CHAPTER-III

WORKERS' REMUNERATION AND PRODUCTIVITY
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Workers join the industrial unit mainly for remuneration. Therefore, remuneration plays very important role in the productivity of an industrial unit. Remuneration mostly includes basic pay, bonus, dearness allowance and other incentives.

1. CONCEPT OF REMUNERATION:

Remuneration paid to workers, engaged by the day, week, fortnight or month, is usually referred to as wages. The term wages includes any non-pecuniary benefits attached to money payment. If, therefore, a worker is allowed a concession worth Re one in the supply of foodgrains every week in addition to weekly remuneration of Rs fifteen paid in cost, his wages will be considered to be Rs sixteen for a week. But any compensation or benefit to which a worker becomes entitled on losing his job will however, not be included in the wages. From the point of view of industry, wages constitute that share of total cost of production which can be attributed to worker. For the worker, however, wages constitute the income by which he lives.

The difficulties of establishing a workable link between changes in productivity and changes in wages have
been aptly, if not, picturesquely, summarised by an economic writer as follows: "No wage-determining factor has provoked so much fanciful thinking, rudimentary misunderstanding, and frustrated hope as productivity."¹

A steadily rising level of productivity of the economy as a whole is undoubtedly the source of real improvement in the level of living of a people. There is a fairly close relationship between the rate of exchange of productivity of economy as a whole and the rate of change of the real wage level, but that relationship is valid only for a long period of years and not at a short-term basis or from year to year. Productivity movements from year to year in significant sector of the economy, or even in the economy as a whole, are often or irregular that, when reduced to the form of a curve, they are characterised by a series of uneven crests and thought of a pattern be wildering enough to shake one's faith in the possibility of sustained growth through productivity. Wage rate in money term may not change so erratically from year to year.

but real wages might. And yet in a long period of years both productivity and real wages, considered for the economy as a whole, would be found to have moved up pari passu. Despite this undoubted long-term relationship, there is no short-term relationship between changes in productivity and changes in money or real wages. Far less is there any such relationship in particular industry or establishments. Moreover, despite all the sophisticated research done on the subject in advanced countries: no workable formula has, as yet, been evolved for rationally allocating the gains of rising productivity among the various claimants. The pulls and pressures of sectional groups, particularly labour and capital, exerted from time to time, and restrained only by market condition and the level of prices that the market is prepared to accept, finally lead to an equilibrium, which, over a long period of years, establishes the relationship mentioned above. But such a relationship cannot be created by distributing the gains of productivity, were these readily ascertainable, in the pre-determined or rapid manner, it is the failure to realise these facts that has been responsible for the fanciful workings and rudimentary misunderstanding
Productivity, particularly in the manufacturing sector, can rise in two distinct ways. First, it can rise through mere intensive efforts on the part of the worker, and the acceptance by him of higher work load than before. He steps up the tempo of his work, occupies himself more fully and diligently throughout the shift, absent himself from the work place far less frequently, and in general puts in greater efforts than before. Such efforts are generally forthcoming when the worker is paid by piece work or standard hour system. To a less predictable extent, other incentive systems of payment also lead to a measure of higher output through greater effort on the part of the worker, working either individually or in small homogenous groups. Thus, under all these types of incentive systems of payment, the worker is rewarded directly and immediately in relation to the greater effort put in by him. The extra payment may vary either in the same proportion as output or productivity less or more than output in accordance with the type of incentive system preferred, whatever be the extent of worker's additional remuneration, it is obvious that the sharing between the workers and employer, of the

referred to in the question given above.
gains of higher productivity, resulting from the workers
great effort in deliberately planned and settled in a
manner acceptable to both the parties. In such an
arrangement, which generally results from collective
bargainings, an important party that may not receive
adequate consideration is the consumer. The effect of
incentive system of payment, however, is confined to
particular establishments and does not extend to general
wage movements, throughout an industry or region.

