

'Fair' Prices and Wages

Lately it has become fashionable, especially in the fair trade movement but not only there, to advertise products with the slogan that 'the producer receives a fair price' for his products. There appears not to be a uniform economic definition of the word 'fair', however, with as a consequence that the word has become meaningless. Here are some approaches on how to define 'fair price' in the Indian context, starting with the calculation of 'fair wages'.

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Our purpose here is to contribute to the discussion on how to develop a practical system for calculating a 'fair price' to be paid to the producer and, related to it, the 'fair wages' that should be paid to the worker in the Indian context. The system that is proposed will calculate as objectively as possible the bottom line for the payment of the worker by the producer, and following that, the bottom line for the price to be paid by the customer to the producer. The point of departure is to have a methodology that can be easily applied by everyone involved. Thus the purpose is not to provide a detailed theoretical model, but rather a model that can be easily applied in practice.

First the methodology for defining 'fair' minimum wages is set out, and then the method for calculating these wages in the Indian context. The exercise is structured around some states and a group of workers that is often ignored, namely, artisans in Delhi, Jaipur and Pondicherry. All these workers are working in the unorganised sector where trade unions don't play a role.

The system of legal minimum wages in India will be dealt with first, followed by a discussion how the poverty line has been fixed in India and how figures per state differ. Data on the average size of the household enable us to calculate the poverty line per household and the 'living wage'. The results are assembled in a table, which also includes the recommendation of several Indian Commissions that the minimum wages should be at such a level as to take a family of three adult units of consumption above the poverty line. This way a 'minimum fair wage' can be calculated. With the help of this 'minimum fair wage' the 'minimum fair price' can be defined.

Minimum fair price: Payment of a minimum fair price to the producer implies

both that the firm is making enough profit at least to assure continuity, as well as the payment to all workers involved of a salary that meets the cost of living for themselves and their dependants (partner, children, parents). Besides that additional money is needed for other expenses, such as marriages, funerals, etc. Therefore, first the question that is dealt with is in what way to define the minimal necessary wages for workers. After that the minimum fair price is discussed.

Minimum rewards: The point of departure to calculate a bottom line for wages is set by (a) the legal minimum wages and (b) the poverty line.

(a) *Minimum wages:* In India minimum wages have been subject to debate for quite some time. Already in 1981 sub-committee 'D' of the Standing Committee of Labour Ministers recommended that the level of minimum wage should not be below the poverty line. Besides that the Committee of Secretaries of States (1981) recommended that the minimum wages should be at such a level as to take a family of three adult units of consumption above the poverty line, and the consumption basket should consist of per capita per day requirements of 2,400 calories in rural areas and 2,100 calories in urban areas as well as clothing, shelter, fuel, light, education, etc. The Report of the National Commission on Rural Labour (1991) endorsed a similar concept of three consumption units [GoI 2002].

However, a great number of different minimum wages exist. This is also because the recommendations on how to fix minimum wages have not been followed everywhere. Besides this differences in minimum wages may occur because of differences in education of the workers and responsibilities, and local costs of living. However, there are several industries for which no minimum wages have been fixed, for example, the so-called 'cottage industries'. The general opinion

in India is that no laws whatever are applicable for these kinds of industries. That is a mistake, however. Workers have certain rights that are based on the Indian Constitution. To claim these rights requires knowledge of the law which the people concerned do not have, however.

What does exist concerning general legal minimum wages is a so-called 'floor level minimum wage'. The Second Labour Commission writes about this: "this floor level minimum wage may be treated as the current minimum wage" [GoI 2002: 1355]. This 'floor level minimum wage' has been fixed at Rs 1,350.

Different general minimum wages have, however, been established for different states and unions (Table 1).

(b) *Poverty line:* The poverty line per capita in India as defined by the Planning Commission is based on the number of calories needed daily per person. This quantity has been defined in 1968 by a Nutrition Expert Group and has been fixed at 2,400 calories per capita in rural areas and 2,100 calories per capita in urban areas. The difference in quantities of food needed in rural and in urban areas is due to the fact that living conditions in rural

Table 1: Statewise Minimum Wages

State	Rs per Month
Rajasthan	1,800
Pondicherry	1,350 (floor level minimum wage)
Delhi	2,709

Table 2: Statewise Poverty Lines for 1999-2000

(Rs per capita per month)

State/Union Territory	Rural Poverty Line	Urban Poverty Line
Rajasthan	344.03	465.92
Delhi	362.68	505.45
Pondicherry	307.64	475.60

Source: Planning Commission, Government of India.

