

# A Study on “Labour Code on Wages 2019” and Its Impact on Employee’s Wage Structure

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## Abstract

India is a labour surplus country where demand and supply is mismatching. The available labour force is not skilled enough to fulfill the demands. Modern organizations lack proper manpower planning and inadequate management of resources. The compliance of a large number of labour laws is a difficult task.

Labour reforms establish the concept of the welfare state by providing social justice. The ease of doing business is possible when the labour reforms are liberalized and regularized as per new business requirements. So, the Government of India took the challenging and much needed task of liberalizing the labour laws and codify them newly. The new code of labour laws will ensure minimum working standards on working conditions, minimum wages, personal progress, skill development for labour and make them do dignified and respectful job.

The protection of labour force increases their productivity and overall growth of the country as a whole. Regarding Wages, compliance can be made with the “national floor-level minimum wage” which ensures minimum living standards for labour.

The government of India initiated a major labour reforms in the year 2019 to enhance the ease of doing business. Most of the labour laws were enacted in pre-independence era which may not be applicable in modern business scenario. As the mode of doing business and living standards of people have changed completely, there is a need for modern labour reforms. In this regard Government of India proposed to subsume all the 44 central laws and codify them into FOUR codes i.e Code on wages bill, Code of occupational, safety, Health and Working conditions, Code on Industrial Relations, Code on Social Security.

Among all the four codes, the code on wage bill is the primary bill which was successfully passed in both houses of parliament and got presidential assent on 8<sup>th</sup> August 2019.

**Keywords:** Wage Structure, The code on wages 2019, National floor wage, liberalization of labour reforms.

## Article History

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## Legislative history:

The code on wages 2019 bill was introduced in the Loksabha on 10 August 2017 by the Minister of state for Labour and employment(independent incharge),Santosh kumar gangwar.The bill was referred to a parliamentary standing committee on 21 August 2017.The committee submitted its report on 18 December 2018.The committee made 24 recommendations,of which 17 were incorporated into the bill.The bill lapsed following the dissolution of the 16<sup>th</sup> Loksabha ahead of the 2019 general elections.The code on wages bill ,2019 was re-introduced in the house on 23 July 2019.

Moving the bill for consideration,Gangwar stated that the government had held consultations with trade unions,employers and state governments,and held tripartite consultations on 10 March 2015 and 13 April 2015.He also stated that a draft of the bill was made available on the Ministry of Labour and Employment's website and suggestions from the general public were taken into account.The bill was passed by the Loksabha on 30 July 2019 and passed by the Rajya Sabha on 2 August 2019.The bill received assent from president Ram Nath Kovind on 8 August,and was notified in The Gazette of India on the same date.

**Status:** Not yet in force.

## Coverage:

The code on wages 2019 is applicable to employees in organized sector and unorganized sector.While the central government will continue to make wage related decisions for railways,mines,oil fields,and central public sector undertakings.

The code on wages bill focus on regulating wages and bonuses for all workers employed by any industry,trade,business

or manufacturer. The code on wages 2019 replaces the following four laws:

- The payment of wages Act 1936
- The Minimum Wages Act 1948
- The payment of bonus Act ,1965 and
- The equal remuneration Act 1976

## Wage structure:

A Wage structure generally refers to the levels or hierarchy of job and pay ranges.It may include elements like basic wages,bonus,overtime pay,allowance etc.Wage structure covers the compensation elements paid by employer to employee.

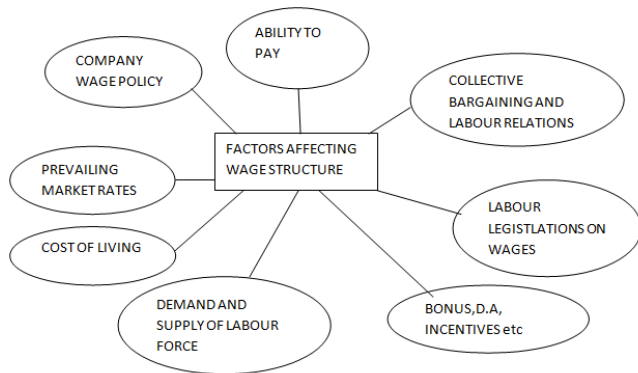
Usually wagestructure defines the internal patterns of varying job ranking,basic wage rates and differentials of different categories of employees in a company according to skill,qualifications and experience.Wage structure establishes a system for setting pay differentials on the basis of grades or status.

