

## **Briefing Paper on the State of Wages and Allowances in the Garment Sector in Bangalore**

**(Cividep - India and Garment Labour Union)**

This briefing paper aims to give an overview of the wage situation in the garment industry in Bangalore, with a focus on wage allowances like the dearness allowance, which are given to workers in the sector.

### **Wages**

The term 'wages' refers to the remuneration paid in money to a worker for their employment in an establishment. The legal definition of wages in India varies between labour legislations. Wages paid to workers are governed by three main legislations - The Minimum Wages Act, 1948, The Industrial Disputes Act, 1947 and The Payment of Wages Act, 1936<sup>i</sup>. The wage definition in the Minimum Wages Act has been accepted for the purpose of calculating the minimum wage in certain industries.

The Tripartite Committee on Fair Wages was formed in 1948, and consisted of representatives from among employers, employees and the Government. It aimed at a 'living wage' as the ultimate target to be achieved. However, they agreed on a statutory minimum wage, to be defined for the fulfillment of basic educational, medical and other requirements<sup>ii</sup>. The Government of India sets out various factors which an organization may take into consideration<sup>iii</sup> while paying wages. However, only the payment of wages at the minimum rate has been made a statutory obligation in India.

The Minimum Wages Act defines wage as remuneration inclusive of House Rent Allowance (HRA). The bonus, travel allowance and house accommodation value are excluded from its definition<sup>iv</sup>. The Variable Dearness Allowance is included while quantifying the minimum wage, and has been added to protect wages against inflation by linking it to the rise in the Consumer Price Index (CPI). This ensures that the increase in cost of living is neutralized. Though it defines the range of the minimum wage, the Act does not fix its value.

### **Wage and Dearness Allowance Determination under Central and State Law**

As per the provisions of the Minimum Wages Act 1948, the minimum rate of wages fixed consists of a basic wage and a special allowance known as 'Variable Dearness Allowance' (VDA)<sup>v</sup>. The appropriate government has to include a special allowance, a cost of living allowance, a cash value of concessions<sup>vi</sup>, or an all-inclusive rate allowing these along with the basic rate of wages<sup>vii</sup>. The VDA is fixed based on the Consumer Price Index of the previous calendar year, and is revised twice a year in April and in October, while the overall minimum wage rates are reviewed and revised at intervals not exceeding five years.

The garment industry in Bangalore is included in the scheduled employments listed under the Minimum Wages Act as the Tailoring industry in Karnataka. The industry is defined as consisting of three categories, namely Zone – I: Bangalore City Agglomeration Areas, Zone – II: District Headquarters Agglomeration Areas and Zone – III: Town Municipal Areas. In the garment sector, the VDA is inclusive of the cost of living allowance for three consumption units in a family<sup>viii</sup>. This allowance takes into consideration the minimum calorie intake and indispensable non-food purchases. In speaking of the latter, the Shantappa committee report states that the clothing meters required annually for a family of four and the costs involved in miscellaneous expenditure form 19.50% of the total expenditure on food and clothing.

### **The History of Wage and Dearness Allowance in the Garment Sector**

The minimum wage in the sector was first fixed at Rs.7 per day in 1979. The minimum wage was not linked to inflation at the time, and there was no provision for a dearness allowance (DA) component to the wage<sup>ix</sup>. It was in 1985 that the state included the DA in the minimum wage.

Over the years, however, there has not been a real wage increase in the garment sector. Cividep India points out that as per calculations based on the Consumer Price Index, the minimum wage declined in real terms by ten percent from 1986 to 2001. In 2001, the minimum wage for unskilled workers was increased to Rs.78 per day<sup>x</sup>. After an appeal from factory management, the notification was withdrawn and re-issued with the reduced minimum wage rate of Rs.71.70 per day. The reason given was that there had been errors in the earlier notification. Since trade unions were practically non-existent in the garment sector, there was no organization to challenge this arbitrary change in the wage notification<sup>xi</sup>.

### **Litigation by the Garment and Textile Workers Union (GATWU) for Implementation of the Minimum Wage Notification**

On 21<sup>st</sup> March 2007, the Government issued a draft notification proposing an increase in minimum wages based on the recommendations of the Minimum Wage Committee. However, the final notification was only issued two years later, on 2<sup>nd</sup> March 2009. It fixed the basic wages in the garment industry at Rs. 96.20 per day, along with a dearness allowance at the Benchmark Price Index point 2703 with a rate of 3 paise per point. Another significant change brought about by the notification was the stipulation that workmen were entitled to DA at 4 paise for every point beyond the Benchmark point of 2703. This meant a substantial increase of nearly 20% in the minimum wage, with a real wage increase.