Table 3: Average Household Size by State/Union Territory, 1999-2000

State/Union Territory	Rural	Urban
Rajasthan	5.6	5.0
Delhi	4.4	4.4
Pondicherry	4.2	4.0

Source: Manpower Profile India, Yearbook 2001, Table 1.17.

Table 4: Poverty Line by State/Union Territory

(Rs per month per household)

State/Union Territory	Rural	Urban
Rajasthan	1,927	2,330
Delhi	1,596	2,224
Pondicherry	1,292	1,902

areas are more demanding. For instance, people have to walk great distances to have access to water.

The quantification of the number of calories needed was after research translated into monetary units to answer the question: How much money is spent on average to achieve the necessary quantity of calories? Data for this came from an expenditure survey at the group involved. From this survey it appeared that, based on the actual consumer behaviour, in 1973-74 on an average Rs 49.09 a month was associated with a daily intake of 2,400 calories in rural areas, and Rs 56.64 per month with a daily intake of 2,100 calories per capita in urban areas.

So the poverty line defined this way is partly normative and partly behavioural. It indicates the monetary value needed to achieve the specific quantity of calories needed, taking into account the need for other, non-food related, expenses. These amounts needed are adjusted regularly through follow-up investigations recurring at set periods.

Such a macro approach obviously meets with many objections such as that there are differences in calories needed between different occupations, differences between men and women, etc. When calculating an average such differences get lost. Other missing factors that should be mentioned include access to water, lack of possibilities for development, forms of discrimination, etc. In spite of the obvious disadvantages, in India the choice has been made for this approach, and we follow this choice in order to arrive at a practical system for calculating 'fair' wages. The amounts calculated for 1973-74 have, based on follow-up surveys, regularly been adjusted during the years.

Life circumstances have changed too since 1973-74, both in rural and in urban areas. Yet the official poverty line is still always based on these data and these data are adjusted to current circumstances. To compare: in 1993-94 the adjusted rural poverty line, based on the consumption basket of 1973-74 was Rs 206. But, since the consumption basket has changed during these years, according to Dev and Ranade this amount no longer supplies the quantity of calories needed. According to their calculations the real cost of sufficient calories is not Rs 206 (the rural poverty line), but Rs 320 [Dev and Ranade 1999]. This would mean, when adjusted with the consumer price index for rural workers [Manpower Profile Yearbook, 2001, Table 2.1.13] the official rural poverty line in 1998-99 amounted to Rs 310, whereas

the poverty line according to Dev and Ranade should be Rs 481.

Here the amounts of the official poverty line are used, but it should be kept in mind that, following what has been said on this subject above, these amounts are rather too low than too high. However, different amounts for the poverty line for different states have been calculated at an official level. This is because India is such a large country with so many regional differences (Table 2).

The poverty line indicates an amount per month per capita. Not everyone within a household earns income, however. The following table indicates average size of households in Rajasthan, Delhi and Pondicherry (Table 3).

The poverty line per household is obtained by multiplying the poverty line by average household size (Table 4).

Living wage: The data concerning the poverty line and average household size can be used to calculate the 'living wage' according to the 1998 *Living Wage Summit Formula* [Steele 2000:6]:

Average household size × cost of basic needs per person

$$\frac{\text{Average number of adult earners per household}}{\text{Average number of adult earners per household}} + \text{savings (set at 10 per cent of income)}$$

The living wage is to be earned over a maximum working week of 48 hours and basic needs are defined as housing, energy, nutrition, clothing, healthcare, education, potable water, childcare, transportation and

savings, though the possibility of including further need categories (e.g., entertainment, vacation, paid family leave, retirement, life insurance and personal liability insurance) is floated [Steele 2000].

In our case both average household size (Table 3) as the cost of basic needs per person (poverty line) are known. The 'average number of adult earners per household' however, is not so easy to obtain. Although many married women do have a paid job, this certainly does not apply to all of them. For cultural reasons, many women are not allowed to work outside the home. Where women, both married and single, are allowed to work outside the home, it often is only in places where the working place is considered 'safe' for them. The 'Labour Force Participation Rate' is given in Table 5.