In India,Wage structure for different industries has been set on the basis of government wage regulations and tripartite negotiations. A tripartite negotiation is contract between employer's organizations,trade unions,and the government of a country.Each party acts as a social partner to create economic policy through cooperation,consultation and compromise.

Some interesting facts show that wages has a positive impact towards employee performance and leads to productivity.An employee who is satisfied with pay feels motivated and perform for the betterment of organization.This will be a good sign for growth of organization and in turn offers improvised compensation to the employees.A country where more organizations prosper will

leads to constant development from all dimensions and will make a balanced economy.

**The following are the factors which affect Wage structure:**



Now a days the pay received by employees in different organizations differ from various perspectives. Several internal and external factors are considered while preparing wage structure. Internal factors include demand for labour, availability of skill, experience, basic pay policy of company and other compensation elements. The external factors include Labour legislations, cost of living in particular region, prevailing market rates of industry etc. It is very important for the employer to ensure whether the wage structure comply with law and government regulations. At the same time employer should also consider financial affordability of the company and its implications towards employee productivity.

- ★ An efficient Wage system should satisfy the following key aspects:
- ★ The wage system should be fair enough to both employee and employer.
- ★ It should assure guaranteed minimum wage at satisfactory level.
- ★ Pay differentials should be there between efficient and inefficient workers.
- ★ The system should ensure equal pay for equal work irrespective of any gender.

- ★ The wage structure should minimize employee turnover, absenteeism and late attendance.
- ★ The system should be simple and understandable by employees

**The Code on Wages 2019:**

The code on wages 2019 has expanded the definition of employee and employer where there is broad based applicability of the regulations. The new regulations can be applicable to both organized and unorganized sector. According to the wage code, the provisions of minimum wages and payment of wages cover all establishments, employees and employers except the member of Armed forces of the union and apprentice engaged under the Apprentices Act, 1961.

According to new code on wages 2019, Wages include three parts i.e., Inclusive part, specified exclusions and conditions which limit the quantum of exclusions. The definition of wages includes basic pay, D.A and retaining allowance and excludes statutory bonus, house accommodation and utilities. Employer will contribute to PF, Pension, conveyance allowance/Travelling concession, commission, HRA, gratuity, retrenchment compensation. The specified exclusions may not exceed 50% of all remuneration and in the event of exceeding, such excess amount shall be deemed as remuneration and will be considered as "wages". This is aimed at ensuring that the companies do not adopt compensation structures which result in wages being reduced below 50% of the total remuneration.

**Criteria for setting minimum wage:**

According to union budget 2019, the survey suggests that the code on wages bill should consider fixing minimum wages based on either of two factors:

- a) The skill category i.e unskilled,semi skilled,skilled and highly skilled
- b) The geographical region, or else both

Mainly the central government will set “National floor wage” for wages after taking into account the minimum living standards of workers varying across geographical areas,where existing minimum wages are higher than the floor wages,the same shall be retained.State governments will fix the minimum wages for their region which can’t be lower than the national floor wages.Minimum wages will be reviewed at intervals not exceeding 5 years.

The code on wages 2019 focus on non discrimination on the basis of gender related to equal remuneration. The payment of wages settlement has been specified as on 7<sup>th</sup> of the succeeding month, as against 10<sup>th</sup> of succeeding month.

The payment of bonus is prescribed as minimum 8.33% and maximum 20%.The code provides the appropriate government to appoint inspectors-cum-facilitators to carry out inspections to remove malpractices.The penalties under the code is high which varies depending on nature of offence for 3 months and/or with fine upto INR 1,00,000.