The second and more general, way of rising
productivity does not depend primarily an greater effort
on the part of the worker. Large industry-wide increases
in productivity have accrued in the past from the new
capital investments, greater mechanisation and automation,
advancing research and improved technology, incentive
specialisation, better management and above all a clear
recognition by workers that higher standard of living
are possible only through rising level of productivity
over the entire economy. Though greater mechanisation
and specialisation are undoubtedly the fountain of
rising productivity. Their potentialities cannot be
fully realized without the active cooperation and support
of the workers as a whole. In fact, the main reason for
the much higher productivity of the American worker, as compared with that of the European worker, both working in identical plants and under identical conditions, has been shown by recent survey to be "Superior management plus the climate of our production-oriented society."¹ What Peter Drucker had in mind when he said, "Productivity is an attitude," The factor mentioned above, which are not within the control of workers individually, are part of the general economic and social factors that go to build up the economy of the country. Increased productivity brought about by them is not easy to measure, nor can the contribution made by the different factors of production such as labour capital, raw materials etc. be isolated and assessed with any measure of accuracy with a view to decide how the gains of rising productivity should be distributed among them.

Our present purpose is to see how far it is possible to allocate to labour, in some rational manner, a due share of the gains of rising productivity, resulting from these broad economic and social forces, in other words, to find some method of linking changes in wages to

changes in productivity which stems from economic and social factor associated with industrial and national development often been referred to as productivity from "technological progress"- the expression used in the 1948 wage contract in the Generate Motors Corporation, which introduced the new concept of annual improvement factor.

The only valid conclusion that emerges as a result of careful comparisons of wage movements with productivity movements in advanced countries is that real average hourly earnings in the economy as a whole have changed in line with changes in output per man-hour for all workers in the economy, reckoned on a truly long-term basis. This relationship between earnings and productivity ceases to hold good when calculations are made on a short term basis or in its applications to specific industries or individual establishments. The economy-wise long-term relationship is, as observed earlier, not one that is planned or deliberately brought about in any way, it is the outcome of the interaction of market forces as set by collective bargaining. Its application to specific industries of establishments in normal times bristless with difficulties. The main difficulty is that in the short run whether we consider
yearly, four yearly, five yearly, or even ten-yearly, variations the changes in output per man-hour as well as the changes in average hourly earnings have both been highly irregular from period to period and sometimes even violently out of line with the long term strand. Clerk Kerr observed after a study of four-yearly changes in the American economy between 1919 and 1948, "Not a single one of these periods evidenced a closely articulated movement of productivity and wages. Yet if the statistics for the quarter century, 1919-45 is taken, it would seem to indicate, surprisingly, that all really was quite ordered and proper. Both man-hour output and average hourly earnings approximately doubted." ¹

Apart from the practical difficulties of establishing an operational relationship between wages and productivity from year to year, there is an important consideration that in all countries, including India, productivity has in practice, been considered to be only one of several criteria employed in wage determination. In India the Committee on Fair Wages, 1949, suggested that in fixing the 'fair wage', with its lower limit at the level of the

minimum wage and its upper limit set by the capacity of industry to pay, the following factors should be taken into consideration, namely (i) Productivity of labour, (ii) the prevailing rates of wages in the same or similar occupations in the same of neighbouring localities, (iii) the level of the national income and its distribution, and (iv) the place of the industry in the economy of the country. The committee observed that 'hitherto' the awards of industrial tribunals or courts had made no more than a casual reference to the productivity of labour and they had largely been guided by considerations of the minimum needs of workers and of the capacity of the industry to pay. The committee did not place too much emphasis on the productivity factor for the reason, "that is a net result of a number of factors on many of such the work does no exercise any control."

Though the Supreme Court, as the ultimate authority in matters pertaining to the statutory adjustment of industrial disputes, has generally approved of the recommendations of the committee on the fair wages in regard to the criteria for the fixation of wages, it has emphasized only three criteria, namely, the industry-cum-region basis of wage fixation, comparison, and capacity to pay. As has
been mentioned in Chapter 4, the Supreme Court had made only casual references to the remaining criteria, including productivity. The wage boards too have not found it possible to take the productivity criterion into account in the settlement of the wage structure. Thus productivity has not figured as a criterion of any importance in wages fixation in India. Every wage fixing authority has virtually ignored this criterion either by remaining silent about it or by making vague generalization which have little relevance to the process of wage fixation.

