

CHAPTER II

THEORETICAL FRAMEWORK OF SUBJECT

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ROLE OF WAGES IN THE ECONOMY AND DEVELOPING ECONOMY.

The economic well being of the worker, his efficiency and standard of living, the wage cost as an item of cost of production and the competitive strength of industry are all related to problems of wages. The wage earners are an important segment of the population of a country. Therefore, the problems of wages have become more important.

The wage issue involves a large number of economic and non economic factors. It is further complicated by the fact that it can be appreciated from different view points. Workers and their Union stress the wage as income approach towards the problems. Their view point is that wages should not be considered as a price of a commodity. Labour treated as a commodity. In addition, wage may be used to provide incentive for increasing production and attracting workers.

From the view point of economy, wages as price of labour, perform the functions which are performed by any other price. In a capitalistic economy and in a socialist economy also relative wages performs the important function of allocation of labour among various

industries, occupations and regions. The effects of wages on consumption (saving) employment, and Prices are also significant. Therefore, a proper understanding of wage problem is very important for formulating and implementing a nature and progressive wage policy in the country.

WAGES AND ECONOMIC DEVELOPMENT.

A sound wage policy for a growing economy exaggerate the number of wage earners grows with the growth of the economy and wages play an increasingly important role in all fields of the economy.

In a developing economy like India the problem of wage policy cannot be separated from the general problem of economic development. The importance of wages in economic development arises from the fact that wages have to economic functions. As income they distribute the products of Industry among wage earners who form a substantial section of the community. As cost they influences the production in which the resources of the economy are allocated among the different avenues of production. Wages have a role to play in determining price level and employment.

AIMS AND OBJECTIVES OF WAGE POLICY IN A DEVELOPING ECONOMY.

One of the objectives of economic planning is the raising of the standard of living of the people. This means

that the benefits of planned economic development must accrue more and more to the relatively less privileged classes. A large section of the working population in the under developed country is generally poor. These poor workers have naturally the first claim on the - benefits of any plan which aims at the promotion of economic development and economic welfare. In the context of planning for economic development and planning for a socialist pattern of society would pave the way for realisation of the objectives assumes great significance.

" A national wage policy must aim at establishing wages at the highest possible level, which the economic conditions of the country permit and it also ensure that the wage earner gets a fair share of the increased - prosperity of the country as a whole resulting from Economic Development. " *

The objectives of the wage policy in an under developed or developing economy may be summarised as follows;

- 1) To abolish malpractices and abuses in wage payment.
- 2) To set minimum wages for workers whose bargaining position is weak, because they are unorganised, - accompanied by separate measures to promote the growth

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* Giri V.V., Labour Problems in Indian Industries: Page 218

of trade unions & collective bargaining.

3) To obtain for the workers a just share in the fruits of economic development, supplemented by appropriate measures to keep workers expenditure on consumption goods in step with available supplies so as to minimize inflationary pressure.

4) To bring about a more efficient allocation & utilisation ~~xx~~ of man power through wage differentials and where appropriate, systems of payments by results.

WAGE & SALARY ADMINISTRATION AS A PART OF PERSONNEL
ADMINISTRATION.

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

ACCORDING TO EDWIN B. FLIPPO.

The personnel function is concerned with the procurement development, compensation, integration and maintenance of personnel of an organisation towards the accomplishment of that organisations major goals and policies.

* Para 74 of memorandum submitted by the Institute of personnel management (U.K.) to Royal Commission on Trade Union and Employees Association (U.K.)

Wage & Salary Administration constituted an important area of the personnel administration. In private sector organisation the personnel administration plays an important role in evolving fair and equitable wage and salary programme wage and salary programme. Wage and salary administration policy of management is concerned with the establishment and implementation of sound policies and methods of employees and as a cost compensation.

Wage as a means of providing income for the employees and as a cost of doing business for employer have been assuming increasing importance in the modern complex and larger industrial units. Since it is the only source of income to employees. It determines 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 the wage and salary administration is an important part of personnel Administration.

WAGES ITS MEANING.

Wages in the widest sense mean any economic compensation paid to the working people by the employer under some contract for the services rendered by them. They thus includes family allowance, relief pay, - financial support and other benefits.

But the narrower sense wages are the prices paid for the services of labour in the process of production and includes only the performance wages or wage proper. They are composed of two parts i.e. Basic wage & other allowances.

Generally speaking wages are the return for labour the value of the work performed by the employees. - Rightly speaking wages may be understood as the remuneration for physical and or mental work.

The workers wage is an income but cost to the businessman and a source of taxes to the Government. The wages may be straight time average, hourly earnings and annual earnings, gross average and weekly earnings. A worker is more interested in gross average hourly - earnings and it determine the pay-packet which he takes home.

If the worker is paid by the hour or a day, he is stated to be in receipt of wages. If he is paid by the month, he is usually looked upon as being a -
salaried employee rather than a wage earner.

DEFENITION OF WAGES.

1) According to the Laisser Fair Policy :-

"Wage is the price paid to the worker for the services he has sold to the employers."

2) According to Benham :-

A wage may be defined as a sum of money paid under the contract by an employer to a worker for services rendered.

3) Under Workmen's Compensation Act, 1928 (Sec.2-M)

Wages for leave period, holiday pay, overtime pay, bonus, attendance bonus and good conduct bonus, from part of wages.

4) Under payment of Wages Act 1936 (Section 2)

Wages mean all remuneration capable of being expressed in term of money, which would if the terms of contract of employment express or implied, were fulfilled be payable whether conditionally upon the regular attendance, and work or good conduct or -

behaviour of the persons employed or otherwise to a person employed in respect of his employment or a work done in such employment.

