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THE OUTLINES OF A POLICY FOR WAGES

(By K.N. Subramanian)

This note, written more in the form of talking points than as a formal essay, should be read along with my note entitled 'Approach to the problem of wages' submitted to the Commission a few days ago. To recapitulate what I have there mentioned, my central theme is that the country with a steadily-rising population growth, now well over 2.5 per cent per year, must rapidly drift towards economic chaos if it is not sustained by a high rate of effective economic development. This rate should be far in excess of what we have achieved during the last 17 years of planning. Such a high rate of economic development is not possible without large-scale internal savings, the mobilization of which, in one form or another, must seriously curtail consumption and inflict substantial hardship on the entire population. The maximum possible rate of productivity must be secured in order to soften the hardships caused by large-scale savings and to provide at least part of the resources needed for development. The need for strict discipline and better labour-management relations has then been emphasized. I have tried to point out at various places that these five needs or immediate objectives hold equally good for capitalist as well as communist countries though there might be differences in the way they are attained or enforced. I have finally said that " in the measure in which we run away from the economic imperatives of our situation, the mirage of economic development will vanish before our very eyes." Should anybody feel that this picture is highly overdrawn, let him but make a survey of the violent discontent which has disturbed public peace in the country during the last two or three years and which, I believe, has had its origin in people's despair on the economic front, to be able to shake off his complaisance.

The broad outlines of a wage policy, which I propose to set out below, are based on my conviction that if rapid economic development is our goal, as it should be, there is no way of achieving it except by inflicting substantial economic suffering and hardship on the entire population, including workers and other poorer sections of the community, obviously with their broad concurrence and cooperation. The imposition of hardships of severe intensity on a large portion of the population least able to bear them will, however, be wholly unjustified if the nation, and every section of it, is not prepared to gird up its loins and to prosecute national development with courage and determination based on substantial equality of suffering and sacrifice. If the richer classes are going to be allowed to escape the rigours of the sacrifice demanded of the workers, there would be no justification whatever for a stringent policy of wages, such as is here outlined, or in fact for any formal wage policy at all. The workers could then not be prevented from raising all manner of pleas such as that real wages have suffered all along and that workers' difficulties have increased, rather than diminished, with the passage of time and despite planning for the last seventeen years. We would then have to be content to go on in the same pedestrian style as we are doing at present much talk and little development; many demonstrations of anger and little productivity and progress. If this were to happen, the so-called wage policy, vaguely and verbosely set out in our Five-Year Plans, whould amount to no more than

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mere tindering with minor details while the monster of inflation gathers speed and passes beyond our ken and control.

The object of an incomes-prices policy, or more modestly of a wages policy, in the context of the planned development of an under-developed country, is as much to fight inflation as it is, in the words of the Steering Group on Wages, Incomes and Prices, to generate from the domestic income the savings necessary for the non-inflationary financing of investments.

The great damage inflicted to a developing economy by a serious inflation is well-known. Inflation redistributes real income from those with relatively stable money incomes to those who are members of active pressure groups. Fixed money income groups like pensioners and receivers of rents and other fixed returns from bonds and securities are the worst sufferers. Savings in cash are likely to be seriously eroded. Even when a pressure group like organised labour imagines that it has wrested a nice and juicy plum from the employer, it may be seriously mistaken. The employer may raise his prices, and so may other employers, with the result that in the rising inflation the pressure group might turn out to be just as bad as it was before the rise. Sometimes employers make the occasion the pretext for an increase in prices far in excess of that warranted by the increase in wages . It is this process that effects a redistribution of the national income much to the disadvantage not only of fixed income groups but of economically weaker groups as a whole. The direction and extent of the redistribution may be such as to lead to the unfortunate consequence, often alleged by the common man, of making the rich richer and the poor poorer. Hence the great importance of restricting, if not avoiding altogether, inflation during a period of active development. The stakes are large, and they are of the poorer classes.

Lenin declared that the best way to destroy capitalism was to debauch the currency. Keynes agreed with this view and added that inflation "engages all the hidden forces of economic law on the side of destruction and does it in a manner which not one man in a million is able to diagnose."