Of the three criteria to which the Supreme Court attaches importance, the first two, namely, the industry-cum-region principle and comparison, aim at establishing a large measure of uniformity in the levels of wages in all establishments in the industry in the same region. The third criterion, namely capacity to pay, sets the upper limit which should not be exceeded by the level of fair wages proposed to be fixed for an industry in a particular region. This important criterion would prevent an automatic link between wages and productivity even if there were no other objections to relating wage increases in an industry with productivity increases in that industry. As has been pointed out by Sinha and Sawhney in their study of
productivity, what is at least as important as productivity for the creation of capacity to pay at the level of the industry or establishment is the rise in the money value of the product. Rising product prices and rising productivity together create the capacity of industry to pay. If product prices are falling even a large increase in productivity may not permit of the rising of wage rates.

Reference has already been made to the limited use made of the productivity criterion in wage determination. Though collective bargaining or arbitration, in an advanced country like the U.S.A., in the Bernstein study referred to earlier "not a single arbitrator cited productivity as having sole or primary weight. If advanced countries, which have at their disposal all manner of statistics for different calculations, have not found it possible to base wage changes or changes in productivity, the inference is obvious, namely, that anything like an automatic link between the two at the level of an industry or an individual establishment is not considered appropriate; productivity might, at best, serve as one of the indicator capacity.

As mentioned above the only wage productivity relationship that is at all valid, is that for the economy as a whole, real wage earnings rise more or less at the
same rate as the overall increases in output per man-hour or labour productivity, both rates of increases being reckoned on a truly long term basis. In the broad form, in which it has been stated, this is not an operational criterion. For it to assume a measure of meaningful relevance, a number of qualifications are necessary, particularly in a developing country like India.

First the long-term rate of increase in output per man-hour is a mere statistical average and has no relationship to the actual yearly or short-term changes in labour productivity in the economy. The year-to-year or short-term changes in labour productivity in the economy may not be uniform, being influenced by various economic factors. Moreover, the changes may not even be in the same direction. The Index of output per man-hour may decline from time to time. If such irregular increases and decreases are warranted by the state of the economy, it might be wrong to regulate wage changes on the basis of the average long-term trend in the labour productivity of the entire economy, as this would mean the same percentage increases in all industries year after year without regard to current economic conditions. There is also no certainty that the long-term trend in future will be a repetition
of the trend in the past. Thus the employment of the long-
term trend in national productivity, or of a rate not
very different from it, to regulate wage earnings and
other incomes is severely limited to emergencies when
some conservative standard is needed to impose, in a
rough and ready manner, temporary curbs on incomes with
a view to imparting a measure of stability to the economy.

Secondly, if the long-term trend in the productivity
of the economy has to be applied, as mentioned above, in
a particular of temporary curbs on wages and other incomes,
it should be borne in mind that because of the need to
step up savings and capital-formation in a growing economy
like that of India, the whole of the long term gains in
productivity is not available for increased current
consumption. Curbs of the consumption of profit earners
are generally applies through suitable measurement of
taxation, but in the case of wage earners the only method
of providing for savings (if we leave out of account
provident fund) is to ensure that the increase in the
wages allowed are somewhat lower than the full extent
warranted by the increase in productivity, it is for this
reason that the steering group on incomes, wages and
prices policy has recommended that money income should be
kept "In step with trends in national productivity moderated to some extent by the need to maintain a slower growth of consumption."

Thirdly, increases in money wages in all sectors of the economy at the same rate, namely, the long-term average rate of change in productivity in the economy as a whole, moderated to some extent to slow down the growth of consumption will amount to unwarranted interference with the economic force that ordinarily influence that determine wage levels in particular industries or sources of economy. Uniformity in wage changes over the entire economy would be undesirable from the point of view of ensuring the optimum allocation of resources. Some industries would be expanding, while others would be contracting in response to economic pressures. Capacity to pay will necessarily vary from industry to industry. In these circumstances a dead level of uniformity in wage increases can only be at the risk of interfering with the inevitable process of progress or decline of particular industries necessitated by market conditions and prevailing economic trends.

