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# A COMPARATIVE SCRUTINY OF MINIMUM WAGES IN INDIA, USA, AND UK

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## ABSTRACT:

Everyone agrees that minimum wages are an effective tool for controlling the employment relation between the employer and employees. The motive behind this concept of minimum wages is to secure the bonafide security for an unorganized peasant in certain working sectors by fixing and regulating the price. Millions of workers throughout the globe make the minimum wage, making it a potentially formidable instrument to decrease or limit inequality in the lower half of the wage distribution and to close the gender pay gap as women are disproportionately overrepresented among low-paid workers. It has been noted that positive improvements have emerged in a number of nations around the world, which influenced the change in the perception to introduce minimum wages.

In this paper, the reflected points which are discussed by the researcher as the assumption that minimum wage laws may close the gender pay gap and eradicate low pay with little to no adverse impact on employees. The previous conventional wisdom claimed there were already always trade-offs between minimum salaries and employment levels, but the current belief is that these impacts are unpredictable, frequently negligible, and dependent on a wide range of country-specific circumstances. The paper reviews the literature that correlates the minimum wages laws in India, United States of America and United Kingdom along with the latest amendment to regulate the wage code for an equal opportunity. This paper also examines the policy lessons that might be applied to enhance India's minimum standards setting and enforcement processes.

**Keywords:** Minimum Wages, India, USA, UK

## INTRODUCTION:

Even though the minimum wage is principally used to increase the incomes of low-paid workers, sometimes it can entail highly regressive effects. In a labor market with perfect competition, a rise in the legal minimum pay results in a clear decrease in the demand for labor. Jobs become.

more scarce, some employees who would typically work for less are displaced, and other employees enjoy an increase in pay. Given the substantial informal sectors in developing economies, minimum wage distortionary consequences may be more severe.

Critics of the minimum wage state that the employment losses from minimum wage induced increases in the production costs are substantial.<sup>1</sup> The reality is that informal employment, the unorganized sector without written contracts or unions, and the unorganized sector are not generally covered by the nature of labor laws in developing nations. Article 43 of the Indian Constitution<sup>2</sup> established adequate and uniform economic and labor laws for every Indian citizen, recognizing the need for a higher standard of living.

This contributed to the formation of the Indian Minimum Wages Act, 1948, whereby Sections 3 and 4 set up the process for determining the minimum rates of pay for various classes of employment. The Act sought to regulate wages for two reasons: first, it aimed to close the gap between lower-class and middle-class purchasing power; second, it aimed to boost the group power of wage workers against abusive employers and more aggressively advance the right to labor.

The predictions of standard economic theory are that an increase in the minimum wage will lower employment of low wage workers. There have been over 30 plus published time series studies of the effect of the minimum wage on employment in the United States since 1970s.<sup>3</sup>

United Kingdom considered to be the most updated nation as it develops the National Minimum Wage Act, 1998 time to time as per the requirements of the citizen.<sup>4</sup> The state continues to play a significant role in directly regulating employment standards in areas like health and safety, the enforcement of the minimum wage, and subcontracting, even if union presence and joint regulation of labor and employment have decreased. The impact of regulation itself and how it is implemented ultimately depend on the nature of regulatory work and how it is shaped by both

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<sup>1</sup>This debate is carefully reviewed in Card and Krueger (1995); Belman and Wolfson (2014); and Neumark, Salas, and Wascher (2014).

<sup>2</sup> <https://legislative.gov.in/sites/default/files/COI-updated-as-31072018.pdf>

<sup>3</sup> Card, David, and Alan B. Krueger. "Time-Series Minimum-Wage Studies: A Meta-Analysis." *The American Economic Review* 85, no. 2 (1995): 238–43. <http://www.jstor.org/stable/2117925>.

<sup>4</sup> Davidov, Guy. "A Purposive Interpretation of the National Minimum Wage Act." *The Modern Law Review* 72, no.4 (2009): 581–606. <http://www.jstor.org/stable/20533271>.

extrinsic and intrinsic pressures. Significant changes in the networks, information, and skills vital to the nature of labor inspection duty coincide with changes in the workplaces they are tasked with overseeing.