Since inflation is our main problem, we must know something more of it than that it is a mere rise in prices before we can decide how far a policy of wage restraint will meet the situation and what restrictions or relaxations should guide wage movements in special circumstances. For this purpose we must analyse the inflationary situation both from the structural and causal points of view.

As for the former, we must know something of demand and supply in the economy in relation to their effect on prices. The aggregate demand in the economy is made up of four items, namely:

i) private consumer expenditure;

ii) Government consumption expenditure;

iii) investment expenditure in the private and public sectors; and

iv) the excess of export of goods and services over imports.

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The aggregate supply is represented by the total volume of goods and services in the economy. If aggregate demand exceeds aggregate supply in the market (both valued at current prices), the prices will tend to rise and there will be inflation of varying intensities.

When demand exceeds supply, it is necessary, if inflation is to be curbed, to effect a cut in some or all of the four constituents of demand to reestablish the equilibrium of supply and demand.

Items (iii) and (iv), namely investment and the excess of exports over imports ,are not touched as far as possible. These are the requirements of development which we aim at.

So items (i) and (ii), namely private and Government consumption expenditures, have to be reduced to fight inflation.

Reduction of Government consumption expenditure is in the lap of politics. Almost in every country the story is the same; everybody talks of the need to reduce Government consumption expenditure when the annual budget is under preparation. The Government sets up cells and committees to achieve the miracle. Slowly, as delay dims the picture, everyone forgets the urgency and importance of such reduction, and faced with the unpopular necessity of having to make retrenchments, the Government manages to get the full budget passed with vague promises of heroic efforts at substantial economy. Nothing of course comes out of all this. Eventually people in authority, unwilling to admit their failure to bring about reduction in routine expenditure mount a campaign of justification of the growing Government consumption expenditure as evidence of the service rendered to the cause of development. The Government must sooner or later take the conseq-uences of its inability to correct itself if it has indulged in squandermania. Meanwhile prices rise. An incomes-prices policy is not immediately aimed at this source of inflation.

So an incomes-prices policy, or simply a wage policy, concerns itself primarily with reduction of the private consumer expenditure. Private consumer expenditure is also the best target as it accounts for two-thirds to three-fourths of the aggregate demand. If this item is effectively controlled, aggregate demand would be largely controlled - notwithstanding the failure of Government to curtail its consumption expenditure.

The private consumer expenditure is based on the income of private households.

If private incomes, and consequently the private consumer demand for goods and services, rise faster than the rate at which real production of consumer goods rises ,prices will rise. It is the very function of the price mechanism to rise or fall in order to bring demand and supply into equilibruim.

So if the object is to prevent prices from rising, it is necessary to bring down income, that is, private consumer demand to the level of supply. The total sales value of available goods and services has to be the same as the consumer expenditure.

Since the volume of goods and services is largely fixed for any period, only that fixed quantity can be bought irrespective of the price level. So a reduction of incomes necessary to bring demand in equilibrium with supply does not mean a reduction in the volume of goods and services bought by the public as a whole. It will, however, prevent the accrual of higher purchasing power to bargaining groups at the expense of groups that have no bargaining power.

For stability of prices, therefore, the rate of increase of incomes of households should not exceed the rate of increase of production of goods and s-ervices (strictly consumption goods and services).

Translating from the aggregate level to the individual level, one should say that the wage or salary in money terms of a worker should, during a period of inflation, be allowed to rise only in proportion to the increase in his real production. If his income, and consequently his expenditure, rises faster than the increase in production, the effect cumulatively would be an increase in prices. If the worker produces more than before in real terms, his wage or salary in money terms can be increased appropriately. In a developing economy with its need for investments, the increase should be less than proportionate to the increase in productivity in order to provide for the necessary s-aving and investment.

It will be seen from this that raising money wages without any increase in the rate of real production, and solely for a reason such as the need to neutralize the rising cost of living, lacks economic justification if the object is to prevent or restrict inflation.

All this is summed up in the common s tatement that increase in money wage rates should not outstrip increase in productivity, that is, increase in prod-uction per worker or per manhour.