Consequently even in the special circumstances in which state interference in terms of an incomes and prices
policy might be justified a single productivity rate, cannot be applied blindly to all industries and other sectors of economy. Since the long-term trend rate is a mere average, the object of limiting the overall increases in incomes over the entire economy to a specified percentage would still be served, if the wages of workers in industries with particularly high and rising productivity were to allowed to rise at 'somewhat' higher rates than the overall average so long as the wages of workers in less important or declining industries were correspondingly limited to rises at less than the average rate. Emphasis is put on the word "some what" for the reason that the wages in expanding industries "should exceed wages for comparable occupation in other industries only by the minimum necessary to attract labour in the needed amounts"\(^1\) and that wage levels in some industries should not differ violently from those in others in the interest of sound labour-management relations.

The steering group on incomes, wages and prices policy justifies, for the different sectors of the economy, wage increases at rates some what higher or lower than the

\(^1\)Bloom and Northrup, op. cit., p. 517.
national average rate of increase in productivity according as whether the sectoral productivity rates are higher or lower than the national average, it says that employees in sectors where productivity rises faster than the national average may have "a claim" to get increases in wages some what higher than the national average increases productivity. The suggestion here seems to be that the employees may have contributed to the higher productivity and so may have "a claim". This may not be the case at all, productivities higher or lower than the average are often due to nature of the industry concerned. The main justification, if any, for a rate higher than the average may well be the need "to attract labour in the needed amounts" or even the need to maintain a proper atmosphere for good industrial relations.

The steering group goes on to say in the same context: "the best general rule, however, is to regulate increases in wages and money incomes in different sectors and industries at a rate which takes account both of the growth of productivity in the sector or industry concerned and in the economy as a whole."\(^1\) It does not

give any reason for this recommendations. Referring to a some what similar suggestion, the LIC says: "Thus an ideal productivity based wage policy has been suggested, under which sectoral wage increases would be a weighted average of the rate of increases in productivity for the economy as a whole and that is the sector (e.g., industry) concerned." Then it works out examples assuming the weights given to the general and sectoral indices as 4 and 1. The "ideal" formula, says the ILO would make wages rise faster in some industries that in others and facilitates the movement of labour. But if this be the objective and wages differences are needed to make labour move, "they are better fixed with the aid of some direct indicators of labour surplus and shortages." Then it proceeds to say: "......the proposal seems to be open to the change of distributing the wage structure, even though it does not so more slowly than if sectional wage increases were made simply proportional to sectional productivity changes." All this applies to developed countries, in a labour surplus economy like that of India, the justification for substantial differential in wages solely with a view to attracting labour in the desired quantities would be even less.
The unsuitability of a uniform national wage adjustment pattern, which will be thrust on every industry, progressive or regressive is one of the main reason why the annual improvement factor introduced in American industry in the past war period has not found as much favour with the parties concerned as the expected in the first flush of enthusiasm created by the high-sounding objectives set out in the 1948 General Motors Contract.

All this brings out the difficulties of adjusting wage change solely on the basis of productivity changes in the national economy.

2. Need of Remuneration:

Remuneration is so important that it has always engaged the attention of all thoughtful people in all countries at all times. Remuneration problem is more complicated and complex in India at present and requires an early solution. The fact cannot be denied that the wages form the pivot round which many labour problems revolve. Remuneration is the main cause of trouble in the industrial disputes. Remuneration is the main source of income of the workers. His livelihood and
that of his family depends upon the remuneration he receives. The income from other sources, if at all it exists, is strictly limited. Hence, the remuneration is of supermost importance to workers. The welfare and efficiency of the workers depend upon the amount of earnings received. We can say that a large number of population consists of workers and, therefore, the well being of society is intimately connected with the well being of the workers, and here lies the importance of the remuneration problem.