5) Under minimum wages Act 1948 (Section 2 m)

Wages mean all remuneration, capable of 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 allowance but does not include -

- 1) the value of;
 - (a) any house accommodation, supply of light, water, medical attendance etc.
 - (b) any other amenity or service excluded by general or special order of appropriate Govt.
- 2) any contribution paid by the employer to any pension fund or provident fund or under any scheme of social insurance.
- 3) any travelling allowance or value of travelling concession.
- 4) any sum paid to the person employed to defray special expenses entitled on him by the nature of his employment.
- 5) any gratuity payable on discharge.

6) Under Industrial Labour Conference 1948.

The remuneration paid by the employer for the service of a worker who is engaged by a hour, day, week or fortnight.

Thus wage includes under 1936 Act.

- 1) Any Bonus.
- 2) Other additional remuneration of nature aforesaid which would be so payable.
- 3) Any sum payable to such person by reason of the termination of his employment.
- 4) It includes any sum payable under any award or settlement between parties.
- 5) Overtime work or for working on holidays or any other leave period.

"Wages always mean earned wage and not potential wages."

Wages do not include:-

1. The Value of any house accomodation, supply of light, water, medical attendance and any other amenity.
2. Any contribution paid by employer to any pension or

interest occurred thereon.

3. Any travelling allowance or value of any travelling allowance or concession.
4. Any sum paid to the person employed to defray special expenses incurred by the nature of his employment.
5. Any gratuity payable on the discharge of worker from services.
6. Any bonus which does not form part of the remuneration payable under terms of employment or under any award or settlement between the parties or order of Court.

T Y P E S O F W A G E S .

1) Nominal or money wage:-

The employer pay a certain sum of money per week. per month or per piece to the workers. The sum represents the nominal or money wage. But money wage alone may not give us a correct idea of the economic position of the worker.

2) Real Wage :-

In order to find out the real wages which determine standard of living we have to take into account the - purchasing power of money subsidiary earnings which may be in the favour of free housing, rations etc. chances of additional income, payment of bonus, overtime, payment and also the conditions of work and employment so on and so forth.

3) Minimum Wage :-

It is the wage to cover here necessities of life, i.e. food, shelter, clothing. It may provide little for workers efficiency e.g. for his health and education.

DEFINITION.

" The minimum wage does not aim at merely keeping the soul and the body of worker together but also aims at providing them with those comforts and decencies which are promotive at better habits, which give a chance for the development of greater sense of self respect and which broken a higher regard for the place occupied by those workers in scheme of citizenship.

A very popular definition of minimum wage is that it is one w which could meet the normal needs of average employee regarded as a human being living in a civilized ~~xxxxx~~ society.

Minimum wage set up by law is the lowest limit or the floor level, below which no worker shall be paid. If a business is unable to pay minimum wage it has no right to exist in industry. The minimum wage is the lower limit of the fair wage.

4) Fair Wage :-

The higher level of minimum wage or the lower level of living wage is termed as a fair wage. One of the most important and presistent demands of labour in the present day is for the guarantee of a 'Fair Wage' which is reflection in slogan "Equal pay for equal work. "

DEFINITION :

According to the Encyclopedia of a Social Sciences, fair wages are equal to that receive by the workers performing work of equal skill, unpleasentness. Evidently, this presums that some ideal standard is to be found in a particular industrial

concern with reference to which standard wages in similar and similarly situated industrial concern would be determined.

In a narrower sense, Fair Wage is predominant rate available for similar jobs and occupations throughout the country or in all industries.

5) Living Wage :-

The higher level of fair wage is called as the living wage. It is a wage which can offer an employee incentive to work and produce enough in quantity without sacrificing quality. So that the payment of such a wage is justifiable by the Industry.

Definition :

According to the Committee on fair wages, ' "represented the highest level of the wage and naturally it would include all amenities which a citizen living in a modern civilized society was entitled to expect when the necessary economy of the country was sufficiently advanced and the employee was able to meet the expanding aspirations of the workers.

"The living wage may be an ever receding goal, a guiding star and not a destination itself. "

COMPONENTS OF LIVING WAGE ARE AS FOLLOWS:

- i) Bare necessities.
- ii) Insurance cover against health, disability, oldage, etc.
- iii) Reasonable expenditure on children education.
- iv) Source margin for self development and recreation.
- v) Saving for the rainy days.

A literate and intelligent worker will use living wage for steady raise in his standard of living i.e. healthy living with a few comforts and provisions for contingencies. Hence, it is a boon to workers highly developed countries.

THEORIES OF WAGES.:

The problem of wages may be divided into two components namely the problem of general wages and the problem of relative wages. The problem of general wages covers the aspect of what determines the share of national income which goes to the labour class, and the problem of relative wages deals with the determination of the rates of wages for different classess of the labour as well as different places and at different times. Several explanation for the determinat ion of general wages are given which are known as theories of wages. The important theories of wages may be discussed as follows:-

1. The Subsistence Theory of Wages :-

The theory about the determination of wages -
~~origin~~ originated from the physiocratic school of economists and was commonly accepted during the 19th century. Lassalle describe the theory as the iron law of wages which was made by the Carl Marks on the basis of his theory of explaitation. Even Record's name is associated with this theory. Although he did not agree entirely with it; the theory states that " Wages tend to settle at the level just sufficient to maintain to worker and his family at minimum subsistance. "

It was further argued that whenever wages rise above the level it encourages the workers to marry and to have larger and larger family. So that ultimately the supply of labour increases and the wages are pushed down to the subsistence level. When the wage fell below this level it tends to discourage marriages and birth rate under nourishment increases the death rate so that the supply of labour is decreased and the wages again rise to the subsistence level. The theory is pessimistic and is based on the Malthousion Theory of Population. The theory may be applicable to the under developed contries like India where the labour class is much below the poverty line and are not in position to obtain their share from the capitalists who are very much powerful and the wages of labour are maintained at the subsistence level. In case of developed countries workers are given much higher wages. It has also been noticed that an increase in wages a higher standard of living and not to higher birth rate as indicated by this theory. Thus the theory is not applicable to the developed economies.