**MEANING OF MINIMUM WAGES:**

Minimum wages have been defined as “the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract”

The figure 1. given below shows before the implementation of a minimum wage, a population of 56 wage earners' hypothetical salary distribution. The horizontal axis represents the wage level, and the vertical axis represents the number of wage earners.

On the left end of the wage distribution, where a very small percentage of workers earn extremely low wages, we can observe the complete range of market wages. For instance, one employee is paid one dollar, two are paid three dollars, and five are paid eight dollars.

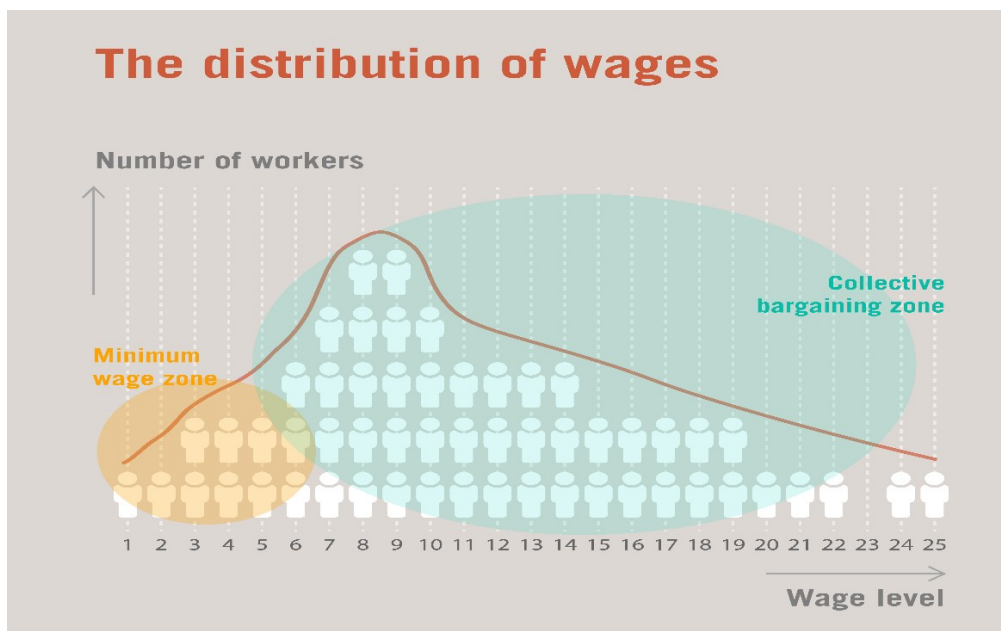


Figure1: The distribution of wages (hypothetical wage distribution of a population of 56 wage-earners).<sup>5</sup>

<sup>5</sup> [https://www.ilo.org/global/topics/wages/minimum-wages/definition/WCMS\\_439072/lang--en/index.htm#1](https://www.ilo.org/global/topics/wages/minimum-wages/definition/WCMS_439072/lang--en/index.htm#1)

## **THE PROTOTYPE OF INDIAN MINIMUM WAGE**

Labor laws in India consist of various enormous legislation like as Industrial Dispute Act, 1947, Payment of Bonus Act, 1965, Minimum Wages Act 1948 and so on. The Seventh Schedule read with Article 246<sup>6</sup> of the Constitution of India explains the power distributed among the central and state government. The labor laws come under the concurrent list whereas in there is power to both the governments state and central respectively to implement the labor law as per the requirement and legislate the same.

In India, The Minimum Wages Act, 1948 was brought to force by the Parliament of India to ensure that workers receive fair compensation and to stop unfair employer exploitation of employees. The Act establishes minimum wage rates and fixes them for both skilled and unskilled labour in an effort to give both groups of workers a respectable standard of living. The Act gives the central and state governments the authority to control, examine, and modify the minimum wage rate paid to workers engaged in scheduled employment within their respective jurisdictions. The Act pays all employees equally for completing the same work and does not discriminate between men and women.