### **Significance of the study:**

The code on wages acknowledges to set the “National floor wage” which ensures “minimum living standards” for workers.The labour reform on wages shows much importance to raise the standards of living of people which is essential because of inflation and economic reasons.Due to increase in minimum wages and their advanced living there may be a growth in economy as well. The codification of wages also enhances female labour force participation and motivates them to become job-holders.

Wage code also ensures timely and regular payment of wages and revision of National floor wage of not exceeding 5years.Most importantly the new labour reform on wages will stop exploitation of employees by employer and provide financial security to labour

### **Scope of the study:**

Wage Code2019 mainly impacts the wage structure of employees and their involvement in jobs. The new code on wages will make major changes in minimum wage levels and ensure the basic living facilities with useful bonuses.The study mainly focuses on the National floor wage and its implication on new wage structures state-wise.Wage includes which compensation elements and excludes what is an interesting study.Moreover ensuring more than 50% of payment wages from employer side will benefit employees.As the applicability of Wage code is for both organized and unorganized sectors,many employees benefit from the new Code on wages 2019.

The code also ensures the prohibition of discrimination for men and women for work of similar nature.The phenomenal change may provide more scope and opportunities for women employees that may lead to women empowerment.

The government is proposing to replace the definition of wages in EPF Act with new wages definition according to wage code.Probably there can be some changes in PF calculations which an employer should focus.

### **Statement of the problem:**

Labour laws which were framed in pre-independence era are obsolete now and might not be efficiently applicable to the modern industries.So,it is important to liberalize and codify the previous laws so as to fit the modern

businesses. More over, labour are not paid fairly in some sectors and are exploited. Even female workers are not considered in promoting to higher level jobs. The study aims to provide information about national floor wage rates to prohibit exploitation. Glass ceiling is common phenomena which is observed in many organizations. The study also focus on how the new code promotes more opportunities for female workforce and motivate them.

### Objectives:

- ★ To study the new wage structure after implementation of the Code on wage bill 2019.
- ★ To know the effectiveness of the code on wages bill 2019 for the establishments.
- ★ To study the impact of the new wage code on earnings of employees.
- ★ To analyze equal remuneration pay to both men and women for work of similar nature.

### Research Methodology:

The study adopts exploratory research design which tries to find out the major changes and challenges that will be observed in establishments after implementing the code on wages 2019.

Data will be collected using convenience sampling method from the perceptions of employee and employer. To conduct the further research, Qualitative research design is used where in-depth survey, opinions and implications of wage code are studied.

### Limitations of the study:

The study is only limited to the wage structure of employees and pay related aspects which may not focus on non-monetary elements.

The respondents may not disclose some opinions in fair manner due to lack of trust or some external forces.

### Conclusion :

The initiative of Government of India to codify the existing labour laws in simple and flexible manner is truly appreciable and commendable. The reshaping of the present laws to fit well for the present scenario is a game changer in labour market. Employees can benefit well from the new code and improve their standards of living. Most importantly there will an end for the exploitation of labour in most of the sectors after the new amendments in Wage code. The positive sign from the government in this major move will definitely change the way of approach towards employees and may contribute to the growth of nation's economy as a whole.

As there is complexity in India's minimum wage system, Wage code might seem to be simple, coherent and enforceable. The simplification of previous labour laws will lead to effective minimum wage system with the aid of technology. The new code on wages 2019 will be definitely welcoming change as it tries to reduce wage inequality across the nation and provide protection for low paid workers.

Employers has to familiarize with the code and understand the impact on their operations. The government is also proposing to replace the existing definition of "basic wages" in the Employee's Provident fund and miscellaneous provisions Act, 1952 with that of "Wages" as provided in the code. The impact therefore has to be analysed from provident fund perspective as well, especially in respect of employees whose basic salary is currently less than the statutory wage ceiling.

The employers should also analyse the requirement of revision of the salary



structure and organization policy with regard to labour contracts and employment terms of services to ensure that their policies are HR friendly and legally complaint. The aggregation of various codes under single umbrella is a welcome measure for country's development.

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