Though a similar cut and dried prescription is not available for non-wage incomes like profit, rent and interest, it must be remembered that the share of wages (including salaries, commissions, etc.) accounts for 60-70 per cent of the national income in most countries, including India, and that a policy which affects this share must have a large hand in affecting the whole. This does not mean, of course, that those in receipt of profits, rent and interest should be allowed to have it all their own way.

Labour's objections to a strict relationship between increase in money wage rates and increase in productivity are well-known, namely that it will lock up the relative shares of labour and capital in the national income without affording an opportunity to get them changed, that real wages, would not be protected against increase in the cost of living, that profits will soar unduly, and that existing inequities as between the wages of different categories of workers will be perpetuated. These objections

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have often been met in different ways, but we shall not go into them for our present purpose. So long as a free enterprise economy exists without undue fetters on the pricing mechanism, it is doubtful whether labour will manage to increase its share in the national income except marginally or as a purely temporary phenomenon, however much it may get its money wages raised. With every wage rise, the employer will try to secure a price rise which will neutralize the burden of the additional wages, even if he does not attempt to get a commission on top of it, with the result that the shares of labour and capital in the inflated income resulting from higher prices remain comparatively undisturbed. This has been the experience of advanced countries.

It is sometimes claimed that since the agricultural sector accounts for more than half of the national income, control of wages in the organized industrial sector, which is as yet a small one, is unimportant, and that an incomes policy for the large agricultural sector with its many self-employed persons cannot take the form of a restriction of wages. It must be remembered that because of the very low and stagnant level of wages in the agricultural sector and of the small margin of profit available to self-employed persons in agriculture, any marginal increases in wages or earnings they may manage to secure in that sector cannot make much difference to inflation. A realistic price policy will be more relevant in the field of agriculture. On the other hand it is in organized industry and in similar activities largely in urban areas that the risk of excessive wage payments through group pressures is real. This is also an expanding sector which progressively will account for an increasing share in exports, which share can be affected quite seriously by an uneconomically high level of wages. It must also be remembered that industrial wages influence the level of wages in public services, the numbers of which are already quite large and are increasing alarmingly year by year.

So the central point that emerges from a consideration of the structural aspects of inflation is that there can be no wage increases unrelated to productivity increases if the object is to keep prices as steady as possible in a situation already rife with inflation.

In order to look at inflation from the causal point of view, we must briefly distinguish between the so-called demand-pull inflation and cost-push inflation as we encounter both in present-day Indian conditions.

In an under-developed economy which embarks on planned development, the voluntary savings possible in the early stages will fall short of the level of investment considered necessary to produce a desired rate of growth of the economy. Notwithstanding foreign aid it will, therefore, be necessary to increase the money supply in the system either by an injection of an increased quantity of cash into the monetary system which will increase the reserve resources of member banks or by an increase in cash balances through deficit financing or both. This will lead to an increase in prices and the

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creation of comparatively high profits. But it will also lead to expansion of production and employment of more factors of production.

This is generally referred to as demand-pull inflation as it is caused by the demand for goods and services, and consequently the aggregate money demand, exceeding the aggregate supply of the economy. Generally this inflation, also called basic inflation, leads to a fixed increase in prices depending on the inflationary gap. It does not multiply on its own.

The basic inflation is not of an alarming nature or magnitude. But if it is not put up with and wage earners demand neutralization of the increased cost of living through higher wages, the demand may be conceded by employers without much resistance because of the available margin of profit. But when wages have been put up, that will give a valid pretext, with or without adequate justification, to the affected employers to raise their prices, and there may also be a general rise in prices as a res ult of the greater purchasing power held in the hands of large numbers of workers. When prices rise, a demand for a further rise in w-ages will follow. And so the cycle of increases goes on. This is called cost-push inflation of spiral inflation. It is a very dangerous thing; its potentialities for mischief are great. Theoretically the price increase caused by cost-push inflation, or indulged in under the pretext of cost increases, could be infinite.

To terminate the cost-induced inflation, its cause, namely the demand-induced inflation, must be stopped or considerably reduced. Of the possible ways of doing this, certain methods such as the creation of a budged surplus, monetary restriction through an increase in interes-t rate, and attempts to edquate investment with voluntary savings have their limitations in that they may effectively retard development which is the main national objective in spite of inflation. So the two methods generally used to curb demand-induced inflation without weakening development are:

i) Increasing the propensity to save, and

ii) reducing budget deficits.