The Theory fails to explain differences of wages in different employment as the subsistence level is rather uniform with most of the classes of the workers. The theory

....emphasises the only supply side and neglect the demand side which is of equal importance in determination of wages.

2. The Standard of Living Theory of Wages :-

This is the modified form of the subsistence theory of wages which was put forth by the some economists in latter part of the 19th Century. The theory states that " the wages are determined not by subsistence level but by the standard of living to which a class of labourers becomes habituated. " This modified theory is somewhat acceptable because the workers are not ready to accept wages below their standard of living and a high standar of living raises their efficiency and hence wages. In reality the effect of standard of living on wages is indirect one because workers cannot get higher wages only by raising their stand-ard of living. They also have to raise their marginal productivity.

3. The Residual Claimant Theory :-

This theory is known after the name of Walkar which states that " the labourers are paid what is left after making payments to other factors of production in the form of rent, interest and profits. Walkar further argues

that rent, interest and profits are determined by definite laws and as there is no special law for determination of wages the workers are entitled to receive what remains after payments of rent, interest and profits, If national income increases because of increasing efficiency, workers will get higher wages.

The theory fails to explain the role played by the trade union in raising the wages. The theory also neglects the effect of supply on wages. It is also true that wages are usually fixed even before production take place and the residential claimant is not the worker but the entrepreneur.

4. The wage Fund Theory :-

The theory was developed by J.G. Mill, According to this theory wages depend upon the proportion between population and capital. In this context population means the number of workers who are ready to work and capital is meant only the circulating capital, especially that part of it which is spent in the direct purchase of labour. According to this theory wages depend upon the wage fund or the circulating capital which is utilised for purchasing the labour as well as upon the number of workers seeking employment.

wages cannot rise unless wage fund increases or the number of workers decreases. The theory assumes that the wage fund is fix hence wages can rise only by reduction in the number of workers. It is implied that whenever the workers want to raise their wage level they must control their numbers.

This theory was criticised heavily and Mill himself revised it in his second edition. The main target of criticism is the amount of wage fund is never fix and predetermined except in the very short period. Secondly the idea of the fund is also not real because the national dividend is flow and not a fund and wages are paid out of the total national dividend not out of any fixed fund, especially created for the purpose of wage payment. The theory also does not explain the differences in wages in different occupations. The theory assumes the homogeneity of labour which is not realistic. In reality wages may sometimes be raised by trade Union actions. It is also not correct to state that if wages are raised in one industry the workers in other industries would suffer, also it is true that wages are not always increased at the cost of capital because during the period of prosperity both wages and profits increase simultaneously.

5. The Marginal Productivity Theory of Wages :

According to this theory the wages are determined according to the marginal productivity of one unit of labour to the employers. The theory approaches the problem of wages from demand side. It assumes that labour market is an equilibrium when the price of labour is equal at the margin to its demand price. Thus wages are determined according to the marginal productivity of labour which varies directly with the tools it has to work with. Marginal productivity is defined as the addition to the product resulting from using an additional unit of labour keeping other factor of production constants. It is held that employers employ more and more labour units till value of increase in the product is equal to wages paid for it. The last unit of the labour is the marginal unit and its rate of wages will determine wage rates payable to others. The general level of wages in the long run is determined by capital labour ratio. If capital investment is high relatively to the numbers of labours employed, the wage will be high and if capital investment is low there will be less equipment for the workers to use leads to decrease in productivity and wages will be low. The theory has been criticised as a static theory because it assumes constant

amount of the other factors of production employed in the industry even when an additional labour unit is employed. Secondly the assumptions underlined this theory like perfect competition, perfect labour mobility and homogeneity of labour are unrealistic. In reality wage determination involves several complex factors including human consideration. In actual practice the important factor affecting the wage rate is bargaining power of an individual worker.

6. The Marginal Discounted Product Theory of Taussig :

According to this theory wages represent the marginal discount of product labour. He argues that a labourer does not get full amount of marginal product because production needs some time and the final product of labour could not be obtained immediately. " In order to compensate himself for the risk an employer had to take in making advance to his employees he had to deduct a certain percentage from the accepted marginal product of labour. Taussig assumed that these deductions were made at the current rate of interest and hence wages would equal the marginal product of labour minus the amount of discount. This theory is described as ambiguous and " dim and abstract; remote from

the problem of real life. " The theory also does not take supply side into account. It assumes that the supply of labour is fix and then tries to determine its marginal products.

7. The Demand and Supply Theory of Wage :-

Professor Marshall has argued that the wages are determined by the demand and supply of labour prevailing in different conditions in different countries. On the demand side the employers pays to the worker according to the marginal productivity of labour. This indicates that the under limit of wages fixed under the conditins of free competition. On supply side the labourers are not ready to accept any lower wage than what is required for maintainance of themselves and their family at a particular standard of living. This standard of living depends upon the strength of the worker to organise and bargaine with the employees and also on the number of workers in country. Thus if the supply is elastic and workers are not organised wages tend to decline to the subsistence level which is the lowest limit. The wages are fixed according to the demand for and supply of labour and the relative strength of each party.

The discussion regarding the theories of wages leads us to the conclusion that there is no complete and realistic theory of wages and hence the determination of wage ~~plan~~ policy in any country is difficult task. Acceptance of socialistic idea and the welfare state, wage determination is being viewed entirely from the different angle, than that of earlier writers. The workers are not regarded as a mere factor of production the price of which has to be determined by the forces of demand and supply. The contract of employment has been changed to a contract of partnership. The wages are affected by a complex set of economic factors like the productivity of labour, the bargaining capacity of workers. Government legislation, cost of living, capacity of industry to pay and the requirement of social justice etc. influence the wage policy in modern times and in a developing country like India the determination of sound and successful wage policy has been an important problem.

