

ORIGINAL ARTICLE

## Need for living wages in India: Case studies of agricultural workers in rural Madhya Pradesh

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### Abstract

The present study discusses the current wage situation in India and the need for living wages as workers and employees grapple with the cost of living crisis. A case study of two districts of Madhya Pradesh (MP) state is presented to demonstrate how the living wage benchmarks based on the Anker Methodology compare with existing minimum wage fixations and other development indicators. The living wage benchmarking is based on field surveys conducted in Ratlam and Chhindwara districts in October–December 2021, and a rigorous analysis of nationally representative consumption and expenditure surveys conducted by the National Sample Survey Organisation and the Centre for Monitoring Indian Economy. Our living wage estimates are 1.8 times the minimum wages for agricultural labourers and 43% more than those earned by non-agricultural unskilled labourers. Moreover, the actual wages reported are less than half of the estimated living wages, indicating that the current incomes and wages for workers and farmers of rural MP are far from adequate to lead a decent life.

**Keywords:** consumption; cost of living; living wages; minimum wages

**JEL Codes:** D12; E24; E31

### Introduction

The unprecedented impact of rising inflation on real wages is seen globally, with underlying disruptions in the supply chain, which was heightened during the COVID-19 pandemic and now with the ‘weaponisation’ of food and energy during the Russia–Ukraine war. This has impacted low-income groups the most, as they deal with the cost of living crisis. The International Labour Organization’s (ILO’s) Global Wage Report (ILO 2022a) suggests that there was an almost 1% decrease in global monthly wages, in real terms, in the first half of 2022, and the cost of living crisis is likely to dominate the declining wage trend until the end of 2023. Moreover, while the growth in monthly wages was positive (0.8%) in the emerging G20 economies, there was a decline of 2.2% in the advanced G20 economies, consistent with a faster rise in inflation in high-income countries compared to low- and middle-income countries.

In India too, as reported by the Economic Survey 2023 (Government of India 2023), workers’ real wages witnessed a negative growth despite a positive move in nominal wages. The fact that nominal wages in many countries have not been adjusted to offset the rise in the cost of living is worrying. In fact, the cost of living crisis has been ranked as the most severe global risk over the short term (WEF 2023). The cost of living crisis ranks third

in terms of severity of risks, in India, taking a position above that of natural disasters and extreme weather events. In such a situation, labour market policies have an important role to play in protecting living standards.

In India, the increases in minimum wages have, in recent years, not been able to match the rising cost of living, putting the working class under unjustifiable hardship. Moreover, 90% of the Indian workforce belongs to the unorganised or the informal sector, who do not come under the purview of minimum wages. As the new labour code's implementation is underway, it is important to understand living wages, based on calculations of the actual cost of living, and how they differ from the arbitrary minimum amount set by the government which is not sufficient to maintain a decent standard of living. The present study attempts to demonstrate the estimation of living wages in two regions of one of the largest states of the country, i.e. Madhya Pradesh (MP), using the widely accepted Anker Methodology. A comparison between the living wage estimate with existing benchmarks and poverty thresholds shows the inadequacy of the former to meet decent living standards.

Since the publication of the UN Global Compact statements in 2021 supporting living wages and living incomes, a growing number of companies are committing to pay living wages to their employees, and some are committing to work with their suppliers to achieve living wages in their supply chains. Living wages can help to address several sustainable development goals (SDGs) around poverty, hunger, decent work, reduced inequalities, and quality education, among others. Official policy announcements in India (*The Economic Times* 2022) have made references to shifting to living wages to meet SDGs commitments and to eliminate extreme poverty by 2030.

The structure of the article is as follows. The present wage situation in India and the proposed new labour code are discussed in the section below, which is followed by an examination of the concept of living wages and its measurement using the Anker Methodology in the "Living wages: concept and measurement" section. The estimation methodology and results for a living wage benchmark study in two districts of the state of MP are presented in the "Living wage benchmarking in rural MP" section. This section also explains how the living wage benchmarks compare to existing minimum wage fixations. The last section concludes from a policy perspective.