This is only a different way of s-aying that private consumer expenditure and Government consumption expenditure should be reduced - the points we have already discussed above.

Here we see the great importance of savings - a point which has received considerable emphasis in my background note. Thrift and s-avings should become a national virtue. Austerity of the type we put up with during the war period will have to be practised. After all, the present is as much a period of emergency as any war.

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In so dealing with the demand-induced inflation, stabilization of costs, and hence of the wage level, will become urgent necessities. The scope for increases in wage rates will be limited to industries or activities governed by the minimum wage legislation. Where productivity is rising, increase in earnings through incentive payment would be permissible.

Rigid stability of prices is neither possible nor even desirable from the point of view of development. The prices ruling must yield not merely a reasonable return on investment but some excess profits necessary to enable investment to be maintained at desired levels. In a free enterprise economy, where it is not possible to gather the bulk of the funds needed for development through, say, a turnover tax - a device which brought in half to two-thirds of all Soviet Government income between 1931 and 1940 - the role of profits in providing an appreciable portion of the investment required for modernization and expansion cannot be overlooked. But the State must compulsorily require that excess profits are duly invested in industry. The margin of increase in prices required from time to time would be indicated by the marginal level of spurt needed to induce the necessary investment. This level which will be high in the initial period will come down stadily so that eventually costs and prices will move into equilibrium and there will be no inflation.

During the early stages of development any large-scale expansion of employment will itself cause inflation even when the wage level is maintained steady. This is because wage income will go up in the aggregate and along with it demand. The propensity to consume ofthe community as a whole will increase and savings will suffer. Much ofthe wages paid to workers, barring contributions to provident fund and social security, are wholly consumed. So during the active developmental stage capital intensive schemes with a comparatively small employment content will make for stability of the price level. This is contrary to popular expectations of a large increase in employment associated with development.

Similarly the socialistic principle of greater equality of distribution is not in the immediate interests of development. A shift of income to wage earners will mean an increase in the propensity to consume and an increase in effective demand. This will affect the stability of prices. It will also affect the availability of savings. During this period Government-sponsored social welfare schemes in the interests of workers would be preferable to higher wages.

It is only towards the later stages of development that the fruits thereof can be enjoyed.

Let us see how far the conclusions arrived at above are in consonance with the observations of the Steering Group on Wages, Incomes and Prices set up by the Reserve Bank, which is the latest high-level group to express opinions on these subjects. The Steering Group has stated that the aim of incomes policies in developed countries has been to ensure that increases in wages and incomes do not outstrip the growth in the real

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national product. In the Indian context an important objective of an incomes policy, according to the Group, is to generate from domestic income the savings necessary for ensuring non-inflationary financing of investments. The Steering Group goes on to say that this necessitates the regulation of growth of disposable incomes so as not to exceed the rate of growth of productivity per labour unit and not to be out of accord with the pace of growth of per capita consumption.

Here it may particularly be noted that the Group has put considerable emphasis on the need for savings and on the disposable income being related to what the added productivity would yield after subtracting the element for saving and investment needed for development.

The Steering Group has rightly pointed out that the measure of productivity indicated above is not the productivity of any particular unit, industry or sector but of the private economy as a whole (that is, excluding purely Government services).

The Group says that the overall productivity of the economy as a whole should be a five years' moving average. I have taken exception to this manner of ascertaining productivity in my book. Year to year changes or changes for a short period are inapplicable for various reasons. It will have to be a longterm trend. What this long-term should be (it is 25 years or even more in the U.S.A) is a matter to be settled with reference to Indian conditions. For a start we can take this as the period since 1950-51 when planning started. The great advantage in going by long-term ptoductivity is that abnormal advantages and disadvantages arising from time to time get cancelled over a sufficiently long period of time. Moreover the calculation of a moving average every year is not possible in view of the inordinate delays occurring in India in the collection of statistics.

The Group says that the regulation of wages should be limited to organized industry and economic activities. This is obviously sound. In agriculture the problem is not of restraining wages but of devising ways and means, through increased productivity and otherwise, to raise them.

