A Wage Policy for Economic Development

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A WELL-CONCEIVED wage policy is an essential condition for the success of a plan. Economic planning and social co-ordination having been accepted as instruments for smooth and rapid progress of the country, the need for a national wage policy is now self evident. In fact, even in the advanced economies which put less emphasis on planning the necessity of a national wage policy has been recognised and it has come to be accepted that wage stability in the short run and a moderately rising level of wages in the long run are necessary conditions for economic stability. The objectives having been accepted, it requires only one further step to conclude that they cannot be left at the mercy of the unregulated market forces and a national wage policy becomes the only alternative.

The conditions of stability are not, however, also necessarily sufficient conditions for development. In an underdeveloped economy, it is more important to enquire about the objectives of a wage policy that will not only be consistent with development, but will directly contribute towards that process. Our search for such objectives may be helped if we remember that wages are not only incomes to the workers or costs to the industrialists, but also incentives for further effort and a mechanism for distributing the workforce among different industries. Keeping these in view, it may be possible to outline the broad objectives of a wage policy which aims at helping the process of economic development.

In the underdeveloped countries the prevailing wage rates in most of the industries being inadequate to maintain a decent standard of living and to improve labour efficiency, fixation of minimum wages in order to ensure a minimum standard of living becomes imperative. The minimum wage also helps, at the same time, to maintain a minimum level of managerial efficiency, as the survival of the marginal firms will no longer be possible on the strength of sub-standard wages. With the enforcement of minimum wage standards, these firms will be compelled to search for the means of improving their technical and managerial efficiency for sheer survival.

Besides, a wage policy for economic development, will also have to re-examine the existing wage structure so as to establish and maintain a pattern of relative wages which will help to regulate the distribution of the workforce in a manner consistent with the planned development of different sectors of the economy. In a purely authoritarian economy such a distribution or redistribution of labour may be achieved by decrees, but the method of compulsion being unacceptable, wage incentives remain the only instrument, to obtain the desired result. This naturally points to a wage structure which will allow for reasonable income-differentials between different occupations and jobs, the relative importance of which are given by the pattern of development envisaged by the planning authorities.

Such income differences, however, need not go against the accepted ethical standards of equality and social justice. In fact, in a period of development, the concept of equality has strong economic justifications as well. The marginal propensity to consume being too high in a backward economy to be consistent with the overall needs of capital formation, it is essential to encourage austerity and thrift among all sections of the community. These will increase the marginal propensity to save, at least by restricting non-essential consumptions. The existence of large degrees of inequality in earnings and wealth, however, makes such a restriction of non-essential consumption impossible because of the inherent tendency of man to imitate the standard of consumption of the proximate higher income group and also due to the encouragement which it gives to conspicuous consumption for business purposes. Thus the creation of a favourable psychological climate for rapid economic development underlines the necessity of minimising inequality in every respect.

This may appear to be inconsistent with our previous appreciation of the role of wage-differentials as an instrument of regulating the distribution of labour in the economy. But it is really not so, as a little reflection will show. For in fact, it is only at the strategic points that special economic incentives will be necessary to encourage the flow of labour, and they may not be very large in number. Thus barring these exceptions, the wage relatives may be so adjusted as to produce, in general, a climate of greater equality. If may be asked whether reduction of inequality in general would affect in any way the supply of superior skill, more particularly in view of the hotly-scalds which developing economies have often to face because of the relative scarcity of the managerial personnel in a period of rapid expansion. The apprehension, that it may, however, completely fails to take note of the extra-economic factors which influence the supply and formation of superior skills and which are no less strong.

The fact that in the present social set-up, positions of importance and status also necessarily carry high remuneration makes it difficult to view them separately. Social status, responsibility and power are by themselves sufficiently strong incentives for people of superior talent; given the minimum economic security, they would need no further incentives. In India, the Cabinet Ministers in the States as well as in the centre earn far less than successful medical practitioners, lawyers or businessmen. But that does not prevent the flow of sufficient talent to ministerial positions, even from the above occupations. Many responsible administrative posts in the government services carry a much lower remuneration than posts of high responsibility in important commercial firms, but that never causes a dearth of superior talents in the civil service or brings about, a large-scale exodus from the government services to private industries. It may be, therefore, expected that even after allowing for necessary exceptions generously, a proper balancing of the two apparently contradictory objectives would be possible without much difficulty.