Like all data, these should be carefully used. There is always the danger of drawing too many conclusions from data that cannot entirely be relied upon. What these data do indicate, however, is that many more men than women have a paid job. What can indeed be concluded is that we cannot take for granted the fact that both man and wife have a paid job. This has its consequences for the calculation of the living wage. The outcome will be different when we make the calculation with one, or with two income earners per household.

On basis of this it seems incorrect to make the calculation of a 'living wage' on the basis of two income earners per household. It seems preferable to calculate it on the basis of 1-1½ income earner per

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household. This leads to the following quantification concerning the 'living wage'.

In case of one income earner per household see Table 6.

In case of 1½ income earner per household see Table 7.

It is evident that the decision how many income earners per household to use for the calculations so as to arrive at a 'reasonable' minimum wage for the worker is an important one.

The Committee of Secretaries of States in 1981 and the National Commission on Rural Labour in 1991 recommended that the minimum wages should be at such a level as to take a family of three adult units

Table 5: Labour Force Participation Rates by State/Union Territory, 1999-2000

State/ Union Territory	Rural		Urban	
	Male	Female	Male	Female
Rajasthan	50.3	38.8	49.9	14.1
Delhi	54.1	3.7	54.6	10.9
Pondicherry	58.8	29.4	57.4	18.1

Source: Institute of Applied Manpower Research, *Manpower Profile India, Yearbook 2001*, Table 2.2.2

Table 6: Amount of the Living Wage per Month by State/Union Territory in Case of One Income Earner per Household (In Rs)

State/Union Territory	Amount Living Wage	
	Rural	Urban
Rajasthan	2141	2588
Delhi	1773	2471
Pondicherry	1436	2114

Table 7: Amount of the Living Wage per Month by State/Union Territory in Case of 1½ Income Earner per Household (In Rs)

State/Union Territory	Amount Living Wage	
	Rural	Urban
Rajasthan	1427	1726
Delhi	1182	1647
Pondicherry	957	1409

Table 8: Minimum Amounts in Rupees Calculated per Month for Rural Areas per State/Union Territory

State/Union Territory	Poverty Line Household	Living Wage One Income Earner	Living Wage 1½ Income Earner	Proposal Commission
Rajasthan	1927	2141	1427	1032
Delhi	1596	1773	1182	1088
Pondicherry	1292	1436	957	923

Table 9: Minimum Amounts in Rupees Calculated per Month for Urban Areas per State/Union Territory

State/Union Territory	Poverty Line Household	Living Wage One Income Earner	Living Wage 1½ Income Earner	Proposal Commission
Rajasthan	2330	2588	1726	1398
Delhi	2224	2471	1647	1516
Pondicherry	1902	2114	1409	1427

of consumption above the poverty line. When that advice is followed no further research into the number of income earner per household is needed.

The choice to be made here, namely, where to place the borderline, is essentially a political choice. That a clear choice is made, however, is important in order to avoid confusion.

Several alternatives concerning the minimum earnings per month have been calculated above for several states/union territories for the household to function at the level of the poverty line, both in rural and urban areas. Tables 8 and 9 put these results together.

These data are the result of different ways of calculating a bottom line to wages that all give different results. As said before, a choice has to be made between several alternatives. This choice depends on what level of living can be agreed upon as being the absolute minimum. Here different choices may be made, and will be made, between say the Fair Trade movement and the management of a factory that barely succeeds in keeping the business going. Yet it is very important that the different actors, such as the Indian government, the Fair Trade movement, trade unions, etc, clearly define what in their opinion the absolute minimum is that workers need to live on.

Once the minimum is defined, it would be good to look at every firm separately to find out the situation of the workers with regard to how many people there are in the household, and how many adult income earners the household has. This, however, would result in different wages within the same firm for workers performing the same jobs.

As mentioned above, a practical solution to this problem is given in the recommendation of *The Report of the Committee of Secretaries of States* (1981), endorsed by a similar concept of three consumption units by the *Report of the National*

Commission on Rural Labour (1991), that the minimum wages should be at such a level as to take a family of three adult units of consumption above the poverty line. This recommendation can be extended to the concept of 'fair' wages as well, in the sense that once a bottom line to the 'fair' concept has been chosen, 'fair' wages should be at such a level as to take a family of three adult units of consumption above the bottom line.