## Minimum wages in India

India does not have a uniform national minimum wage. Minimum wage rates in India are set by both Central and State governments for employees working in selected 'scheduled' employment. Minimum wages are determined by considering the cost of living and are expected to cover three consumption units per earner to be able to afford: a minimum food requirement of 2700 calories per average adult, a cloth requirement of 72 yards per annum per family, and house rent corresponding to the minimum area provided under the Government's Industrial Housing Scheme. In addition, fuel, lighting, and other miscellaneous items of expenditure should constitute 20% of the total minimum wage, and children's education, medical requirements, minimum recreation including festivals/ceremonies and provision for old age, marriage, etc. should further constitute 25% of the total minimum wage. Minimum wages are reviewed at regular intervals, and most states that provide for the variable dearness allowance bi-annually revise this component, linking it to the consumer price index for industrial workers with the purpose of protecting wages against inflationary effects. However, in reality, it has failed to keep up with the cost of living, thus widening the gap between wages and the cost of basic living expenses. Even though the minimum wage is the lowest amount an employer is supposed to pay a worker per day or per month of work and is supposed to be the baseline for

'liveable' wages, it does not represent the true living wage. Families depend on government assistance programmes for basic needs, as well as face constrained spending choices that compromise on their well-being.

Previously, minimum wages were under the purview of the Minimum Wages Act, 1948, which is now brought under the provisions of the Code on Wages Act, 2019. This new Act brings under one umbrella three additional labour regulations, namely the Payment of Wages Act, 1936; Payment of Bonus Act, 1965; and Equal Remuneration Act, 1976. The new act mandates employers to pay workers the stipulated minimum wage. Under the new code, the central government shall fix a floor wage, taking into account the living standards of workers, and the minimum wages notified by the central or state governments must be higher than the floor level wage.

There are two crucial concerns. Firstly, with 90% of the Indian workforce in the unorganised or the informal sector, the consolidation and simplification of existing laws do not mean much. Workforce formalisation, with focus on social security, pensions, gender disparity, and better working conditions, is imperative for poverty alleviation and economic growth.

Secondly, minimum wages are expected to provide not merely for bare subsistence but also frugal comforts. While the Centre fixes minimum wages for scheduled employments under its authority (e.g. railways), the state governments fix minimum wages for different categories of workers according to skill level, development status of area (i.e. zones), and occupations resulting in a complex web of minimum wage rates in India (ILO 2021). For instance, the October 2022 gazette notification for Andhra Pradesh provides 90 different minimum wages based on occupation, skill level, and zone and bifurcates the monthly minimum wage into basic and variable dearness allowance components. On the other hand, the notification for Bihar provides only five different minimum wages based on the skill level of the worker and bifurcated into basic and variable components.

In the wake of rising inflation, the setting of minimum wages on the basis of occupation, industry, skill level, location, and arduousness of work disentangles basic needs of 'decent living' from wage fixation. The increases in minimum wages have, in the recent years, not been able to match the rising cost of living, putting the working class into unjustifiable hardship.

As the new labour code's implementation is underway, it is important to understand living wages, based on calculations of the actual cost of living, and how they differ from the arbitrary minimum amount set by the government which may not be sufficient to provide a decent standard of living (Living Wage Foundation 2022).

While minimum wages are statutory minimums, living wages are based on normative standards and concerned with only workers' needs. Further, while the minimum wages apply to the formal sector, the conversation on a living wage intends to foster sustainable and responsible corporate behaviour and is at the core of 'decent work' and fair purchasing practices.

### Living wages: concept and measurement

Although living wages have attracted a substantial interest in recent years, the concept has a long history and can be traced to classical philosophical thinking. The advocacy for payment of living wages can be found in the statements of 'Declarations of Human Rights; popes; presidents of countries; constitutions of countries; the ILO Constitution; academics famous for championing free market economics; industrialists; and codes of conduct of companies and certifying organizations' (Anker & Anker 2017, 2). Adam Smith (1776) argued for labour remuneration to be sufficient for provisions of basic necessities such as food, clothing, and housing for decent living. The ILO Constitution Preamble (1919) and its subsequent ILO Philadelphia Declaration Annex (1944) call for the provision of an adequate

living wage. The UN Universal Declaration on Human Rights (1948) also recognises the need for workers to earn a living wage. A detailed historical background on living wages is found in Anker (2011).

