particular type, quantity, quality of work are compared and categorised and accordingly wages in a given firm are fixed around the comparative level.

3) Individual needs :

Wages are often fixed with a view to enable the worker to meet his needs. The wages should be sufficient as to sustain the wage earner and his family. Wages should give a recipient adequate purchasing power to possess the goods and services essential to satisfy his needs. Minimum wage legislation enacted to ensure the workers the irreducible minimum income to fulfil their needs.

4) Cost of living :

Changes in cost of living influence the availability of real earning to the workers to meet their needs. Higher cost of living erodes the purchasing power of the workers. Hence it is found desirable to the wage rates as per the variations in cost of living. Money wages are not important to satisfy the workers needs and real wage matter most. Hence money wage should be adjusted to maintain the real wage.

5) Ability to Pay :

Fair wages are linked with the ability of the firm to pay subject to minimum subsistance and assured of productivity, wages are to be increased as the firms net profitability increases. If the firms earnings increases beyond the reasonable level of return on capital employed, workers are said to be entitled to participate in the increased surplus of course the fair level of profits should be precisely determined first. The negative effect on management incentive to expand should also be avoided.

6) Maintainance of consumers demand and prosperity :

It is also argued that wages should be increased in order to step up demand forthe goods and eventually to stimulate higher wage is ignored. Arbitrary wage increases many bring about cost spiral, price inflation and consequent erovision of purchasing power.

METHODS OF WAGE PAYMENT :

1) Time or Day rate System :

This is the most common system found in practice. Under this the worker is paid an hourly, daily or weekly rate of wages. Thus the remunerations depends upon the number of hours for which he is employed and not upon the amount of his production.

Advantages :

1) There is no dispute about the amount of payment because it has been fixed from the very beginning and the worker knows

in advance what he is going to get.

2) There is no rough handling of machinery due to slow and steady working of workers.

3) The quality of work can be raised, very easily as there is no need of hurrying about the things to be done.

4) It possesses security from the stand point of the workers because they are sure to receive their wages irfespective of temporary reductions in personnel efficiency which may result from unavoidable accident or sickness or fatigue from outside activities.

5) The interruption to work due to break down of machinery or some other part of organisation will not make workers to suffer from the loss of wage.

6) There are no difficult calculations to be made. If there are many calculations to be made to arrive at the remuneration of a worker, it is possible that an illiterate worker may doubt the exactness of his

remuneration from time to time.

Disadvantages :

1) The employer bears the loss resulting from slow and sluggish workers as they are paid the same wages irrespectives of their output.

2) This system tends to reduce production unless a strict supervision is managed. Therefore a well qualified and strict foreman is required to obtain satisfactory production.

3) The system tends to give higher production cost.

4) This system is not suitable in the case of lazy workers.

5) In this system, by and by efficient workers become inefficient by working with inefficient workers.

Suitability :

In this system several times the minimum work becomes the maximum work everybody may try to do the maximum and no one may try to go above that because there is no immediate gain for hard and difficult work, hence this system leads to an extra cost of production and hence is suitable to pay the factory workers such as foreman, supervisors, time-keepers, cleaners, enginemen, storekeepers and gateman etc. as the natore of their work is such that time done can be taken as basis on which to remuneration time.

2) <u>Straight piece work rate system</u> :

This is an improvement on the time rate system. Under this, a fixed rate of wage is paid for each piece or unit produced.

<u>Advantage</u> :

1) It is simple in its working and the workmen can easily calculate their wages.

2) An inducement is given to the workers to increase their production and thus the overhead expenses per unit of production

are reduced and margin of profit increased and scope for production of selling price is, therefore increased.

3) The relation of the workers and employers improve and no dispute takes place for wages, as the workers gets satisfactory reward for their work.

4) The employer is enable to know his labour cost per unit of job.

5) Workers are paid on their merits.

6) The work and time spent on preparing pay rolls and bills is eliminated.

7) There is no need of keeping strict supervision and workers are taught self reliance and responsibility.

8) On this method production will improve as workers demand material and machinery from defect and under perfect working condition.

Disadvantage :

1) It is difficult to fix accurate piece-work rate.

2) When the wages earned by workers are high, the employer may be induced to reduce the rate, which will fraction between the employer and employee.

3) The worker puts maximum efforts to earn more and more which results in suffering ~~with~~ of their health.

4) This causes displacement of labour, as with increase in production the number of workers engaged will be reduced.

5) It will cause as increase in the waste of materials, because the workers will always try to obtain the maximum output.