It should be kept in mind, however, that the concept of 'poverty line' in itself has nothing to do with 'fair wages'. It is only used here as a 'tool' to be used in the calculation of fair wages. When discussing the poverty line we are talking about absolute minimum amounts to survive and not about the concept 'fair'. When discussing 'fair' an ethical aspect gets involved. At that moment we are not discussing only minima to survive but other criteria play a role as well. The outcome may be that wages are considered 'fair' when they are sufficient to take a family of three adult units of consumption above the poverty line, but it may be any other outcome as well. It should be made explicit, however, by all who talk about fair wages what their definition of fair is, so that people can agree whether they call this fair as well or not. Especially in the Fair Trade movement customers are attracted by the promise that the producer is paid a fair price (which implies fair wages to the workers) without anyone having defined how to calculate this fair price.

An additional remark should be made regarding home-workers and part-time workers. The amount earned during the hours worked should be divided by the actual number of hours worked and then multiplied by 48 (the maximum working week according to ILO-standards), so as to arrive at the income they should have earned had they worked that many hours.

Minimum fair price: Once a decision has been taken how to define and calculate 'minimum fair wages', we can relate the 'minimum fair price' to the 'minimum fair wages'. In this context it is important to remember the target-group, defined on page 1 of this paper, namely artisans. This often means smaller firms with few workers who are not organised in trade unions. The fact that there are no trade unions plays an important role in the sense that where those unions do exist, there is a different possibility for calculating 'minimum fair wages' as well. After all the unions are supposed to speak on behalf of their members and (should) know what the aspirations of their members are, and what they themselves consider 'fair'.

Apart from the legal minimum wages, firms should also pay their workers at least 'minimum fair wages'. These 'minimum fair wages' can be calculated with the aid of any of the methods described above, but they should be defined in any case.

After defining the 'minimum fair wages', we can proceed to the 'minimum fair price'. The price the producer gets for its products should be such that:

- (a) the price is sufficient to pay all costs, both fixed and variable costs;
- (b) this price is sufficient to guarantee continuity of the enterprise;
- (c) all workers get paid at least a 'minimum fair wage' as well as the legal minimum wage;
- (d) the producer himself has an income that equals at least both the 'minimum fair wage' as well as the legal minimum wage;
- (e) this price is sufficient to expand the business in a gradual way. This leads to the following definition of 'minimum fair price':

A 'minimum fair price' can be calculated in those cases where it is possible to calculate both production costs and 'minimum fair wages'. In that case the net price to be paid to the producer is at least such that continuity and development of the firm are guaranteed, while at the same time all workers get at least the local

'minimum fair wages' as well as the legal minimum wages.

Directions for producers and workers involved how to calculate 'minimum fair wages' and 'minimum fair price': The poverty line is fixed by the Planning Commission. The statewise poverty line for the year 1999-2000 can be found at <http://infochangeindia.org/indiastatsreport.jsp#pop>. In order to calculate the changes per year, these amounts can be adjusted by using the following indices: For rural areas the 'Consumer Price Index for Rural Labourers', and for urban areas the 'Industrial Worker's Consumer Price Index'. These indices can be found in *Indian Labour Journal*, a monthly publication of Labour Bureau, ministry of labour, government of India, Shimla/Chandigarh. They can be found as well in yearly publications like *Indian Labour Year Book*, government of India, ministry of labour, Labour Bureau, Shimla/Chandigarh, and *Manpower Profile*, Institute of Applied Manpower Research, New Delhi.

Even in the absence of trade unions to protect the workers' interests, there appear to be several possibilities to define 'fair' wages and, following that, 'fair' prices. Although a lot of data are required to do

so, it appears in India possible to find those data to calculate a minimum (the bottom line) for both wages and prices. This is also because so many data are already in the concept of 'poverty line'. These data can be taken as point of depart to calculate 'fair' wages and prices once the concept 'fair' has been clearly defined.

This makes it possible for all chains involved in the production process to calculate these minima themselves as well. [EVI]

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Sd/-
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