The UN Global Compact encourages companies to promote and provide a living wage as an essential aspect of decent work. The UN guiding principles on Business and Human Rights (United Nation 2011) highlight the need for reflecting the poverty caused by wages in workplaces and supply chains in due diligence approaches. Since then, a growing number of companies are committing to pay a living wage to their employees, and some are taking steps to achieve living wages in their supply chains. A recent development is the ILO adopting a resolution acknowledging the concept of a living wage and calling for the ILO's assistance to member states (ILO 2022b).

While there is no universally accepted definition of a living wage, the broad consensus is that it is a wage that enables workers and families to meet their basic needs (Dobbins & Prowse 2021). Most experts agree that the poverty threshold is outdated and inadequate to measure the true cost of living, and various formulae to determine the true wage to cover basic costs have been developed, including the Basic Family Budget Calculator created by the Economic Policy Institute and the Living Wage Calculator developed by the Massachusetts Institute of Technology (EPI 2008; Luce 2017). The results of these methodologies suggest a gap between the minimum wages, poverty thresholds, and living wages in developed countries, resulting in wage movements in countries such as the United States. Existing studies on the impact of living wages show favourable results. Living wage establishments have witnessed a sizeable reduction in low-wage worker turnover, a drop in absenteeism, reduced overtime hours, and reduced job training relative to the control group of establishments as a result of the Los Angeles Living Wage Ordinance (Fairris 2004). Another study finds strong evidence that firms actually shifted from part-time towards full-time staffing as a result of Boston's living wage law (Brenner 2005). Moreover, the importance of a living wage far exceeds the immediate measurable impact (Pollin & Luce 1998). As we see a shift occurring away from traditional labour-capital relationships to a civil society led movement, which targets employers in their campaign for decent wages in a highly visible and well-organised manner (Werner & Lim 2016), our attempt in this study is to demonstrate both the estimation of and emphasise the need for living wages – helping companies to engage with the concept in relation to their foreign subsidiaries and global supply chains, particularly in developing economies.

The Global Living Wage Coalition defines a living wage as

the remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events (Global Living Wage Coalition 2016).

Anker (2011) conducts a detailed review of methodologies used to estimate living wages in both developed and developing countries and improves on these to recommend a detailed process to ascertain the living income and living wage for a family of typical size in local conditions. This process takes into account the cost of nutritious food, healthy housing, adequate healthcare, children's education through secondary school, transport, and other costs including those for unforeseen events. The living incomes and living wages are estimated based on normative standards such as a nutritious and palatable diet, safe housing, adequate health care, education for children, costs of transportation, and unexpected events. This scores over other methodologies used for developing countries that calculate living costs for two expense groups (food and all other costs) only, and where food costs are based on minimum calorie requirements alone.

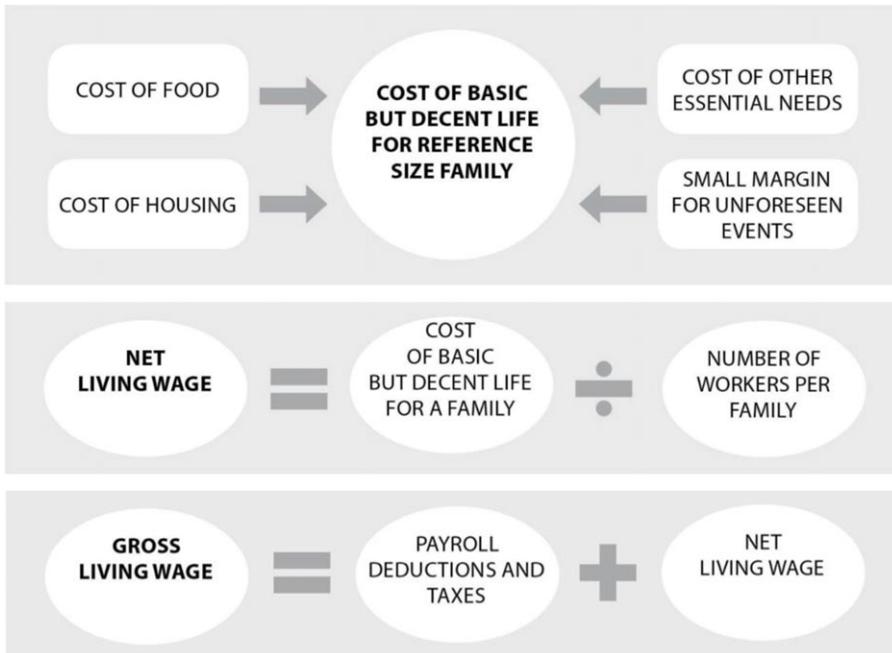


Figure 1. Estimation of living wages.  
Source: Anker & Anker, 2017.