6) Accidents due to hasty work, improper use of machines and tools in order to give more production are increased and machines becomes out of order earlier.

7) Mis-utilisation of costly machine and tools.

8) The quality of work may reduce. This can be checked if a rigid system of inspection is enforced.

9) It may cause over production and may result in losses; if there is only a limited demand for production in the market.

10) The entire benefit of the extra wage earn goes to the workman and not towards direct benefit to the employer.

11) When a lazy worker takes unnecessary long time for completing a given job, the employer will suffer extra shop and machine charges, thus increasing the overhead cost of production.

Suitability :

Hence this system is only suitable where the worker repeats regularly a definite operation or produces the same type of products, constantly. Many employers in India have introduced this system and it has been found efficient easy and economical.

For the application of this system a careful time study is done and different types of workmen are observed for the time they take in carrying out the job. The standard time for the completion of job by the workmen of different calibres is found out for different work and the rates of the wage per job is decided such that every worker can get at least a minimum wage. The skilled and active workers are free to earn more by putting in more efforts.

## WAGE INCENTIVES

It is something that encourages a worker to put on more productive efforts voluntarily. Mostly workers are not willing to exert themselves to produce any where near their full capacity unless their interest in work is created by some kind of reward. This reward is called 'Incentives'. The incentive is of course some kind of monetary reward, which is closely related to the performance of a worker that there is incfease in wage corresponding to an increase in output.

### TYPES OF INCENTIVES:

a) Financial incentives.
b) Non-financial incentives.

### Financial Incentives :

If an employer finds that he will be earning an extra profit of Rs. 25/- If a particular work is finished in 5 hours less than prescribed time and the worker gets extra payment this extra payment is known as incentives.

## METHODS OF FINANCIAL INCENTIVES :

### 1) Halsey plan :

In this system an hourly rate or daily rate is garanteed to the workers. A standard time is fixed for the performance of each job and the worker is paid the agreed rate per hour for the time spent thereon, plus a fixed percentage ( $33\frac{1}{3}\%$) of the time he can save on the standard. This plan is easy to introduce.

### 2) Rowan plan :

This system is synthesis of time and piece rate methods. It also guarantees a maximym remuneration on hourly basis, bbt to the worker who shows efficiency and economy in handling his job bonus is paid on the basis of the time saved in proportion to the total time set as a standard.

### 3) Cent perćent premium :

In this system the standard time for the completion of a job is fixed and its rate of completion during this period is also fixed. Now the worker who completes the job is the standard time is not given any incentives but those who complete the job earlier get full payment for the time saved.

4) Taylors Differential Piece Rate System :

This system introduced by Taylor with two objects :

1) To induce the worker to produce upto their full capacity.

2) To remove the fear of wage act.

In this system standard time is fixed for the performance of a piece work and those who complete the job in standard time or produce job earlier are paid at higher rates and those who do not complete the job in standard time are paid at lower rate.

This system therefore gives an encouragement to active workers but punishes lazy workers. In this system it is difficult to determine the standard of higher and lower production and thus the system may prove to be unjust to the workers.

5) Merrics Multiple Piece Rate System :

In this system merric devided the worker into three categories, namely - beginners, average and first class workers and the different rates for them. The higher rates are paid to those who reach the standard. The standard rates are for those who reach at least 80% of standard and third rate is below the 80% output.

6) Gantt's Task and Bonus System :

In this system first careful study of the job is made and from that study best conditions for the performance of job are determined. On the basis of these performance standard output for a given time is set. Now if a worker can complete the job in a given standard time, he receives wages for standard time and bonus ranging from 20 to 50% of a time taken. When a worker fails to produce the required out-put he only gets his time rate without any bonus.

7) Emerson Efficiency Plan :

In this system premium is given to those workers who attain more than 2/3 of the standard output. In this standard output for the day is so decided that the average worker can complete at least 2/3 of the standard output.

In this method standards are made and worker get this additional incentive alongwith their basic day rate. A basic day rate is fixed irrespective of the workers capabilities and every worker gets at least the minimum day wage.

a) upto 66% of standard output he gets no incentive.

b) upto 80% of a standard output he gets 10% of the day wages as incentive.

c) upto 100% of the standard output he gets 20% of the day wage as incentive.

d) Upto 120% of the standard output he gets 40% of the day wages as incentive.