FACTORS INFLUENCING WAGE AND SALARY ADMINISTRATION.

The following factors are taken into consideration for wage and salary administration :-

1) THE ABILITY TO PAY :

Wage increases should be given by those organisations which can afford them. Companies that have good sales and therefore, high profits tend to pay higher wages than those which are running at a loss or earning low profit because of high cost of production and low sales. In the short run the economic influence on the ability to pay is practically nil. All employers irrespective of their profits or losses must pay no more if they wish to attract and keep workers. In the long run the ability to pay is very important. During the times of prosperity employers pay high wages to carry on profitable operations and because of their increased ability to pay high wages to carry on profitable operation and because of their increased ability to pay. But during a period of depression wages are cut because funds are not available.

2) SUPPLY AND DEMAND OF LABOUR.:

Wages and salaries are affected by the market conditions of supply of and demand. If the supply of particular labour skills is scarce employers may offer higher wages. If the

supply is excessive lower wages are usually given.

similarly if there is great demand for labour expertise wages rise. But if the demand for a manpower skill is minimise, the wages will be relatively low.

3. PREVAILING MARKET RATE :

This is also known as the comparable or going wage rate and is the most widely used criterion. An organisations compensation policies generally tend to confirm to the wage rates payable by the ~~Industry~~ Industry and the community. This is done for several reasons.

- 1) Compensation demands that competitors adhok to the same relative wage level.
- 2) Various Govt. laws and judicial decisions make the adoption of uniform wage rates an attractive proposition.
- 3) Trade union encourage this practice so that their members can have equal pay for equal work and geographical differences may be eliminated.
- 4) Functionally related firms in the same Industry require essentially the same quality of employees with the same skills and expenses. This results in a considerable uniformity in wage and salary rates.

5) Finally if the same or about the same general rates of wages are not paid to employees as are paid by the organisations competitors, it will not be able to attract and maintain a sufficient quantity and quality of manpower.

4. COST OF LIVING. :

The cost of living pay criterion is usually regarded as an automatic minimum equity pay criterion. This criterion calls full pay adjustments based on increases or decreases in an organisation.

When the cost of living increases workers and trade Unions demand adjusted wages to offset the erosion of real wages. However, when living costs are stable or decline the management does not resort to this arguments as a reason for wage reductions.

5. THE LIVING WAGE :

This criterion means that wages paid should be adequate and enable an employee to maintain himself and his family at a reasonable level and of existence. However, employers do not generally favour using the concept of living wage as a guide to wage determinations because they prefer to base the wages of an employee on his contribution rather than on his need.

Also they feel that the level of living prescribed in a workers budget is open to argument since it is based on subjective opinion.

6. PRODUCTIVITY :

It is another criterion and is measured in terms of output per man hour. It is not due to labour efforts alone. Technological improvements better organisation and management, the development of better methods of production by labour and management greater and skill by labour are all responsible for the increase in productivity. Actually productivity measures the contributions of all the resources factor men, machine, methods, materials & management. No productivity index can be devised which will measure only the productivity of a specific factor of production. Another problem is that productivity can be measured at several levels. Job-plant, Industry or National Economic level. Thus although theoretically it is a sound compensation criterion, operationally many problems and complications arise because of definitional measurement and conceptual issues.

7. UNION BARGAINING POWER :

Trade Unions do effect the rate of wages. Generally the stronger and more powerful the trade Union, the higher the wages.

A strike or threat of strike is the most powerful seapon used by it. Sometimes trade Unions force wages up faster than increases in productivity would allow and become responsible for unemployment - or higher prices and inflations.

8. JOB REQUIREMENTS:

Generally the most different difficult a job, the higher are the wages, measures of job difficulty are frequently used when the relative value of one job to another in an organisation is to be ascertained. Jobs are graded according to the relative skill, efforts, responsibility and job conditions required.

9. PSYCHOLOGICAL AND SOCIOLOGICAL FACTORS.

Psychologically persons receive the wages as a measure of success in life. People may feel secure have an inferiority

complex seem ~~xxxx~~ inadequate. They may or may not take pride in their work or in the wages they get. Therefore, these things should not be overlooked by the management in establishing wage rates.

Sociologically and ethically people feel that "Equal work should carry equal wages" that wages should be comensurate with their efforts that they are not exploited and that no distinction is made on the basis of caste, colour, sex or religion.

NATIONAL WAGE POLICY.

Wage policy should be considered as one of the strategic policies of any country in the realm of industrial relations, since it determines the wages of working class. It is the wage that determines the real status of workers in society, their commitment to industry and attitude towards management, their morale and motivation towards productivity, their living standards and infect their way of life, so on and so far. This is specially so in a country during the process of its economic development. An efficient wage policy evolves a wage structure conducive to the economic development by minimising the conflicts between the various factors of production especially labour and capital. Wage policy also stimulates peaceful and cordial industrial atmosphere which is essential for greater productivity. The scope of a good wage policy is unlimited in a developing country like India.

The term wage policy includes all systematic efforts of Govt. in relation to a National Wage System. It includes all Govt. actions, orders, acts, statutes, legislations etc. to regulate the level or structure of wages with a view to achieving the objectives of social & economic policy. Social objectives would be helpful to achieve the fixation of fair wage system, ensuring good standard of living for workers,

eliminating low wages and exploitation of workers, protection of wage earners from the attack of price rise and inflation. The ultimate aim of economic objective is to attain economic welfare of working class in particular and the whole society in general. It aims at establishing a wage structure conducive to the economic development of the country.

The I.L.O has stipulated the objectives of wage policy as :

- 1) To obtain for the workers a just share in the fruits of economic development, supplemented by appropriate measures to keep workers expenditure on consumption goods in step with available supplies so as to minimise inflationary pressure.
- 2) To set minimum wages for workers whose bargaining position is weak because they are either unorganised or inefficiently organised, accompanied by separate measures to promote the growth of trade unions and collective bargaining.
- 3) To bring about a more efficient allocation and utilisation of manpower through wage differentials and where appropriate. Systems of payment by results and...