According to the Group, productivity-linked wage systems should be such that a part of the benefit of the rise in productivity should accrue to the community in the form of lower prices of the products concerned. This too is sound.

The Group makes another recommendation, namely, that in determining the income levels of functional groups, other factors such as the basic minimum, cost of living increases, and incentive wages for the promotion of economic efficiency have to be given due weightage along with the trend in productivity. If the productivity increase marks the outer limit for wage increases, these factors can be considered only subject to the overall limit set by productivity, except where, as in the case of incentive payments, the unit labour costs are not likely to be increased by additional earnings.

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Dearness allowance, as a permanent/and substantial ingredient of total wages, has been uniformly condemned by all eminent authorities. Keynes called the linking of the money rates of wages to the cost of living "futile" and "greately to the disadvantage of the working class". This is so because it generates a cost-push inflation nullifying the effect of the increased money wages. Barbara Wootton called the determination tô adjust wages to a rising cost of living "a circular process" and "an inflationary device of consummate efficiency." The Second Pay Commission said that if the inflationary pressure was already severe, "a further addition to incomes may aggravate the situation." J.K. Galbraith says that where, on the basis of past behaviour, prices and wages do interact to bring persistent price advances, that is, cost-push inflation, wage increases that are held to require a price increase might be subject to ratification by a public tribunal. Bloom and Northrup say that "cost of living escalator clauses tend to increase inflationary pressures by the timing of wage increases as well as by the amounts." I have referred to dearness allowance and inflation at pages 409 to 413 of my book. There I have said that during a period of uncontrolled inflation, the linking of wages to the cost of living and neutralization of the entire increase in the cost of living are dangerous and self-defeating practices. The cost of living escalation merely enhances inflation through the cost-push technique, without affording any significant relief to the workers in receipt of such allowance. Cost of living allowances should find only a marginal or insignificant place in any sound wage structure.

While the grant of dearness allowance as a long-term arrangement is to be unequivocally discouraged, and consequently the evolution of a long-lasting plan for perpetuating payment of dearness allowance is as little to be thought of as the permanent treatment of a growing malady brought about by one's own excesses, this does not mean that the State can look on with equanimity and unconcern the unbridled upward climb of the cost of living index. The State has a responsibility to see that at least the more important items going to build up the working class family budget are made available to workers at stable or nearly stable prices. Foodgrains, cloth, and a strictly limited number of other articles should be made available to workers by the State at stabilized prices from year to year. If necessary, subsidies may have to be given in particular years. This treatment cannot be extended to cover all the articles going to make up the worker's budget as that might throw an impossible burden on the State, but it should cover the bulk of the worker's needs in terms of money outlay.

<u>The outlines of a suggested policy.</u>

1. What is mentioned below should be treated as mere directions of advance and not as the detailed blue-print of a carefully-worked out plan for a wage policy. A detailed wage policy can be worked out only in consultation with all interested parties and after detailed discussions at which necessarily Government's entire economic planning would come in for critical scrutiny.

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2. While a long-term wage policy will cretainly be necessary, the present suggestions are meant to be employed as a short-term plan for the immediate future, say, the next five years, which, by any reckoning, will be a period of great emergency.

3. The evolution of a long-term policy will have to wait unitl we have gathered enough experience during the period of the emergency plan. If conditions improve, the restrictions could then by relaxed suitably.

4. An effective wage policy, that is one which imposes many restrictions, will need a lot of selling. It would not have the least chance of success if it were thrust down compulsorily - at any rate without adequate preparation of the public. The public and the workers themselves will have to be convinced that the tight-belt policy, herein advocated, will apply not only to the worker but to the enterpreneur, not only to the poor but to the rich.

5. In selling the wage policy to workers and their organizations, the Government must remove all the gloss and the misleading verbiage from their Five Year Plans and present the harsh realities of the existing situation in all their forbidding form. The public must be told that the wage level and the standard of living are dependent not on the total national income but on the per capita real national income reduced by the appropriation necessary for investment, that a long period of saving and austerity is inevitable, and that substantial improvement in the standards of living is not possible in the immediate future. If the present generation is not prepared to undergo all this hardship and privation, not only its own future but that of succeeding genertions might be jeopardized. In inflation the poor stand to lose most and it is in their interests to protect themselves as best as possible by cooperating with the State in the battle against inflation.