In India, the minimum wage varies depending on the state, the zones within the state, the sector, the occupation, the amount of skill required, and the type of employment. Employers are required to pay the minimum wage as set forth for the specific state and sector under the Codes on Wages Act of 2019<sup>7</sup>, which seeks to replace the Minimum Wages Act of 1948 and the Equal Remuneration Act of 1976. Additionally, the minimum wage must be revised and reviewed by the central and state governments at least every five years.

India uses a complicated method to determine these minimum wages in order to take into account all of these potential outcomes. The average monthly minimum wage (Rs. 32,800) is calculated using the basic wage plus the variable dearness allowance, consumer price index (rise and fall), and the house rent allowance.<sup>8</sup>

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<sup>6</sup> <https://www.mea.gov.in/Images/pdf1/S7.pdf>

<sup>7</sup> [https://www.indiacode.nic.in/handle/123456789/15793?view\\_type=browse&sam\\_handle=123456789/1362](https://www.indiacode.nic.in/handle/123456789/15793?view_type=browse&sam_handle=123456789/1362)

<sup>8</sup> Mansoor, K. and O'Neill, D., 2021. Minimum wage compliance and household welfare: An analysis of over 1500 minimum wages in India. *World Development*, 147, p.105653.

A provision for overtime pays for even 30 minutes more work has been added to the Wages Code. Some governments, including Andhra Pradesh, have introduced measures that offer tax benefits to entice enterprises that have established operations here to recruit locals, thereby increasing the state's economic worth.<sup>9</sup>

In the case that the minimum wage laws are infringed, stiffer penalties, including up to 3 months of imprisonment and a fine of 1,000,000 rupees, will be enforced. The Wage Code that designates inspectors who also serve as facilitators is an improvement over Section 19 of the Minimum Wages Act because it broadens their powers and responsibilities, particularly with regard to serving as a guide for employers who might not fully understand the law.

In Gujarat, the minimum salary for a certain industry is lower than the minimum wage in Delhi for an employee in the same industry. Depending on whether a worker is unskilled, semi-skilled, or highly skilled, the minimum salary fixed would vary even more. Despite the fact that state governments have the authority to set their own minimum salaries, the Concurrent List of the Indian Constitution grants both the Union and the State the authority to regulate matters relating to labour and the welfare of those involved.<sup>10</sup> The inclusion of 60% of India's workforce, who were previously exempt from the scope of application of the Minimum Wages Act because they belonged to a specific set of industries the Act did not seek to govern, is the main advantage of the Wage Codes. It makes sense to amend the current minimum wage model and consolidate it into the Code which has other laws, especially for the purpose of seamless governance, given that new types of jobs are being created and existing jobs are becoming obsolete within two to three years (both because of rapid technological advancement and innovation)<sup>11</sup>.

## THE MINIMUM WAGE LAWS IN UNITED STATES OF AMERICA

According to the ILO, nations with a higher population density, like the US, typically set a national minimum wage floor while simultaneously allowing for the option to fix higher regional rates

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<sup>9</sup> <https://www.dnaindia.com/personal-finance/report-new-wage-code-alert-employees-likely-to-get-overtime-for-30-minutes-of-extra-work-salary-pf-hike-money-news-2934786#:~:text=As%20per%20the%20new%20implementation,not%20considered%20eligible%20for%20overtime.>

<sup>10</sup> <https://www.india-briefing.com/news/guide-minimum-wage-india-2022-19406.html/>

<sup>11</sup> Satpathy, A., Estupiñan, X. and Malic, B.K., 2021. Wage Code and Rules. Women's Agency in North East India, 56(9), p.66.

based on the state's economic contribution. This naturally results in metropolitan areas like California and Washington, DC, which offer millions of employments, having the highest minimum wage rates at 15.2 and 15 dollars/hour, respectively. In contrast to India, which considers daily minimum wage rates to be the default, the US has a tendency to use an hourly wage model as its standard nomenclature. While the US Legislature, which is made up of the Senate and House of Representatives, plays the function in 114 other nations, including India, the Central and State governments (executive), are responsible for setting minimum wage rates.