- 4) To abolish malpractices and abuses in wage payment.

According to V.V.Giri, " A national wage policy must aim at establishing wages at the highest possible level, which the economic conditions of the country permit, and it also ensures that the wage earner gets a fair share of increased prosperity of the country as a whole resulting from economic development. "

A national wage policy in a socialistic welfare state should thus ensure that the workers are not exploited and the fruits of labour goes to them. It should also ensure that the workers, by a virtue of their collective strength, do not exploit the entrepreneurs and they do not hold the society to ransom from their vested interests.

In India National Wage Policy has become inevitable as result of large scale employment and industrial growth. It contributes to reduced friction between the employers and employees. These are a few prominent factors that necessitate and systematic wage policy in India, They are:-

- 1) The adoption of socialistic pattern of society as the national goal of national development, the achievement of social justice and the provision of equal opportunities

to all for the development of their personalities as provided by the Directive principles of state policy. in the constitution, requires that a suitable wage policy be laid down and steps be taken to enforce it.

2) Planning and fulfillment of its targets requires that a national wage policy be worked out and implemented. The maintenance of industrial peace through compulsory arbitration and other statutory restrictions on strikes and lockouts is not sufficient, since industrial peace in order to be just has to be based upon a reasonable wage policy.

3) The statutory, administrative and quasi judicial fixation and revision of wage which are being widely used in India requires a national wage policy with a clear formulation of the principles which should guide the various authorities charged with the task of wage fixation & revision.

4) The absence of a strong and solid trade union movement which may secure to the workers their proper share in the gains of economic progress and which may also make for the past leeway in their standard of living, makes it all the more incumbent upon the state to desive

devise a national wage policy for protection of the workers.

5) It facilitates -

(a) to maintain industrial peace which cannot be achieved only through compulsory arbitration and other statutory regulations on strikes and lockouts.

(b) to develop the skill of newly remitted Industrial labour and other manpower resources.

(c) to protect a large segment of workers who are living on subsistence level or are employed in sweated trades or industry.

(d) to bring about the development of a socialistic pattern of society as a goal of national development the achievement of social justice and the provision of equal opportunities of personal development as required by the Directive principles of state policy as laid down in the constitution.

(e) to achieve the fulfillment of production targets and to increase labour productivity for attaining high economic growth, through increase of domestic savings and their mobilization, high investment and provision of

increased employment opportunities.

(f) to provide guidance to various authorities charged with the task of wage fixation & revision.

This is the reason why the planners have not ignored the importance of an effective wage policy while the first five year plan has aimed at Govt. control over wages and profits the second (Plan) one has laid down the principles to bring the wages in to conformity with the expectations of working class in the future pattern of society and defined respectively, rules of wages, profits and prices taking into account the declared social objective of the community. The third plan has aimed at satisfying the claims of the workers, for living wage, better living and working conditions the needed volume of employment opportunities and a fuller measure of social security. The Fourth One has given more detailed thought to wage incentives and a study group was set up by the planning commission to probe into the - productivity and incentives of workers. The Fifth Plan has also not ignored the wage policy. It has emphasized the furtherance of the objectives set in the earlier Plans. The Sixth one lays much more emphasis on the wage ~~pla~~ policy.

and cordial industrial relations especially wages of rural unorganised workers. Thus the wages policy has received conspicuous attention in India even in the economic planning.

A number of wage boards have also been established which have studied the wages to various industries. They include Boards established for cotton textile Industry, Sugar Industry, Cement Industry, Jute Industry, Tea-Coffee and rubber plantations, iron & steel Industry, Coal mining, limestone & dolomite mining, Engineering Industries, Parts Seas, Non journalists, heavy chemicals and fertilizers, Leather & Leather Goods, Electricity, Road Transport, etc. These wage boards have studied the various aspects of wages of different categories of workers in detail about the reports submitted. They worked out a wage structure in each organised sector of Industry on the basis of the Fair Wage committee's recommendations. The Principles to govern the grant of bonus to workers in respective areas were also laid down by these boards, which took into account various factors for arriving at their conclusions. They studied.

1. The requirement of social justice which states that the workman who produces the goods has a fair deal is paid sufficient at least to be able to sustain himself and his family in a reasonable degree of comfort and that he is not exploited.

2. The need of the industry in developing economy including the need for maintaining & promoting exports.
3. The need for adjusting wage differentials (which is in relation) to the occupational differentials, inter-industry differentials & differentials based on sex in such a manner as to provide incentives to workers for advancing their skill.
4. the factors like degree of skill, mental & physical requirements for work, fatigue involved, the aptitude required and the responsibility undertaken by each category of workers disagreeableness or hazard involved in work, mental & ~~primal~~ physical requirements etc.
5. The fact of assigning a fair share of returns to capital remuneration to management and a fair allocation to reserve and depreciation.

Thus prior to the determination of wages structure the wage boards are expected to take all the aspects connected with production and productivity. The main interest implied in all the wage boards are to protect the interest of labour without being determined detrimental to the industry. All committees and commissions on labour have concentrated their attention on this objective. All such Committees have found that wage differentials have been one and of the most important problems of wages structure in India. Yet the problem of wage differences has been rooted out and the wage policy has not yet succeeded in establishing cordial industrial relations.

WAGE COMPONENTS.

Wage includes all the payments made to the worker they refer to payments made in cash as well as in kind. The various components of the average total earnings are as follows :-

- (a) Basic earnings.
- (b) Dearness Allowances.
- (c) Overtime payments.
- (d) Bonus.

(a) BASIC EARNINGS :

Basic wage is the primary minimum remuneration paid by the employer to the employee. It refers to the individual rates for each occupational category in the industry concerned. An employee is engaged to perform certain duties the compensation for performing the prescribed duties is the basic wage.