3. Factors Determining Remuneration:

Objectives of wage policy are of vital importance. Labour, management and government are all greatly interested in the determination of remuneration. Labour is interested because pressure of rising prices is encroaching on the living standard of work. Management is interested because the demand for higher wages and better working condition consistent with the rising national income creates problems of production and marketing; and government is interested because the entire burden of wage disputes in the final analysis falls on their shoulders. Various factors are taking into consideration in determining workers remuneration. Among these factors education, training, experience and technical
know-how are important. Educated workers are paid higher wages in comparison to uneducated workers because they can do work of high standard which is not performed by uneducated workers. High rate of wage is paid to the trained worker because their contribution is more in increasing the productivity in comparison to untrained workers. Experience and technical-know-how also affect wage structure. Workers having experience and technical knowledge are paid high wages in comparison to inexperienced and non-technical workers. There are various stages in the field of production, for which different types of workers are needed. At some stage educated and trained workers are required, while there are some such stages where workers of experience and technical know-how are needed. In each factory for certain work, untrained and less-educated workers are required, on account of various categories of work, various types of workers are needed. Hence, wages are paid according to the nature of work and type of worker.

4. Methods of Remuneration:

There are two fundamental methods of remunerating workers for their services to an industrial concern: (i) A man
may be paid on the basis of the time that he spends on his job or (ii) he may be paid for the quantity of work that he produces. Most of the wage systems, in vogue, in industry, are modifications or combinations of the primary principles of payment by time and payment by results. In modern times, various methods are adopted for payment of workers' remuneration; there are: Firstly Piece-rate system, under this system a worker is paid for the amount of work performed rather than for the time spent on the job. A specified rate of wages may be fixed per unit of output measured in terms of tons of coal, number of pieces of garments or pounds of yarn. The basis of pay in this case is the output or production and the wages are paid independent of time. If the worker takes an unreasonably long time to do a particular job or produces a particular product, the employer, of course, will naturally ask him to improve his speed or quite in fact, the worker will himself realise that it will not be financially worthwhile for him to work on a job if he cannot work with some speed and produce enough to earn a wage that will meet his personal requirements. The wages of worker = \text{NXR} \\
N \text{ is number of units of a product produced and } R \text{ is the}
wage rate per unit. Secondly the time-wage system, is by far the simplest and historically the oldest method of wage payment. It is also referred to as "day work" system of wages - a name which dates back to the time when a day was considered to be a convenient unit for the calculation of a workman's wages. In its present form, it refers to the arrangement whereby the employer buys the time of the worker in units which may vary from one hour to one month in duration. In other words the workers is paid on the basis of the time that he devotes to his work at the work place (hence the time wage = TXR when T= Time spent at the work place and R is the rate of pay per unit of time). Thirdly, incentive and benefit plans, the time wage plan assigns the gains or losses arising from variations in worker's productivity to the employer; The piece-wage system, on the other hand, offers no guarantee of consistently reasonable wage and passes on the gains and losses owing to change in workers' productivity to them. Under the incentive plans of wage payment, however, both the basic systems are blended together in such a manner that the workers are induced to increase their productivity and the employer happily parts with a part of his increased revenue to encourage the workers towards this
end. These incentives and benefits may be financial or non-financial; financial incentives generally include any form of salary or wage which is definitely attached to worker service and productivity. Non-financial incentives include all other influences, aside from money rewards, which stimulate the worker to do his tasks well. Incentives may be positive or negative; positive incentives imply not only physical exertion but the elimination of waste; The conservation of machinery, tools and equipment; The reduction of absenteeism; The cultivation of loyalty; and the assurance of every other condition fundamental to efficient production. All wage systems do not offer the same degree of incentive. Some of them actually discourage production and prevent effective cooperation and thus tend to be negative in character. From the employers viewpoint no wage system is satisfactory unless it automatically stimulates workers to utilize to best advantage the industrial opportunities at their disposal and to fulfil the employment obligations, imposed upon them, by their wage agreement with the organization. And lastly, overtime and Bonus, workers' time of work is fixed and if worker does extra work for industry then he becomes entitled for extra payment as overtime.
Bonus is extragratia payment made by the employer to his workers to provide a stimulus for extra-effort by them in the production process, on occasions it also represented the desire of the employer to share with his workers and the surplus generated by common endeavour and enterprise. Payment of Bonus has been a regular feature in case of many industries. Bonus is generally paid out of the profits of industry, and they have come to be regarded as a part of workers' wages.

