The Minimum Wage Solution

drishtiias.com/current-affairs-news-analysis-editorials/news-editorials/10-10-2019/print

This article is based on **The minimum wage solution** which was published in The Hindu on 10/10/2019. It talks about the relationship between the increase in NREGA wages and the decrease in corporate tax rate.

Recently, the government made two announcements at two ends of the spectrum to **mitigate the economic crisis.** One concerns a **new indexation of NREGA wages meant to increase rural incomes** and the second is a **reduction in corporate tax rate.**

Minimum wages in the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005

- Wage rates under **MGNREGA**, 2005 are **notified and revised annually** based on the **Consumer Price Index-Agricultural Labourers (CPI-AL)** by the **Central Government** in accordance with the **provisions of Section 6(1)** of the scheme.
- The revised wage rates are made **applicable from 1st April of every year.**
- The CPI-(AL) is published by **Labour Bureau, Shimla.**
- Minimum wages are **legal mandate** that are arrived at by **calculating the minimal nutritional requirement and basic needs** of an individual.
- The **current daily NREGA wages** are just a **quarter of the minimum daily living wage of ₹692** as **outlined in the 7th Pay Commission.**

Important Reports and Judgments

- The **Fair Wages Committee** of the **Ministry of Labour (1949)** noted in a progressive report that a **"living wage" should also include education, healthcare and insurance** besides the bare essentials.
- In **Sanjit Roy v. State of Rajasthan (1983),** the Supreme Court held that paying less than minimum wages is akin to **"forced labour".**
- In **Workmen v. Management of Raptakos Brett (1991),** it said that **more provisions must be added** to arrive at a moral "living wage" to ensure basic dignity of life.

New Indexation of NREGA Wages

- **Prices of commodities increase each year due to inflation** so it is important to increase the daily wages of workers in the villages.
- For that, it is important to keep in mind the **previous year's national daily average NREGA wages (₹179 in 2019)** and **a good index to benchmark and revise** the wages.
- Indices are **(weighted) averages of the prices of a basket of goods consumed** and the index **must be based on the main items of consumption** for rural households.
- NREGA **daily wages are to be indexed with** an updated inflation index called the **Consumer Price Index-Rural (CPI-R)** instead of the older **Consumer Price Index-Agricultural Labourers (CPI-AL).**
- Calculation of **CPI-AL involves more food items in the consumption basket** while the calculation of **CPI-R involves more non-food items such as healthcare and education** so it reflects the rural consumption basket better than the CPI-AL.
- The new indexation will have a **notable impact on increase in income of rural households only if the base NREGA wages are high.**
- It is also **recommended to use annual average** instead of the existing practice of using December month index only.
- A substantial increase in NREGA wages and subsequent indexation with CPI-R would be meaningful for the workers and the economy.

Reduction in Corporate Tax Rates

Government has brought in **the Taxation Laws (Amendment) Ordinance, 2019** to make certain amendments in **the Income-tax Act, 1961** and **the Finance (No. 2) Act, 2019.**

- **Basic corporate tax rate** has been **slashed to 22% from 30% while for new manufacturing companies** it has been **cut down to 15% from 25%.**
- In order to promote growth and investment, a new provision has been inserted in the Income-tax Act which allows any domestic company an option to pay income-tax at the rate of 22% subject to the condition that they will not avail any exemption/incentive. The **effective tax rate** for these companies shall be **25.17% inclusive of surcharge & cess.**
- According to a **2015 IMF report,** "If the income share of the top 20% (the rich) increases, then GDP growth actually declines over the medium term", while "an increase in the income share of the bottom 20% (the poor) is associated with higher GDP growth". **Current corporate tax cut** can **widen economic inequality.**
- According to **estimates by Credit Rating Information Services of India Limited (CRISIL),** due to the recent tax cut, **1,000 companies** would have annual savings of around **₹37,000 crore** and **last annual NREGA budget of ₹60,000 crore** can be mentioned here for the comparison.

- The **estimated gains** of more than **1,000 companies** would be **equivalent to the annual earnings of around 7.2 crore NREGA labourers.**
- The worst part is that the **budget allocation for NREGA gets exhausted by October** of each financial year, leading to delays in payment of wages.

Way Forward

- While **corporate tax cuts and lower interest rates** would give corporations some **liquidity,** it is **unlikely that rural demand will increase.** On the contrary, **without a substantial increase in NREGA wages,** the **wages would barely match inflation** levels leading to wage stagnation in real terms.
- In circumstances of **unsustainable wages,** the poor would be forced to become part of the **migrant labour force and industries would benefit** by absorbing them at throwaway daily wages leaving no alternatives.
- It is **economically prudent to substantially increase the budget for public programmes such as NREGA.** This would **lead to higher disposable income for the poor** which in turn would have positive multiplier effects in the economy.
- The government needs to pay **more attention to the poor in economic, ethical, and legal ways.**

Mains Question

Higher disposable income for the poor can have positive multiplier effects in the economy.
Discuss.