(b) DEARNESS ALLOWANCE:-

The purpose of paying dearness allowance is to maintain the real wages as far as possible. So that the economic well being of the worker is not adversely affected by the rise in prices. This means that the effect of higher prices on the workers family budget is neutralised. But this neutralisation should not be 100%, but should be less than that for maintaining standard of living of fixed income

group workers.

As Dearness Allowances is a compensation for the fall in the value of money. There should be no difference in the amount of dearness allowance granted to the same income group in different industries in some area. In India Dearness Allowance paid to Textile industries is highest. While in Sugar and Engineering Industries it is much less.

METHODS OF PAYMENT OF DEARNESS ALLOWANCE :

- (1) Flat Rate.
- (2) Rate linked to consumer price index.
- (3) Graduated scales according to slabs.

Merger of D.A. with Basic Wage :-

In our country there has been a demand that at least part of Dearness allowances should be merged with basic wages. This is demanded on the ground that the raise in price has come to stay. In the past benefits of Provident Fund, retrenchment relief etc. used to be calculated on the basic wages. But now many of the benefits are determined on the basis of total wages i.e. basic plus D.A.

In some cases the merger of D.A. With the Basic Wages has been effected in part as the Govt. Service. In other cases merger is opposed on the ground that it will disturb the prevailing wage differentials. This is -

This so because the existing rates of dearness allowance are generally not proportional to basic wages.

3) OVERTIME PAYMENT :-

When the worker works more than nine (9) hours a day or 48 hours in a week he is entitled to get overtime payment.* (* Factories Act 1948)

It is a customary to pay the overtime at a rate higher than the general wage rate. It gives the idea that working after normal hours is less suitable & causes more inconveniences to the worker than working during normal working hours. The factories Act 1948 has recommended that payment for overtime at twice the rate of wages.

Overtime premium is a penalty for an employer who wants to increase production by keeping the unit at work after normal working hours and in brining on the leisure of the worker.

4) BONUS :-

Bonus is another component of wages. At Present the bonus is considered as a payment to the worker for his contribution towards the profits at the undertaking When wages are unduly low the employer is in a position

to make huge profits, the worker is entitled to ask for Bonus out of the profits after deduction of dividend, depreciation and provision for taxation so on & so forth. The claim for bonus rests on the fact that workers are not paid living wages. If there is huge profit and employee avoids to pay the bonus to workers then it amounts to exploitation of workers.

TYPES OF WAGE PAYMENTS.1) TIME WAGE :-

This is the oldest and the most common method of fixing wages. Under this system workers are paid - according to the work done during a period of time, at the rate of so much per hour, per day, per week, per fortnight or per month or any other fixed period of time. The essential point is that the production of worker is not taken into consideration in fixing the wages, he is paid at the settled rate as soon as the time contracted for is spent.

M E R I T S : -

- 1) It is simple for the amount earned by a worker can be easily calculated.
- 2) As there is no time limit for the execution of a job, workmen are not in a hurry to finish it and this may mean that they will pay attention to the quality of their work.
- 3) As all the workers employed for doing a particular kind of work receive the same wages, ill-will and jealousy among them avoided.
- 4) Due to steady and slow pace of the worker there is no rough handling of machinery, which is a distinct advantage for the employer.

- 5) It is the only system that can be used profitably where the output of an individual workman or group of employee cannot be readily measured.
- 6) The day or time wage provides a regular and stable income to the worker and he can, therefore, adjust his budget accordingly.
- 7) This system is favoured by organised labour for it makes solidarity among the workers of a particular class.
- 8) It requires less administrative attention than other because the very basis of the time wage contract is faith and mutual confidence between the parties.

DEMERITS :

- 1) It does not take into account the fact that men are of different abilities and that all the persons are paid equally. Better workmen will have no incentive to work harder and better. They will therefore be drawn down to the level of the least efficient workmen.
- 2) The labour charges for a particular job do not remain constant. This puts the authorities in a different position in the matter of quoting rates for a particular piece of work.

- 3) As there is no specific demand on the worker that a piece of work needs to be completed in a given period of time there is always possibility of a systematic evasion of work by the workmen.
- 4) This system permits many plan to work at a task for which he has neither taste nor ability. When he might make his mark in some other job.
- 5) As the employee does not know the amount of work that will be put in by each worker, the total expenditure on wages for turning out a certain piece of work cannot be adequately assessed.
- 6) As no record of an individual worker's output is maintained, it becomes difficult for the employer to determine his relative efficiency for purposes of promotion.

7

PIECE WAGE :

Can we try piece rate in MFP?

Under this system workers are paid according to the amount of work done or the number of units completed, the rates of each unit being settled in advance, irrespective of the time taken to do the task. This does not mean that a worker can take any time to complete a job because if his performance for exceeds the time for each unit of article will increase.

Under this plan a worker working in given conditions and with given machinery is paid exactly in proportion to his

physical output. He is paid in direct proportion to his output. the actual amount of pay per unit of service being approximately equal to the marginal value of his service in assisting to produce that output.

This system is generally adopted in the jobs of a respective nature, where ~~tak~~ tasks can be readily measured inspected and counted. It is particularly suitable for standardised process and it appeals to skilled and efficient workers who can increase their earning by working to their full capacity.

A workers earning can be calculated on the basis of following formula.

| | | |
|----------|--------------|--------------------|
| WE - NR. | W - Worker | N= No. of piece. |
| | E - Earnings | R= Rate per piece. |

M E R I T S :

(1) Under appropriate conditions, it excels other forms of payment in respect of economy as well as justice. Remuneration being depend upon the volume of production, there is direct stimulus to increase production.

(2) It encourages voluntary effort as against a drive under time rate creating an atmosphere of willingness and zeal of work.