5. Present Wage Structure in Various Textile Units:

Worker is remunerated through the payment of wages. The system of wages is of vital significance to the workers, as it has an important bearing on the size of their earnings. In the present time, as in other industrial units, the cotton textile industry in Kanpur also follows the same remuneration policy i.e. the time-rate and piece-rate system. The wage policy is so devised as to avoid industrial conflict and generate goodwill and harmonious relationship between the employer and the workers, which is so vital for the success of industry and ultimately has a direct influence on the rate of the growth of productivity.
Time-rates and piece-rates are two most widely prevailing methods of industrial remuneration, in various textile units of Kanpur. Wages are paid according to the period of time, the worker has been employed or according to the work done. The former is called 'time wages' and the latter 'piece wages'. Both methods of payment differ markedly in their effects on the productivity, cost of production and workers earnings have their respective merits and demerits. When the work is such that it cannot be easily standardized or inspected and the quality is more important than quantity, time-wages are preferred; On the other hand, when work can be easily standardized or measured, piece-rates or payments by results are preferred by the employer. Similar is the case where the employer desires a large output. In practice, these methods are not exclusive. Under the time wage system a certain quantity of production is expected and when wages are paid by the piece rate, some sort of time limit has to be observed.

As regards workers' earnings, whereas under a system of time wages the worker obviously earns the fixed amount irrespective of the rate of output. Under a system of
piece-rates in contrast to the former system, there is considerable flexibility in the amount, earned by a worker. But the amount, which a worker paid by a piece-rate earns, depends primarily on the wage rate at which he is paid, which is fixed at a lower level, may not change his earnings or may make a negligible change only. On the other hand, under the inducement of an attractive piece-rate, the workers are likely to speed up their work and thus may be able to earn much more. In this case workers of cotton textile units sometimes oppose piece-rate with the fear of 'rate cutting' or 'wage hibbling' by employers. In the cotton textile industry, workers are protected by strong trade unions, by collective bargaining, piece-rates are less likely to be an objection on the part of workers. However, the workers may object to the adoption of piece-rate system in case where interruptions or break-downs of work are likely to occur owing to interruption in supply of raw materials or failure of power and machinery. In these situations it is usual for the unions to demand minimum time-rate as a measure for protection below which earnings of a worker shall not fail. In other words, they want a piece-rate to be combined with a minimum time-rate.
Wage Payment in Elgin Mills No.1 (Kanpur)

(Basic, Bonus and Incentives)

During the year 1987 (May)

<table>
<thead>
<tr>
<th>Method of Wage</th>
<th>No. of workers</th>
<th>Wage rate (Basic)</th>
<th>Dearness</th>
<th>Bonus</th>
<th>Other incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Min.</td>
<td>Max.</td>
<td>Min.</td>
<td>Max.</td>
</tr>
<tr>
<td>1) Time Rate System</td>
<td>3570</td>
<td>1.15625</td>
<td>6 to 9</td>
<td>20</td>
<td>32</td>
</tr>
<tr>
<td>2) Piece Rate System</td>
<td>1430</td>
<td>According to the agreement</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

So far as the time rate system is concerned, minimum basic wage rate is Rs.1.15625, while maximum is Rs.6 to 9. The rate of minimum dearness allowance is Rs.20, while maximum is Rs.32. Bonus is paid at the rate of 8.33%. So far as the piece-rate system is concerned, wages are paid according to the agreement, which is made between the employer and the employee, same practice of wage payment was adopted in all textile units of Kanpur.
6. A Survey of Remuneration in various Textile Units

Researcher made a survey of Elgin Mills No.1 Kanpur, regarding wage payment to the workers. 5000 workers are employed in the unit, out of them 3570 are on time rate system and 1430 workers are getting their wages according to piece-rate system. During the survey, a general complaint of workers was about their basic pay, because basic pay scale was very poor but they get heavy dearness allowance. 8.33% bonus is given in the industry and incentives are provided according to the efficiency. Methods of wage payment (including basic, bonus and incentives) in Elgin Mill No.1 (Kanpur) is given in the table:

Role of workers remuneration in productivity is very important. Two methods namely time-rate and piece-rates are mostly used in all the units of cotton textile industry of Uttar Pradesh. In addition to the ordinary wage payment, bonus is also provided. On the basis of survey it is concluded that the workers are not satisfied with the present structure of wage-payment.