6. Measures intended to enforce austerity on the rich must be evolved in a convincing manner. What these should be will have to be carefully studied. There is still much consipicuous consumption and waste. The total funds involved in this may not be large, but psychologically it will prevent the worker from accpting the hardship thrust upon him.

7. The tax-dodger and the smuggler, both of whom are from the ranks of the rich, will have to be sternly dealt with. Smuggled goods are openly offered for sale on every important road in Bombay. Black money is openly taken in sales of flats. Illegal 'puggree' is taken after due advertisement. Can nothing be done about these?

8. No restrictions on wages will be accepted if the very high salaries and perquisites of top managers and directors are not scaled down adequately. Foreing technical personnel on short-term contracts will have to be exempted from such measures, but there is no reason why Indian personnel and foreigners looking for a career in India should not get remunerated on a scale of payment which takes into account the country's difficulties. The Indian executive's responsibility in this matter is far greater than that of the foreigner. If the foreigner who is here on a long-term basis cannot be subjected to our scale of remuneration for fear of discouragement of foreign capital, one should even accept discrimination

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between the foreign employee and the Indian employee working in a foreign company. In such a case the Government could consider the imposition of a tax in respect of each foreign employee employed on terms deemed grossly out of line with national standards.

We may not go as far as Russia, where often the assistant foreman who keeps machines continually at work or the Stakhanvite performing miracles of production may earn more than the Director in charge but we certaily cannot afford to imitate the Western democracies where the top men earn fabulous amounts as compared to the earnings of workers. Incidentally such a change in the policy applicable to the remuneration of the Indian executive will narrow down the difference between the scales of pay applicable in the private and public sectors.

9. With what face can we demand sacrifices from our workers, the highest paid of whom are about the lowest paid in the world, when intermediate grade executives in big companies, Indian and foreign, are earning far more that the Chief Justice of the Supreme Court for work which one can only characterize as largely routine?

10. There is a view-point that reasonable and even somewhat excessive profits must be allowed to industry in order to make available the funds necessary for investment. Notwithstanding this view, there will have to be provision for scrutinizing price rises of more than a certain magnitude and for disallowing or discouraging excessive increases in prices.

11. If these and similar measures aimed at moderating the incomes of managerial personnel and the profits of companies become feasible, there would be justification for persuading workers to submit to measures restricting wage increases. After allthey are the greatest beneficiaries of the unpalatable measure.

12. The wage policy outlined here should apply only to workers whose wages would otherwise rise through collective bargaining, adjudication or the functioning of wage boards. This would include generally all factory workers, mine workers, plantation workers and workers in ports, docks, banks, insurance companies, etc, (to be precisely defined). The remuneration of public employees will also have to be brought under this scheme. We may call all this the organized sector of employment.

This policy is not intended to apply to employments covered by the Minimum Wages Act or to cottage and handicraft industries where the possibility of any substantial rise in wage rates through group pressures in a manner contributing to inflation is negligible. This would be the unorganized sector of employment.

13. Stability of the cost of living and reasonable stability of all prices should be the basic premise of public policy. To achieve this in practice, the bulk at any rate of the worker's cost of living should be got stabilized by the State taking upon itslef the responsibility for making available foodgrains, cloth, and a few other

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essential commodities to the workers covered by the wage policy scheme. Stability does not mean a precise price level but would include fluctuations within defined limits.

14. Foodgrain prices in particular will have to be closely controlled. While an economic price should be fixed, there should be no scope for anything more than very moderate profits. This is the crux of the whole problem of wage policy. Agruculturists must be content to live for some more years in the same austere way in which they have lived for centuries. If they do so, that period may not be long.

15. The threat of non-cooperation by agriculturists, for want of sufficient incentive, should not be taken too seriously. So long as an economic price is available, the majority of the small and medium-sized cultivators cannot afford to let land lie fallow where it ought to be cultivated. The big landlord - there are very few these days - may resort to obstruction on the ground of lack of incentive, but he will have to be dealt with suitably.