(3) The cost of supervision becomes comparatively less as the workers tend to drive themselves in their own interests.

(4) At the direct labour cost per unit of production remains fixed and constant, calculations of costs or making or tenders estimates become easier.

(5) The total unit cost of production comes down with larger output because the fixed overhead can be distributed over a great number of units.

(6) The working arrangements may be improved by the workers themselves to speed up work.

(7) Methods of production are improved as the worker demands free from defects and machinery is perfect condition.

DEMERITS.

(1) In spite of the advantages accruing to the management as well as to workmen, the system is not particularly favoured by workers. The main reason for this is that the fixation of piece rate by the employer is not done on a scientific basis.

(2) As the workers wish to perform their work at breakneck speed they generally consume more power, overwork

the machine and donot try to avoide wastage of materials. This results in a high cost of production and lower profits.

(3) There is a greater chance of deterioration in the quality of work owing to over-zealousness on the part of workers to increase production. This over-zealousness may fell upon his health, resulting in a loss of efficiency.

(4) It encourages soldiering and there arises a system of hypocrisy and dectet. because to escape further cuts they again begin to produce less and also regard their employers as their evenies, to be apposed in everything they want.

(5) Exeessive speeding of work may result in frequent wear & tear of plant & machinary & frequent replacement.

(6) Trade Unions are often opposed to this system for it encourages rivalry among workers and endangers their solidarity in labour dispuls.

WAGE INCENTIVES.

The term wage incentives has been used both in restricted sense of participation and in the widest sense of financial motivation. According to Hummel & Nickerson. It refers to all the plans that provide extra pay for extra performance in addition to regular wages for a job. A wage incentive scheme is managerial device of increasing a worker's productivity, simultaneously, it is a method of sharing gains in productivity with workers by rewarding them financially for their increased rate of output. In this context National conference of labour stated that wage incentives are extra financial motivation. They are designed to stimulate human efforts by rewarding the person over and above the time rated remuneration, for improvement in the present or targated results. These incentives may be monetary or non-monetary.

MONETARY INCENTIVES:

Monetary incentives includes besides wages, allowances, profits, bonus, overtime payment and other payments which may be made to a worker in recognition of his increased productivity.

The monetary incentive plans are as follows :

1) HALSEY PREMIUM PLAN :

This is a time saved bonus plan which is ordinarily used when accurate performance standards have not been established Under this plan, it is optional for a workman to work on the

premium plan or not. His day's wage is assumed to pay him whether he earns a premium or not, provided that he is seen in competent as to be useless. A standard output within a standard time is fixed on the basis of previous experience. The bonus is based on the amount of time saved by the worker. He is entitled to a bonus calculated on the basis of 33.3% of the time saved. He is thus gets wages on the time rate basis. If he does not completed the standard output within a stipulated time, he is paid on the basis of time wage. This plan is combination of piece rate and time rate in a modified form.

2) ROWAN PREMIUM PLAN :

In this plan the time saved is expressed as a percentage of the time allowed, and the hourly rate of pay is increased by that percentage so that total earnings of the workers are the total number of hours multiplied by increased hourly wages. The plan aims at ensuring the performance of the premium rate, which is often cut by the employer, when the workers efficiency cut by increases beyond a certain limit. The premium is calculated on the basis of proportion which the time saved bears to the standard time.

Formula - Bonus = $\frac{\text{Time saved}}{\text{Time allowed}}$ x Time taken x hourly rate.

3) 100% PREMIUM PLAN :

Under this plan, task standards are set by time study or work sampling, and rates are expressed in time rates rather than in money (e.g. 0.20 hour per piece) A definite hourly rate is paid for each task hour of work performed. The plan is - identical with the straight piece rate plan except for its higher guaranteed rate and the use of task time as a unit of payment instead of a price per piece. The worker is paid the full value of the time saved. If he completed the table of 10hrs. in 8 hrs. and if the isocirty rate is Rs. 0.50 his total earnings will be

$$\text{Rs. } 8 \times 0.50 + (10 - 8) \times 0.50 = 4.00 + 1.00 = 5.00$$
4) TAYLOR'S DIFFERENTIAL PIECE RATE PLAN :

This system was introduced by Taylor with two objects;

- (a) to give sufficient incentive to workmen. to induce them to produce upto their full capacity.
- (b) to remove the fear of wage cut.

There is one rate for those who reach the standard, they are given a higher rate for to enable them to get the bonus. The other is lower rate for those who are below the standard, so that the hope of receiving a higher rate (i.e. a bonus) may serve as an incentive to come up to the standard. Workers are expected to do certain units of work within a period of time. This Standard

is determined on the basis of time and motivation studies such scientific determination ensures that the standard fixed is not unduly high and is within the easy reach of workers on a proper determination of the standard depends the success of the scheme .

5. MERRIC'S MULTIPLE PIECE RATE SYSTEM.:

This system too is based on the principle of a low piece rate for a slow worker and a higher piece rate for higher production, but the plan differs from Taylors Plan in that it offers three graded piece rate instead of two. The first step is at 83% of the standard on task production and the second at the task point.

6. The GANTT TASK AND BONUS PLAN.

This plan has been devised by H.L.Gantt and is the only one that pays a borrow to multiplied by the value of standard time. Under this system fixed time rates are guaranteed. But the standards are established for the performance of each Job. - Workers completing the job within the standard time or in less time receive wages for the standard time. Plus a bonus which ranges from 20% to 50% of the time allowed and not time saved. When a worker fails to turn out the required quantity of a product he simply gets his time rate without any bonus.

This system is most profitable for workers those -

efficiency is very high. The basic wages rise proportionately as under ordinary piece wage system, and the bonus is allowed on the increased wage.