8) Profit Sharing System :

Profit sharing implies payment of a specific share of the worker in the annual profits of the firm, where he is employed. This system has been introduced by the employer in order to encourage their employees and by means of which the workers receive a share of the profits over and above their normal wage. Three basic type of profit sharing plans are in use :

i) Current (cash) profits are paid directly to employees in cash or by cheque or in the form of stock as soon as profits are determined.

ii) Deffered profits are credited to employees Account to be paid at the time of retirement or in particular circumstances ( i.e. disability, death etc.)

iii) Combination by which a part of the profit is paid in cash and a part is differed and placed in the employees account in a trust fund.

NON FINANCIAL INCENTIVES :

The financial and non-financial types of incentives are complementary and must go together of satisfactory results are desired. The financial incentives must be supported by the non-financial incentives, since only cash wages can not help in solving the problems of industrial productivity. In order to create interest in a worker for greater and better output, non-financial incentives must also be enforced and workers will also enjoy richer and fuller life.

Some of the non-financial incentives are :

1) Job Security :

Every worker is interested in job security rather than fixed amount of wage and salary. Productivity is high in those concern where workers have feeling of security.

2) Recognition :

Fair and sympathetic treatment with workers is required. In practice good work is accepted with no comment and bad work always gets warning. Recognition is one of tools of motivation.

3) Participation :

As a motivation tool participation travells under various ways such as democratic management, consultative supervision, workers share in decision making etc.

4) Pride in the job :

Although the increasing mechanisation of industrial process had made it extremely difficult to utilise the appeal of pride in work. Yet most people do have the desire to feel pride in accomplishment. Various techniques can be employed to develop pride in work for Recognition of Supervisor performance often serves to motivate to sustained or higher efforts. Group pride in accomplishment can often be elicited by praise and special recognition. Pride in the company or organisation is a much more nebulous concept. Good product, dynamic leadership, fair treatment, service to the community etc. serves to stimulate an employees pride in his company.

5) A sincere interest in subordinate as individual person when we show interest in others we get immediate response.

6) <u>Delegation of Responsibility</u> :

Delegation of authority and obligation to execute a given task often proves to be strong motivating factor. The facts that the supervisor trust his workers. Stimulate the workmen to show better results.

7) <u>Other incentives</u> :

Under this caption may be included the incentives like quick promotion, provision of facilities for technical training within the concern, sending selected employees for training in other technical institutes within the country as also abroad, provision of labour welfare amenities etc.

## WAGE LEGISLATION IN INDIA

### Payment of wage Act 1936[1] :

The payment of wage act was enacted in 1936 and it came in force in March, 1937. It was passed on the recommendation of Royan Commission on labour 1931. The act applies to persons whose salaries and wages are below Rs. 400/- p.m. It requires that fixation of wage period should not exceed one month. The payment of wage must be made not latter than seventh day of month, if the number of workers employed is less than ten and tenth day if it exceeds this number. A discharge worker must be paid before the expiry of the second day from the day on which his employment terminates. All payments of wage must be made on a working day. Acts permits only authorised deductions e.g. -

1) 3 paise fine in every rupee wage by an employee who is over 15 years of age.

2) Deduction from absence from duty.

3) Deduction for damage or loss.

4) Deductions for house accommodation and amenities provided by employer.

5) For recovery of advance.

6) For income tax; contribution for co-operative societies, Insurance Premium or for purchase of government securities.

<u>Minimum Wage Act - 1948</u>[2] :

This act was passed after independance in March, 1948. The act empowers the central or state government as the case may be to fix minimum rates of wages payable to employees; including clerks working in certain schedule employment. Object is stop the exploitation of labour from employers. The act applies to following industries -

Woollen carpet making or showl weaving, rice flour or dal mills, tobacco or bidi making, plantation, oil mills, road construction or building operation, stone braking or stone crushing, lac manufacturing, mica works, public motor transport, farm labourers, dairies etc. Act empowers the appropriate Govt. to add the list.

The acts provides for the fixation of -

1) a minimum time rate.

2) a minimum piece rate.

3) a guaranteed time rate.

4) an over-time rate for different classes of work and workers, occupation and localities and for adults, adolescents, children and apprentices. The central Advisory Board has fixed a national minimum wage ranging from 1.12 per day to Rs. 2 per day.

Payment of Bonus Act 1965[3] :

The payment of bonus act was passed in 1965. Prior to its enactment, the president had promulgated an ordinance on May 29th, 1965. The act was passed on the recommendations of the Bonus Commission appointed by the Govt. of India in December, 1961, under the chairmanship of M.R.Mehar. The commission gave its report in January, 1964.