However, garment factory operators refused to comply with the notification and pay the increased wages, reportedly on the recommendation of the Clothing Manufacturers' Association of India (CMAI), which is the leading association in the industry.<sup>xii</sup>. Neither was the notification implemented by the Labour Department. The Garment and Textile Workers Union (GATWU) approached the High Court of Karnataka for the implementation of the notification<sup>xiii</sup>. During the pendency of the writ petition, the

Karnataka Labour Department retrospectively reduced the minimum wage on 30<sup>th</sup> March 2010, allegedly due to pressure from local manufacturers. As had previously happened, the Labour Department stated that the minimum wage had been too high as a result of a "clerical mistake"<sup>xiv</sup>. In the second notification, the DA to be merged was increased to 3196 points (DA for 1<sup>st</sup> April 2007 to 31<sup>st</sup> March 2008) from 2703 points. As a result of this change, the minimum wage was reduced by Rs.8 per day.

Once again, GATWU approached the High Court of Karnataka and challenged the second notification. The High Court quashed the notification after finding that there was no clerical error, and ordered that wages be revised after tripartite talks among garment workers, garment manufacturers and government representatives. The matter was settled in the tripartite discussion, and a new notification came into effect from 1<sup>st</sup> April 2014. This became the highest one-time hike in the garment industry<sup>xv</sup>. Due to the long delay in increasing the minimum wage, the settlement arrived at increased the basic pay to over Rs. 200 per day. However, the settlement did not increase the DA variable to neutralize the inflation rates that had accelerated over the years.

### **Current Wages and Dearness Allowance in the Garment Sector in Bangalore**

As per the 2014 notification, the daily minimum wage for unskilled garment workers was fixed at Rs. 252.53 per day, with basic pay at Rs. 220. The skilled and highly skilled workers in Bangalore Zone-I earned Rs 232 and Rs. 240 per day respectively as basic pay. All garment workers were entitled to VDA at the rate of 4 paise per point over and above 5075 points, which came to Rs. 32.53. The 2014 notification fixed the basic pay and VDA for the period between 1<sup>st</sup> April 2014 and 31<sup>st</sup> March 2015. On 10th March 2015, the Government of Karnataka increased the Consumer Price Index numbers in 2014 for industrial workers to 6205 points from 5780 points. Based on the difference in index for 2015, the DA will amount to Rs. 19.61 per day. The same will be added to the current minimum wage to calculate the minimum wage for 2015-16.

### **Change in Minimum Wages from 2014-15 to 2015-16 period (Zone I)**

| <b>S:I No</b> | <b>Class of employment</b> | <b>Minimum Wage in 2014-15 (Basic pay + DA)</b> | <b>Minimum Wage in 2015-16 (Basic pay + DA)</b> |
|---------------|----------------------------|---|---|
| <b>1</b>      | <b>Highly skilled</b>      | Rs. 240 + Rs. 32.53 = Rs. 272.53                | <b>Rs. 272.53+ Rs. 19.61 = Rs. 292.14</b>       |
| <b>2</b>      | <b>Skilled</b>             | Rs. 232 + Rs. 32.53 = Rs. 264.53                | <b>Rs. 264.53 + Rs. 19.61 = Rs. 284.14</b>      |
| <b>3</b>      | <b>Semi-skilled</b>        | Rs. 229 + Rs. 32.53 = Rs. 261.53                | <b>Rs. 261.53 + Rs. 19.61 = Rs. 281.14</b>      |

|          |                  |                                  |  |
|----------|------------------|----------------------------------|--|
| <b>4</b> | <b>Unskilled</b> | Rs. 220 + Rs. 32.53 = Rs. 252.53 | <b>Rs. 252.53 + Rs. 19.61 = Rs. 272.14</b> |
|----------|------------------|----------------------------------|--|

### **Actual Wages Paid in the Garment Sector**

The few salary receipts that could be obtained from different categories of workers in the industry through the Garment Labour Union (GLU) showed that they were paid only slightly more than the minimum wage. All pay slips mentioned basic pay and DA separately. The pay slips from Texport Creation and Gokuldas Images Pvt. Ltd gave semi-skilled workers Rs. 400 in addition to prescribed minimum wages as an incentive. A company called Dressmaster Suits paid Rs. 120 each for HRA and conveyance allowance, along with an incentive of Rs. 200 per month to semi-skilled workers. The same company gave highly skilled workers Rs. 619 in addition to minimum wages.

### **Nature of the Dispute**

One of the major issues regarding DA is that different scheduled employments under the Minimum Wages Act have different DA rates. The Labour Bureau also notes that there are inter-State variations in the minimum wage rates in a particular scheduled employment<sup>xvi</sup>. GLU and Centre of Indian Trade Unions (CITU) observe that scheduled industries with higher collective bargaining have better minimum wages. Nationally, India's CPI has very high weightage for food and non-alcoholic beverages. At 45.86 per cent in the new 2012-base combined index, the falling prices for oil and food items have affected the inflation rates for 2014-15<sup>xvii</sup>. The calculation of dearness allowance based on the CPI may not always represent the actual market inflation rate. The underpricing of non-food items like rent and services prices in government statistics, as compared to actual market prices, also affects DA.