While the US has no law that imposes such a legal responsibility, India and 79 other nations have set a mandate to periodically review (for India, every 5 years), amend, or change the minimum wages imposed from time to time.<sup>12</sup> Similar to India, the US permits states, counties, local governments, and cities to determine their own minimum wage rates, provided that they are equal to or higher than the established federal minimum wage.<sup>13</sup>

The current federal minimum wage in the US is \$7.25 per hour, in accordance with the Fair Labor Standards Act of 1938<sup>14</sup>, but due to demand, industrialization, and development in 29 states and Washington, D.C., the wages there are higher. Although the majority of working-class millennials work in bars and restaurants, their low minimum pays of \$2.13 per hour—which also includes any tips they receive from patrons—makes it nearly hard for them to make ends meet given the high cost of living and the high cost of gas.<sup>15</sup>

Currently, the federal minimum wage of \$7.25 an hour is exceeded by the minimum wages in 30 states and Washington, D.C.

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<sup>12</sup> [https://www.ilo.org/global/topics/wages/minimum-wages/rates/WCMS\\_432669/lang--en/index.htm](https://www.ilo.org/global/topics/wages/minimum-wages/rates/WCMS_432669/lang--en/index.htm)

<sup>13</sup> Neumark, D. and Shirley, P., 2022. Myth or measurement: What does the new minimum wage research say about minimum wages and job loss in the United States?. *Industrial Relations: A Journal of Economy and Society*, 61(4), pp.384-417.

<sup>14</sup>

<https://www.dol.gov/general/topic/wages/minimumwage#:~:text=The%20federal%20minimum%20wage%20for%20covered%20nonexempt%20employees%20is%20%247.25%20per%20hour.>

<sup>15</sup> <https://www.pewresearch.org/fact-tank/2021/05/20/the-u-s-differs-from-most-other-countries-in-how-it-sets-its-minimum-wage/#:~:text=The%20U.S.%20differs%20from%20most,it%20sets%20its%20minimum%20wage&text=Most%20A%20americans%20favor%20raising%20the,wage%20to%20%2415%20an%20hour.>

Alabama, Louisiana, Mississippi, South Carolina, and Tennessee are the only five states without a state minimum wage. The minimum wage in Georgia and Wyoming is less than \$7.25 an hour. The \$7.25 per hour federally mandated minimum wage is in effect in each of these seven states.<sup>16</sup>

**THE MINIMUM WAGE STANDARD IN UNITED KINGDOM**

The national minimum and living wages since being introduced in the UK, have risen annually. However, this does not imply that they have managed to keep up with inflation. In addition to raising the minimum wage, Chancellor Jeremy Hunt also announced the highest-ever increase in the national living wage, which has been dubbed the minimum wage for workers over 22.

The methods used by various nations to determine the minimum wage and the amounts that various age groups should be paid vary.<sup>17</sup>

In contrast to India and the US, which have varied rates for states, the National Minimum Wage Act of 1998 establishes and fixes a national minimum wage throughout the United Kingdom. which. In a novel step, unlike the US and India, the UK's national minimum wage varies according to age. In contrast to India, it establishes the minimum wage at an hourly amount in the US.

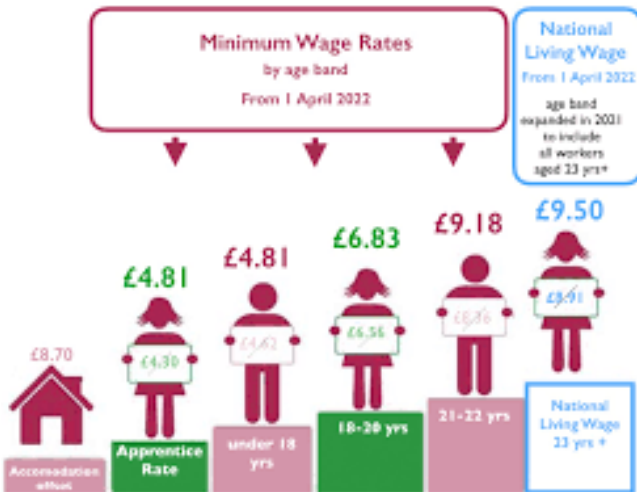


Figure 2: National Minimum Wage Rates by Age Band from April 1, 2022

<sup>16</sup> <https://www.dol.gov/agencies/whd/minimum-wage/state#tx> (Updated October 1, 2022)