A schematic flow adopted from Anker and Anker (2017) is presented in Figure 1.

The Anker Methodology is based on a realistic estimation of costs calculated specifically for a given time and place. Therefore, living income and living wage increase with economic development and rising living standards. Under this methodology, separate living income and living wage benchmark estimates are necessary for rural and urban areas. The methodology is practical and relatively inexpensive, as it uses a judicious mix of critical analyses of secondary data and rapid assessment methods for collection of primary data. More importantly, the methodology goes beyond proving a benchmark of the living wage estimate and ‘paints a picture of what it means to live on less than a living wage’ (Anker & Anker 2017, p. 6). The Anker Methodology also recognises the need to update a living wage for inflation so that it retains its purchasing power and remains sufficient to support a basic but decent living standard. The international comparability of estimates and the extensive acceptance and experience of the Anker Methodology make it useful for stakeholders to evaluate wages at workplaces and in the supply chains.

### Living wage benchmarking in rural MP

This section presents an estimation of living wages in Southern and Western parts of rural MP based on the Anker Methodology discussed in the previous section. The estimation is based on the analysis of secondary data and primary data collected from 40 villages (20 villages in each study district) chosen from four blocks of the Chhindwara district and four blocks of the Ratlam district. Primary data were collected through two rounds of field investigation: the first round was carried out in the district of Chhindwara during October 2021 and the second field investigation was conducted in the district of Ratlam during the

month of December 2021. During the field study, 168 workers were interviewed in addition to visits to local markets, schools, hospitals, and interactions with key informants.

### **Choice of location**

The first step in determining a living wage benchmark is to choose a study location, which is representative of the broad region. MP is, by area, among the largest states in India, with 10 administrative divisions and 52 districts as at December 2021. The state can be divided into five agro-climatic zones. Given the size of the state and its diversity, a single living wage benchmark was thought not to be adequate. Therefore, the district of Chhindwara was chosen for the broad southern region, and Ratlam was chosen to represent western MP.

The choice of above districts was made using a comparison of indicators which are likely to influence the cost of a 'decent' living and thereby, living wages. The district level socio-economic and demographic indicators used for comparison were: data on the population size, proportion of rural population in the total, literacy rate, labour force participation rates (LFPRs) for both males and females, percentage population of scheduled castes (SCs) and scheduled tribes (STs), major crops grown in the area, the agro-climatic zone in which the district falls, and the prevailing poverty rate in the district. The study district was chosen to be the one with indicators broadly similar to the rest of the region. The shortlisted districts were confirmed for their appropriateness after detailed discussions with experts and non-government organisations (NGOs) who were working in the area. Further, detailed visits and conversations were carried out with residents from five villages in each of the four representative blocks identified in both the districts.

Chhindwara district has a population of more than 2 million, with a sex ratio of 966 females for every 1,000 males. Approximately 75.84% of Chhindwara's population lives in rural areas. The district also has a relatively high percentage of tribal population with nearly 37% belonging to a ST and a little over 11% belonging to a SC (Census 2011). Chhindwara district has 1,948 villages and is divided into 12 tehsils (or community development blocks (CD))<sup>1</sup> for administrative purposes. Ratlam has a total population of approximately 1.5 million, of which 70.1% live in rural areas. Ratlam's tribal population amounts to 28%, and a little over 14% belong to a SC (Census 2011). Ratlam district consists of a total of 1,053 villages and is divided into 8 tehsils/blocks/(community development blocks) for administrative purposes.