16. As control over grain prices will be necessary for a long time, the State should not look on helplessly. The State, that is, both Central and State Governments, should start a large number of large-sized highly mechanized farms aimed at the maximum possible productivity at the lowest possible cost. The employment content of these farms should be completely ignored. They should not be mere demonstration farms. Through them the State should get possession of a large quantity of foodgrains at low prices. This may also show the way to various types of collective or cooperative farms in the interests of productivity. It must be recognized that large-sized mechanized farms are necessary for India's future.

17. So long as foodgrains, cloth, and a few essential commodities are supplied to the covered workers at stipulated prices, there should be no further increase in dearness allowance, whether related to the consumer price index or not.

The amounts of dearness allowance that have already accrued should continue to be paid. The possibility of their reduction may be left over for future consideration in case the prices of articles going to build up the workers' budget go down appreciably.

18. The discontinuance of the cost of living escalation, at any rate for the future, is a very important measure to arrest further inflation without really hurting the worker very much. The adverse effect of this measure on the worker will be more psychological than real and should be got over with the help of unions.

19. In order to enable workers to increase their total earnings, incentive systems of payment should be introduced on a much wider scale than is prevalent at present. According to some estimates no more than 30 per cent of workers in the organized sector are now covered by systems of payment by results. Russian experience shows that 70, 80 or even more per cent of workers could be covered in particular industries by suitable schemes.

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20. Incentive systems now in operation should be carefully and critically studied by State or State-sponsored agencies and model systems suitable to particular industries should be drawn up. For the adaptation of such models to particular establishments the services of the expert State agencies should be made available to industrial establishments on moderate terms. Unions should be able to call upon such agencies for assistance at particularly low rates of fees. State agencies will command far greater confidence at the hands of unions than consultant firms hired by managements on large fees.

The I.L.O suggested to Asian countries a careful study of the effectiveness and applicability of the various types of incentive schemes with a view to their fuller employment in industry, but little progress has been made in the matter. I have suggested in my book that the Government should set up both a Tribunal and an Institute of Rationalization and Productivity for settling disputes about the functioning of such schemes and for promoting their wider use.

21. Payment by results has the great merit that it will enable workers to earn substantially higher wages than the base wage without raising labour costs. Productivity will go up considerably. Since unit labour costs will in many cases go down, and in no case up, the additional earnings will have no inflationary potential. Numerious quarrels do arise in the course ofthe administration of such schemes, but they can all be settled, and it is the duty of the State to evolve appropriate measures of assistance to supplement the efforts of private parties.

22. Producitvity-linked incentive schemes should be devised in such terms that after meeting the incentive payment and the employer's costs, they will permit of a part of the profits of productivity being utilized to lower prices. This is perfectly possible if the parties do not expect excessive returns out of such schemes. The State agency in charge must ensure that the price aspect is not ignored.

23. In establishments in which incentive wage schemes can be applied, there should be no attempt either to pay dearness allowance on top of what is now being paid or to increase the wages through collective bargaining or otherwise so long as the full potentialities of the scheme have not been realized.

24. In establishments in which incentive schemes cannot be applied, any wage increased negotiated should not exceed in money terms the long-term rate of growth of the economy as a whole after allowing an element for savings and investment. What this rate should be will have to be carefully settled. In the U.S.A. the long-term rate of growth of the private economy has been about 2.5 per cent per year, though the rate has been rising in recent periods. In India the rate of growth of per capita income between 1950-51 and 1964-65 was some 1.5 per cent per year (compunded).

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25. The introduction of incentive systems of payment or their revision should be possible without any limitation of time. Where, however, such schemes cannot be introduced and a revision of wages is sought subject to the overall limit mentioned above, there should be no reopening of the wage structure within three years of a prior settlement through collective bargaining, adjudication or wage board award.