<sup>17</sup> Mustchin, S., & Martinez Lucio, M. (2022). The fragmenting occupation of labour inspection and the degradation of regulatory and enforcement work inside the British state. *Economic and Industrial Democracy*, 0(0). <https://doi.org/10.1177/0143831X221078337>

	Rate from April 2022	Current rate (April 2021 to March 2022)	Increase
National Living Wage	£9.50	£8.91	6.6%
21-22 Year Old Rate	£9.18	£8.36	9.8%
18-20 Year Old Rate	£6.83	£6.56	4.1%
16-17 Year Old Rate	£4.81	£4.62	4.1%
Apprentice Rate	£4.81	£4.30	11.9%
Accommodation Offset	£8.70	£8.36	4.1%

Figure 3: Rate difference from previous year to current year in the New National Living Wage and National Minimum Wage<sup>18</sup>

As a result, it may be observed that the minimum wage rises as a person ages to reflect their increased responsibilities, which may include having to provide for their partners and children.

The national living wage, which is distinct from the "living wage" in the UK, is the highest for people who are 23 years of age or older (where the rate has climbed by a staggering 6.6% compared to the one before April 2022). Even though this is the largest rise implemented by the British government since 2016, some have harshly criticized the adjustment for still not being sufficient to keep up with the country's excessive housing costs.<sup>19</sup>

### CONCLUSION AND SUGGESTION

Some contend that, despite resistance from the Center, a national wage in India is the way to go since, in addition to the myriad other considerations such as skill level, state population, and sector, additions like the GST make determining the minimum wage even more difficult. In January 2021, unions from all over the nation participated in a general strike to protest the government's inactivity on these recommendations and its failure to raise the minimum wage for workers.<sup>20</sup>

Even though the Supreme Court granted temporary rulings in 2020<sup>21</sup> mandating firms to pay workers' unpaid salaries, this did not resolve the question of increasing the minimum wage during

<sup>18</sup> <https://www.gov.uk/government/publications/the-national-minimum-wage-in-2022>

<sup>19</sup> <https://www.bigissue.com/news/employment/minimum-wage-how-does-britain-compare-to-the-rest-of-the-world/>

<sup>20</sup> Mansoor, K. and O'Neill, D., 2021. Minimum wage compliance and household welfare: An analysis of over 1500 minimum wages in India. *World Development*, 147, p.105653.

<sup>21</sup> *Ficus Pax Private Ltd. v. Union of India*, W.P. No. 10983 of 2020.



the pandemic. The author additionally thinks that the Inter-State Migrant Workmen Act of 1979's<sup>22</sup> non-obsolete provisions should have served as inspiration for providing migrant workers with a special minimum wage higher than the standard minimum wage in the wake of the epidemic.

Equal pay guaranteed by Articles 39(a) and (c) of the Indian Constitution<sup>23</sup>, and the Equal Remuneration Act of 1976 expressly forbids gender discrimination in employment, compensation, and minimum salaries. Despite this, there is a glaring gender gap that is escalating due to the epidemic, particularly for female employees in the unorganized sector.<sup>24</sup>

During the lockdown, many mothers had to juggle their work and children. In addition, reviewing the models of the three nations, their analyses, which include similarities and differences, and the elements they take into account for determining rates, can provide India a clearer idea of what to include in the Wage Codes. This would be a return to our past, when, after being an independent territory, we appropriated provisions from labor laws in the United States and other countries to create our own labor laws, such as the Minimum Wages Act of 1948.<sup>25</sup>

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<sup>22</sup> <https://clc.gov.in/clc/acts-rules/inter-state-migrant-workmen>, No. 30, Acts of Parliament, 1979 (India).

<sup>23</sup> <https://indiankanoon.org/doc/555882/>

<sup>24</sup> Menon, N. and Rodgers, Y.V.D.M., 2017. The impact of the minimum wage on male and female employment and earnings in India. *Asian Development Review*, 34(1), pp.28-64.

<sup>25</sup> Broda, R., 1928. *Minimum Wage Legislation in Various Countries* (No. 467-473). US Government Printing Office.