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as the 'fair wage' may be considered at this stage, viz, equal pay for identical work in different industries or firms. The argument has its basis not only in ethics, but in sound economic considerations as well. Although mobility between industries and occupations is necessary in the sense that there being pull for skill and scarce resources from different Industries of unequal social importance, a transfer of resources from the less important to the more is desirable, there is little social benefit in unnecessary labour turnover within the same industry, or even between the industries, if not warranted on above grounds. However, from the individual point of view, such socially useless labour turnover becomes attractive, if the remuneration and conditions of work for identical work in different industries or in different industries. The fair wage principle which emphasises equal pay for identical work will thus help in stabilising the labour force in a way consistent with the requirements of economic growth.

We thus see that a rational wage policy for economic development will have to satisfy the criteria of

(i) the minimum wage principle, which wants to ensure a minimum standard of living to all workers;

(ii) reassessment of the wage structure so as to provide for a reasonable degree of wage-differentials, justifiable on labour allocation and incentive considerations, having at the same time due regard to the accepted values of social equality; and

(iii) the fair wage principle, in the sense of equal remuneration for work of equal skill, knowledge, responsibility, or degree of unpleasantness.

This will naturally mean for all the underdeveloped economies, an upward revision of wages. But the attempt at the practical enforcement of the policy will raise another problem. As a consequence of such wage revision, in most of the industries having some degree of competition, the existence of the marginal firms which survive on 'sweated' labour may be endangered. The favourable possibility that as a result, such firms may improve their managerial efficiency has already been noted. Some firms may succeed but there may be others who may go into liquidation for their failure to improve efficiency. If there were no unemployment problem to bother about, such a 'penalty on Inefficiency' could be easily supported. But as underdeveloped economies also have the problem of chronic unemployment, it is impossible to neglect the possibility of aggravation of the unemployment problem from the closure of such units. As a way out, the Planning Commission has suggested the amalgamation of such marginal firms into larger units, voluntarily if possible, but compulsorily, if necessary. Formation of larger industrial units and reduction of wasteful competition having other attractions from an economic standpoint, a hastening of the process because of the need for enforcing fair wage standards, therefore, may be an additional benefit of the rationalisation of wage policy.

So much about the immediate necessity of upward revision of wages according to the criteria mentioned above. But there remains the problem of the future, i.e., the further question of workers' sharing the benefits of economic development. The workers being a part of the community and partners of the adventure for economic progress, justice demands that their incomes also should rise with the development of the economy. This is possible by arranging for increase of the workers' real earnings with the improvements in labour productivity, the latter being a cause as well as the result of economic development. However, there are two possibilities of achieving this and it is desirable to enquire about their applicability in a developing economy.

Workers may reap the benefits of improved productivity either (i) through a policy which maintains the wages stable, while prices move in the opposite direction to productivity, or, (ii) by a policy of increasing the money wages directly with the rise in productivity, while keeping the prices stable. In other words, in the first case gains in productivity are translated via lower prices, while in the second, they are transmitted via higher money wages. In current discussions, the first alternative has been rejected and the general support goes for the second. A continuous reduction of piece rates will become necessary, if wages are to be kept constant while productivity increases. Payment by results being the prevailing system of wage payments in many of the industries even in the underdeveloped countries this would naturally create serious friction. Moreover, "it is highly improbable that with the Industry organised as it is at present, prices could really be lowered fast enough to offset increases in productivity." Thus, practical possibilities of the first alternative being strictly limited, the choice necessarily falls on the second. But even accepting that wages should rise in accordance with gains in productivity, our problem is not solved. How to apply the principle in practice? Should the wage level be related to average increase in productivity, or to increases in productivity within each branch of industry? The second principle may affect the wage relatives now and then as a result, frictions may develop in one industry or other from time to time. But the first alternative has the attraction that it will leave unaffected the wage relatives that have been accepted by the authorities and the representatives of the parties concerned while formulating the wage policy as a constituent of the development plan. The estimates of costs for the plan, therefore, would not be disturbed. The acceptance of the second alternative, however, may create such disturbances.