26. Labour's frequently heard complaint that real wages have not kept pace with the increased productivity of labour can be considered only subject to certain reservations. First, the benefits of productivity can be shared only in part by labour, the other part being utilized for reducing selling prices. Secondly, comparison between the real wages of labour and the output per manhour within a company or even an industry is of little value. Only comparison with the overall productivity of the economy as a whole has relevance. Thirdly, such comparison would be valid only if the long-term trends in the output per manhour are taken into account and not the year to year or even short-term trends in productivity. If this were done, there would generally be a margin for reducing selling prices. Forthly, where inflation is sufficiently advanced, the factor for comparison must be money wages and not real wages. Conscious wage policy can only deal with money wages. It can raise money wages by a certain margin and know that it has been so raised. But it is not possible to raise real wages in that way because if money wages are raised in the hope that real wages would rise, it is more than likely that the rise in money wages may be the cause of an equal rise in the prices of goods and services bought by the worker, with the result that the real wages might not have risen at all.

So all this complaint of labour boils down to this, namely, that the money wages of labour should be raised in proportion to the overall productivity of the economy as a whole reckoned over a long period. The overall productivity increase is a fixed percentage, being a long-term trend, and does not vary notwithstanding increased productivity in a company or industry.

27. If restraint of wages is going to characterize the wage policy, it would be inexpedient periodically to arrange for industry-wide and country-wide revisions of wages, whether this is done through wage boards or adjudications. Country-wide wage fixations have a substantial inflationary effect because of the very large numbers involved. Wage revisions should apply only to groups of workers who can make out a case that they are not as well off as others in the same industry. There should be no general upward revisions as such. Wage boards, with their doubtful achievements so far, should be discontinued in future.

28. The bonus question should be completely reconsidered in the light not of the interests of the parties but of the interests of the country in the matter of planned development. Without being dogmatic I should suggest that of the available surplus profits after meeting all revenue charges, a fair rate of dividend, and Government's taxes, half should statutorily be put into an expansion and modernization reserve created

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for each company, which together with depreciation funds should be used exclusively for those purposes and should not beavailable for any other purpose including distribution to shareholders in the form of bonus shares. These monies should continue to be held as reserves so that the profits earned on them will be available for all legitimate sharing. The remaining half of the surplus should be shared equally by labour and management for bonus and additional dividends or other purposes. If labour's share yields more than a certain size of bonus, the excess should be put in the provident fund or other Government securities. If bonus disbursements continue to be as heavy as they are at present, I have made a suggestion that a large portion of these funds should, in one way or another, be utilized for industrial housing. This is based on an I.L.O suggestion that blocked funds of workers could be released after a number of years for housing.

29. If wage rates are restrained, there would be justification for Government to increase its expenditure on labour welfare schemes, as part of the Five Year Plan, so that this will to some extent serve the purposes of the wage foregone.

30. Besides implementation of the wage policy as finally settled, there should be no conscious effort to implement high-sounding, but not immediately attainable, principles such as improvement in the standards of living or reduction of income disparities and inequalities. These desirable objectives will have to be held over for the stabilization stage after the period of the first phase of development is over.

31. All price levels in the covered establishments should be constantly reviewed. Limits for price increases should be fixed by the Government after due consideration. There should be a high-level Wages and Prices Commission which should survey the trend of the profits of the covered establishments and subject to Government's policy directives, issue advice and directives to the establishments in regard to contemplated price increases. In evolving policy directives Government should have regard for the need to maintain an adequate level of savings and investment by the industry and the need to reduce personal profits.

32. All these efforts are aimed at the elimination of the cost-push inflation while retaining the minimum of a demand-pull inflation consistent with the requisite level of investment out of profits.

33. The implementation of a wage policy (supplemented by a flexible price policy) will need the creation of both consultative and administrative agencies. The consultative committee or council should naturally be representative of various interests and should be consulted before the Government adopts policy lines, directives and legislation.

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The implementation of the policy evolved by Government should be in the hands of an independent Wages and Prices Commission composed exclusively of persons unconnected with political parties and having an economic or judicial background. This will be a whole-time standing Commission dealing with wages and prices questions on a day to day basis, interpreting and enforcing policy directives.

34. What has been suggested above is not a wages, incomes and prices policy extending over the whole of the economy. It has the limited objective of dealing only with the organized sector of employment as defined above and the prices of products in relation to that sector. It is possible that this may prove insufficient to deal with inflation throughout the economy and that questions relating to incomes and prices in other sectors also have to receive consideration. This will be a task beyond the scope of the evolution of a wage policy for the organized sector. It would presumably engage the attention of the Government at the appropriate time.

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