The act applies to every factory irrespective of the number of employees working in it. It applies to other establishments, besides factory which employ 20 or more persons. It applies whole of India except Jammu amd Kashmir. A worker can get bonus if he has been in employment for not less than 30 days in that particular year and his salary is upto Rs. 1600 p.a.

For calculation of bonus however salary of Rs. 750 or more per month will be taken as Rs. 750 only.

The act does not applies to R.B.I. Deposit Insurance Corporation, Unit Trust of India, Industrial Development Bank, Industrial Finance Corporation, State Finance Corporation and Agriculture Re-Finance Corporation.

It does not applies to the employees of universities and other educational institutions, L.I.C. etc. It does not applies to the institutions not established for making profit.

The act provides the minimum amount of bonus payable to a worker. Earlier it provided that every employer will pay to every employee a minimum bonus of 4 percent of the salary or wages including dearness allowance earned by him in a year. By an ordinance in October, 1972, the Government raised it from 4 percent to 8.33 percent for workers in all concerns whether they are loosing or gaining profits.

This ordinance was replaced by the payment of

Bonus (Amendment) Act, 1976. The amendment Act, 1976 provides for payment of bonus on the basis of profit or production or productivity.

Employees State Insurance Act, 1948[4] :

The act is applicable to whole of India except the State of Jammu and Kashmir. In the first instance it covers all factories employing 20 or more workers and using power. Further it covers factories, to all employees whose monthly remuneration does not exceed Rs. 400/- only. Thus the act covers all manual, non-manual, skilled permanent, temporary, casual, badli, clerical, supervisory or administrative employees working in covered factories and whose total remuneration does not exceed Rs. 400/- p.m. Indian army, Navy and Air Force are excluded from this act. Risks covered under this act includes, sickness, employment injury, including total accidents and maternity in case of woman employees.

The administrative body includes 31 members and includes representative of employers and employees is equal numbers and others representing the central and State Governments, medical profession and parliament. E.S.I. Fund - In order to pay benefits to ensured person the act creates a fund called E.S.I. Fund. Fund is constituted to the employees contribution, employers contribution grants from the government, donations etc.

Employers contribution is deposited on State Bank of India at the rate of $1\frac{3}{4}\%$ of total wage bill in implemented area and $1\frac{1}{4}\%$ in non-implemented area.

Employees contribution depends upon the average daily wage; employees divided into eight wage group and contribution related to their wage group.

The act provides five types of benefits to the insured persons. These benefits are medical benefit, sickness benefits, disablement benefit, maternity benefits and dependent benefit.

The Employees Providend Fund Act, 1952[5] :

This act was passed in 1952, initially it was applied to six industrias ( cement, cigarettes, electrical, mechanical or general engineering products, iron and steel, paper and textiles).

Now it is edtended to large number of industries. The act is applicable to whole of India except Jammu and Kashmir. It applies to every factory employing 20 or more persons and to any other establishment as may be notified by the Government in its official gazette in which 20 or more persons are employed; and Government can also introduce the scheme in any other establishment employing less than 20 persons by giving at least two months notice. It does not applies to co-operative undertaking employing less than 50 workers and working without the aid of power.

Employees Family Pension Scheme 1971[6] :

The object of this act is to make a provision for payment of a pension to the family of a deceased employee if he dies while in employment. If he or she retires after service he is entitled to a lump sum payment. This contribution part of provident fund is diverted. All new employees in the establishments covered by employees provident fund where contributions are at the rate of 8% of their wages would be covered compulsorily under the family Pension Scheme.

References : 1 to 6 : J.C. Sinha - V.N.Mugali - Business Management pp 200.

## FRINGE BENEFIT

These benefits are called the indirect benefits. They act as supplementary compensation and help to stimulate the workers and to make the job more attractive.

Becher - defined fringe benefits as any wage cost not directly concerned with productive efforts performance, services or sacrifice, they are intended to act incentive to productivity.

They play crucial for attraction retention and motivation of the employee of company.

There are quite, important in maintaining interest in the company.

There are quite, important in maintaining interest in the company. It helps to increase the real income benefits, 'Gockman' divides fringe benefits into two types.

1) Fringe benefit which includes status cars, entertainment facilities, holidays, foreign travel, telephone, security, insurance, medical facility, children education.

2) Key benefit such as shares profit sharing retirement, counselling and house purchasing. Introduction of fringe benefits and key benefits depends on how much company can adhere to spend. If employee and employer are to be benefited, employee performance is examined through the regular performance appraisal.