### **Current Issues Concerning Wage and Dearness Allowance Determination**

Bangalore city is expanding as a result of urban sprawl, but due to zone differentiation, the garment factories fall within the corporation area or town areas. The Zone differentiation within Bangalore directly affects garment workers' wages, while market prices remain similar in adjacent areas. The garment factories have been observed to be moving to semi-rural and rural areas, where the basic pay and dearness allowance are less than in the city.

Garment manufacturers increase overall wages slightly on an annual basis. However, this minimal rise in wages hardly offsets the increasing cost of living. Trade unions in the sector point out that the majority of garment workers are unaware of the concept of dearness allowance. Additionally, many workers mistake increments for dearness allowance.

GLU observes that despite the presence of trade unions in the sector, garment workers are still widely unorganized. After the rectification of the 2009 Minimum Wage Notification by means of a judicial order, the majority of garment workers did not claim their wage arrears. In Karnataka state, a tri-partite minimum wage committee was constituted with representation from employers, unions or workers' associations, and government officials. However, lobbying from industry actors has negatively affected workers' attempts to secure a real wage increase.

## Conclusion

Wages and allowances in the garment sector in Bangalore are slightly higher than the minimum wages prescribed by the state. However, the industry is trying to limit wages to the bare minimum required for subsistence. Over the years, the presence of trade unions in the sector has helped in regulating the wage level in the industry through campaigning and legal mechanisms. The members of the Garment Labour Union (GLU) point out that the trade unions in the garment industry still lack the negotiation capacity needed to be able to counter the lobbying of garment manufacturers, and ensure fair wages for workers. Workers have to be organized and made aware of wage break-up and statutory wage segments like the dearness allowance, so that they can demand better and fairer wages.

## End Notes

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<sup>i</sup> Wages/ Minimum wages, Retrieved on 17th March 2015, <http://www.asklabourproblem.info/labour-law-wages-minimum-wages/>

<sup>ii</sup> Government of India, Report on the Working of Minimum Wages Act, 1948 for year 2012, Retrieved on 17th March 2015, [http://labourbureau.nic.in/MW\\_Report\\_2012.pdf](http://labourbureau.nic.in/MW_Report_2012.pdf)

<sup>iii</sup> The bargaining capacity of the employer and employees, Standing of the particular organisation and its financial capacity to pay higher wages, The prevailing rates of wages for similar type of work in the market (i.e. level of competition) as well as the prevailing condition of the economy, If a job requires specialised skills and training, wages should be accordingly higher, The nature and type of the work done by the workers, Productivity of workers like workers who are more efficient and experienced should get higher wages. Wages, Retrieved on 13th March 2015, [http://business.gov.in/manage\\_business/wages.php](http://business.gov.in/manage_business/wages.php)

<sup>iv</sup> See, Sec 2(h) of Minimum wages Act 1948.

<sup>v</sup> Wages, Reterieved on 28th November 2014, [http://business.gov.in/legal\\_aspects/wages\\_1948.php](http://business.gov.in/legal_aspects/wages_1948.php)

<sup>vi</sup> In computing the cash value of the wages, the committees formed by the appropriate government has to take into account the retail prices at the nearest market and also of the essential commodities given at concessional rates. See, Section 20, Minimum Wages Rules, 1949.

<sup>vii</sup> See Section 4, Minimum Wages Act, 1948.

<sup>viii</sup> Labour Department of Karnataka, Shanthappa Committee Report, Annexure to the Proceeding dated 25.7.1990.

<sup>ix</sup> Cividep, 2011, Garments Sector and Unionisation in India – Some Critical Issues

<sup>x</sup> Minimum Wage Notification, KE 12 LMW 99 dated 15-6-2001

<sup>xi</sup> Cividep, 2011, Garments Sector and Unionisation in India – Some Critical Issues

<sup>xii</sup> Worker Rights Consortium, (March 2010), Preliminary Report on minimum wage violations in Bangalore, India

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<sup>xiii</sup> W.P. No. 7649/2010, High Court of Karnataka

<sup>xiv</sup> Ibid, See also, Government of Karnataka, Minimum Wages Notification No. KAE 69 LMW 2009 (Mar. 30, 2010).

<sup>xv</sup> Labour Department of Karnataka, Minimum Wages Notification No. KAE 1 LMW 2013 dated 21-02-2014

<sup>xvi</sup> Labour Bureau of India, (2010) Report on the working of Minimum Wages Act, 1948 for the year 2010. Retrieved on 9th March 2015 from [http://labourbureau.nic.in/REP\\_MW\\_2010.pdf](http://labourbureau.nic.in/REP_MW_2010.pdf)

<sup>xvii</sup> The Indian Express, 5th March 2015, Against the grain