7. EMERSON EFFICIENCY PLAN :

Under this system, a standard time is established for a standard task. The day wage is assured. There is no sudden rise in wages are achieving the standards of performance. The remuneration based on efficiency rises gradually. Efficiency is determined by the ratio between the standard time fixed for a performance and the time actually taken by a worker. Thus if the period of 8 hours is the standard time for a task and if a worker performs it in 16 hours has 100% efficiency. No bonus is paid to a worker unless he attains $66\frac{2}{3}\%$ efficiency at which state he receives a nominal bonus. This bonus goes on increasing till when he achieved 100% efficiency, the bonus comes to 20% of the guaranteed wage. At 100% efficiency the bonus is 60% of the day wage.

8. CO-PARTNERSHIP : ✓

*Pl. explain effective
How far in MFP?*

This system tries to eliminate friction between capital and labour. Under this system not only does a worker share in the profits of the undertaking, but he also takes part in its control and therefore, shares responsibilities.

This system arouses and sustains the interest of the workers in their work. By giving them a voice in the management of

the factory it raises their status as well. As they have become partners in the business, they try to make it a very profitable enterprise.

9. PROFIT SHARING :

Profit sharing is regarded as a stepping stone to industrial democracy. The International Co-operative Congress held in Paris in 1889 considered the issue and defined profit sharing as an agreement (Formal -informal) freely entered into by which an employee receives a share fixed in advance of the profit.

Employee profit sharing is often regarded by Employer as a supplementary benefit programme. Although plans differ with widely as to specific details three basic types of profit sharing plans are in use.

1) 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.

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

3) Combination by which a part of the profits is paid in cash and a part is deferred and placed in the employee's account in a trust fund.

II NON FINANCIAL INCENTIVES.

Non monetary incentives have a distinct and significant role to play in the creation of enthusiasm among the workers for greater and better work and in solving the problems of industrial productivity. There are various forms of non-financial incentives - some of the popular ones are as follows;

(1) JOB SECURITY : ✓

Does it affect productivity adversely?

Every worker wished that he should not only get a fixed amount of fair wage or salary after a fixed period, but that should be safe and secure. There should be no risk of retrenchment, demotion or termination. It is common experience of all Industrialists that the danger of losing the job leads to a decrease in production. On the other hand productivity is naturally high in those concerns where workers have a feeling of job security.

(2) RECOGNITION :

Most people like to receive recognition for work well done. ✓ Silence is not enough, particularly when good work is greeted with no comment while bad work always gets a - reprimand or warning. Although it is not possible for the supervisors to praise everybody for everything done by him or her, still this technique of praise should be practiced

as far as possible because more often than not it serves as a useful tool of motivation.

(3) PARTICIPATION :

How far effective in MFP?

As a motivation tool, participation travels under various fields such as democratic management, Bottom up management, W.P.M. consultative supervision, worker's share indecision making etc. All such approaches involve essentially the same idea of permitting and stimulating greater employee participation in policy formulation.

(4) A sincere Interest in Subordinates as Individual Person:

Most of us have observed that wages on immediate response, when we show an interest in the experiences or feelings of others. Our concern is on indication that they have become something more than numbers or faces in our own lives. The immediate response in attitude often carries over to influence favourably operative performance.

(5) PRIDE IN THE JOB :

Although the interesting 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 e.g. Recognition of Superior 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 Company is much more nebulous concept. Good products dynamic conduct and many other things serves to stimulate are the employee's pride in his Company.

(6) DELEGATION OF RESPONSIBILITY :

Delegation of rights and obligations to execute a given task often proves to be a strong motivating factor. The facts that the supervisors trust his workers, stimulates the workmen to show better results.

(7) OTHER INCENTIVES :

Under this caption may be included the incentives like quick, promotion, provision of facilities for technical training with the concern, sending selected employees for training etc.

FRINGE BENEFITS :

These benefits are sometimes called ' indirect benefits ' They are supplementary compensation made in addition to wages to stimulate the interest of the workers and to make the job more attractive and condicive. Though they are termed 'Fringe Benefits' they are neither fringe nor peripheral wage trimmings but substantial part of the wage and salary structure. According to Belcher* Fringe benefits as any wage cost not directly connected with employees productive effort, performance, service or sacrifice. ? Though these benefits are not direct payment for productive efforts they are intended to act as incentives to increase productive effort.

Cockman divides these benefits in to two basic types;

- (1) Fringe benefits which includes status (cars, entertainment facilities, holidays, Foreign travel, telephone). Security (insurance, medical facilities, children's education) and work benefits (office accomodation, secretarial services, management training, company scholarship etc.).
- (2) Key benefits - such as share schemes, profit sharing, retirement consuelling and house purchase.

Fringe benefits in terms of cost is the real total cost to the company of employing the employee. These benefits

* Belcher adopted from charles W. Sargent.
Fringe Benefits Page 488.

since they are regarded as a bonus. Create a favourable attitude towards the particular Job and Company. If these benefits were to be included in wages, it would mean higher taxes for the employee. placed in seprate category, their money value is greater costs of fringe benefits is not static. With the increased cost of living. The company's expenditure on fringe benefits increases and may have to be subsidized by higher prices on its products.

In India we would look at fringe benefits as being of the statutory and non statutory type. Included in the former are t the Employee Provident Fund Scheme. Gratuity or Pension Schemes and E.S.I. which is a system of social security induced by the Government covering medical care, hospitalisation, accident benefits death benefits and funeral expenses. These schemes also provides funds when the employee is sick or disabled. It is financed by employee, employers and state government.

The voluntary benefits provided are payment towards employees provident fund scheme not covered by statutory requirements as also gratuity and pension funds. Contribution, medical facilities canteens, uniforms and recreational facilities.

Profit and other kinds of bonus such as attendance bonus service bonus and gratitious and another kind of fringe benefits.

Whatever the pros cons of fringe benefits they have become an important part of compensation plans. This is especially so far senior and top management personnel who are being constantly - motivated in an attempt by managements to bring out the best in their employee.