Terms of cost are the real total costs of the facilities so provided to individual employee. Bonus create a favourable. It is real total cost of facility towards the particular job and company. It would mean higher tades for the employee. Cost of fringe benefits are not static fringe benefits exist in the most of the companies.

Fringe benefits included in the former employee provident fund scheme. Gratuity or pension scheme and employee state insurance scheme, which is a system of social security. Introduced by the government covering medical care, hospitalisation, accident benefit, deam benefits and funeral benefits expended. The scheme also provides funds when the employee is sick or disabled.

The voluntary benefits provided are payment towards employees provident fund scheme are not covered by statutory requirements as also gratuity and pension fund contribution, medical facilities canteen etc.

Profit and other kind of benefits at benefits such as attendance bonus service bonus and gratuity. Profits bonus was the major form of payment in this categgry.

The other fringe benefits which are being provided for long term consideration are loans for house purchase and for the education of children, leave travel concession, fair price shop for essential commodities, loan to buy personal transport. It helps for preventing the mobility.

Since fringe benefits and key benefits are essentials for companies, require to check the effectiveness time to time. Fringe benefits are important for compensation plan, productivity earning and profit sharing management presume that incentives increases. The efforts of workers and contributes increase productivity and company share the increased profit among the workers also profits facilitate for pay dividend for capital investment and to decrease the cost of the consumer.

## WAGE COMPONENTS :

### Basic Wage[1] :

According to committee on fair wage, basic wage is a fundamental component of the total earning of the worker. It has come to acquire this designation in contrast to the dearness allowance which was an additional to the normal wage of the worker during the inflationary days of the war to compensate him for the rise in the cost of living. Thus the basic wage is linked with the pre-war level or wages. Number of labour enquiry committees were set up to investigate conditions in various industries. The Bombay Labour Enquiry Committèe appointed in 1937, came to the conclusion that a living wage should be Rs. 50 to 55 for workers in Bombay city, Rs.45 to 50 in Ahmadabad and Rs. 42 to 45 in Solapur. Enquiry was restricted to textile industry. Another committee were set up under the chairmanship of B.N.Rao and that was finally accepted as the most suitable for whole of the India. Committee found that famalies at average size of three consumption units and living in the city of Bombay where pre war monthly income

1. P.J. Fonseca - Wage Determination and Organised Labour p. 113.

was less than Rs. 35 would have no margin for saving and in Solapur and Nagput Rs. 30 per month.

<u>Bonus</u> :

In India nearby ten percents of industrial disputes arises due to bonus. The word bonus has Latin origin. It means "good" and is interchangeable with "boob". The New English Dictionary defines it is " a boon or gift over and above what is normally due as remuneration to the receiver and which is therefore something wholly to the good."

For the above definitions it appears that bonus is an ex-gratia payment made by an employer to his employees as a mark of good-will which is necessary for the better working. In India the concept of bonus originated on the same lines and spirit but subsequently it has come to acquire different meaning. Government of India set up a bonus to go into details of bonus.

There is distinction between bonus and wages

Bonus comes out of profits and can claim no priority over dividends. It is paid out of available surplus after meeting prior charges. Wages primarily rest on contract and are not necessarily dependent on profits made in particular year. Also wages claim priority over dividends.

Dearness Allowances :

Dearness allowance is allowance which is paid to worker to compensate them for the higher cost of living. The practice of paying dearness allowance originated in India during world war I, when cotton textile workers in Bombay and Ahamadabad demanded compensation for the rise in the cost of living.

There is no law for regulating dearness allowarces in India. Various schemes in operation in different parts of the country are either voluntary or based on agreement between the employers and the unions or are regulated by the awards of the courts. A large variety of scales and rates are in operation, that differ from place to place as well as among different industries of one industrial centre and different units of the same undertaking.

Various systems of payment of dearness allowances can be grouped into two basic types. The first type comprises those systems where in dearness allowance is not linked with the cost of living index numbers and the second type those where it is linked. In the former case dearness allowance is paid on a flat rate basis to all workers or as a percentage of wages, or at varying rates in proportion to the earning or income groups. In the later case the amount of dearness allowance paid is computed by assigning, value per point of the cost of living index numbers. It is varied according to the movement of numbers per point or slab of points. Again dearness allowances calculated as above may be paid to all workers at the same rate or varied according to income slabs in such a way that the extent of neutralization of higher cost of living is maximum for the lowest income group.

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