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We now have some general outline of the objectives of a wage policy which will meet the requirements of a developing economy. We have also assumed some sort of economic planning and social regulation of the economy under consideration. But economic planning may be democratic as well as authoritarian. In the former type, the planning process operates through and in accordance with the democratic institutions while in the latter type, planning as well as its implementation is mainly through the decrees of the state. The machinery of formulation and application of the wage policy in the two cases would, therefore, naturally differ. In an authoritarian economy, the objectives having been decided, the problem would be merely one of effective implementation through decrees of the state planning authorities. In a democratic country, however, given the existence and freedom of voluntary economic associations, the
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ter not only participate in detailed formulation of the objectives and the principles, but the policy itself is implemented through their active participation. Thus the wage policy in such an economy is implemented through three groups, viz., trade unions, the employers and with the extension of state regulated compulsory arbitration, the arbitration boards, although all of them work under the broad norms set up by industrial and labour legislations, which in turn originate from the policy of the planning authority.

Although in the immediate post-war years, most of the developing economies, particularly in Asia, were quite enthusiastic about compulsory arbitration, after the experience of all these years, its extension outside public utilities and a few basic industries is no longer much appreciated. Apart from the practical difficulty of extending its scope to a large number of industries, compulsory arbitration has been found to be of limited utility. Awards of the arbitrators may prevent work stoppages for the time being, but they cannot develop the genuine spirit of cooperation and good will, without which permanent industrial harmony is impossible. Collective bargaining, besides being a democratic institution giving much scope to free participation of the producers in the regulation of industrial conditions, has a special attraction in this respect. Conciliation and mediation also contribute a good deal from this point of view.

But how can collective bargaining, which has until now been conducted only at the industry or factory level, meet the requirements of a national wage policy? As an answer to this, the suggestion of a centralised trade union and on the other hand a centralised employers' federation may come to mind. But such a centralisation of wage policy, in the sense that wage bargains on the part of labour should be conducted exclusively by the national trade union centres instead of individual unions is neither desirable, nor practicable. The wage bargain being the most important function of a trade union, the removal of wage bargaining from its jurisdiction will naturally make the trade unions much weaker and workers. In their turn, would lose their interest in them. Moreover, in most of the underdeveloped countries, the national trade union centres are weak and have very little effective control over their constituent units because of their organisational defects and the existence of many rival national trade union centres and other factors promoting disunity. A centralised trade union wage policy in such a case, cannot but be a thoroughly impractical proposition. On the other hand, wage bargaining on the basis of industrial units may not be well informed of social values and economic realities and may result in excessive wage increases which in turn may develop inflationary pressures. A workable solution may be found by developing the practice of wage bargaining on the industrial basis. This would call for the development of national industrial unions representing workers in each industry in place of completely independent one shop unions. Realisation of better organisational efficiency of the national industrial unions is slowly dawning in the minds of the trade unionists of different underdeveloped countries of Asia. Malay and Burma have already made some definite progress towards it. Given proper guidance and encouragement, other underdeveloped countries also would not lag behind.

Prop-jets for Short Haul

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HOUGH turbo-props have entered the field of internal air transport also, it is only for long distance flights. Supersonic speed and short hops had hitherto made no sense hence the earlier mis-adventures of the Indian Airlines Corporation with the Heron. Jet planes built for speed have to attain a certain height before they can take full advantage of their capacity for speed, and it had meant so far that they could operate to advantage and therefore, commercially, only on long distance non-stop flights.

Lockheeds have now announced a model, however, which threatens to knock out some of these fixed notions of commercial aviation, a model which may open up the internal air services also to the magic charms of Jet propulsion. The Electra, a new four engined prop-jet commercial airplane designed by Lockheeds’ for short distance hauls, promises to carry 44-88 passengers at a cruising speed of 400 miles per hour. The designers are confident that this model will be able to operate profitably even on routes where the stops are as near as 150 miles, while still retaining a maximum range, without consuming reserve fuel, of 2,740 miles. By the time that the Electra goes into service two years hence, its Allison Model 501 prop-jet power plant will have accumulated at least two million hours in flight.

Major airlines seem to have fallen for the Electra. They have ordered a total of 132 of these wonder planes even before its first flight. This means orders worth approximately $ 270 mn, the highest recorded so far for any airplane before its first flight, now under construction.