### **Determining a reference family size and typical number of workers in a family**

The cost of living depends on the size of the family, comprising two adults (spouses) and a certain number of children. The appropriate family size for a living wage is arrived at by considering both the average household size (excluding single person households and very large households) and the typical number of children per woman born and surviving as measured by the total fertility rate adjusted for the under 5 years mortality rate.<sup>2</sup> The estimates of average household size in rural MP as a whole and the study districts are obtained from Census (2011), and the estimates of total fertility rates and mortality rates are obtained from the Sample Registration System Bulletins (SRS Bulletin 2016; 2017; 2018). For rural MP, a reference family size of 4.5 is used.

The living wage is estimated on the basis of the cost of living on the one hand and the number of earning (adult) members in the family, on the other. The number of full-time equivalent workers in a reference family is determined by using the data available on (i) age- and sex-specific LFPRs, (ii) unemployment rates (URs), and (iii) the part-time employment rate. The data on LFPR and UR in rural MP for the age group 30–59 years are taken from the Periodic Labour Force Survey (2019–2020).<sup>3</sup> Part-time employment rates

are drawn from the World Bank World Development Indicators (World Bank, 2022) databank which provides information on part-time employment rates (for males and females) for 136 countries. The average proportion of full-time work per adult has been determined by adjusting the average adult LFPR, the UR, and the part-time employment rate. For rural MP, the number of workers per family is estimated at 1.672.

### **Cost of basic but decent living for the reference family size**

As discussed above, the cost of decent living consists of expenses incurred for a nutritious and palatable diet, healthy housing, adequate healthcare, children's education through secondary school, transportation, clothing, and other necessary expenses, including a margin for contingencies and unforeseen circumstances.

The average monthly household expenditure on food in India for September 2022 was in Indian Rupees (INR) 6,044, which is 46% of the total monthly household expenditure of INR 13,245 (CMIE, 2022), which clearly suggests that the cost of food is the most important component that makes up the cost of living. While the minimum wage calculations stipulate affordability of 2,700 calories per adult per day, the living wage calculations based on Anker and Anker (2017) stipulate affordability of a low-cost but nutritious and palatable diet estimated with prices of food items prevailing in the study area. The diet must meet the minimum calorie requirements calculated by the Schofield equations<sup>4</sup> recommended by WHO and adjusted for different levels of physical activity. For rural MP, our calculations suggest a requirement of 2489 calories per person per day in the reference family. The diet needs to be not only nutritious, meeting the World Health Organization (WHO) recommendations of minimum nutrient intakes, but should also be consistent with local food preferences of relatively low cost and consistent with the country's development level. A model diet is prepared based on these principles using National Sample Survey (NSS) – Round 68: July 2011–June 2012 (NSSO 2014) – on household consumption and expenditure as the starting point, which is later adjusted to accommodate local preferences based on discussions with workers, farmers and key informants, and local food prices collected during primary field research.<sup>5</sup>

The discussions and the careful collection of food prices during the field investigation ensure that food items (cereals, vegetables, fruits, and pulses) of lower cost are chosen from a variety of items which are widely available and considered locally palatable. Around 12% of calories in the model diet come from proteins, both animal-based foods and protein-rich plant-based products. The model diet ensures that a minimum number of grams come from fruits, vegetables, pulses, and legumes, as recommended by World Health Organization/Food and Agriculture Organization (WHO/FAO) (2003) guidelines. Adjustments are made to the cost of diet to ensure adequate variety and accounting for wastage and spoilage in the preparation and storage of food. Prices of the various food items in the model diet are collected from local markets where workers make their purchases. Accordingly, the cost of the model diet for rural Chhindwara was estimated to be INR 54.80 per person per day compared to INR 59.11 for a similar model diet for rural Ratlam. Therefore, the cost of food per month for a family of 4.5 in Chhindwara is INR 7,502 and INR 8,092 in Ratlam.

The second most important dimension that contributes to decent living anywhere, including rural MP, is the quality of housing. The cost of basic but acceptable housing is determined by first setting minimum standards as recommended by international norms and those prescribed by the Government of India. The international and local norms require, apart from the size and physical condition of the dwelling unit, provision of basic services such as potable water, good sanitation, drainage, and electricity. Analysis of secondary data and visits to the houses during primary field visits suggest the deplorable condition of housing in the area. As per Census (2011), Chhindwara district reported 49.1%

of rural houses in good condition, 46.1% in liveable condition, and 4.8% of houses in dilapidated condition. The corresponding numbers for rural houses in Ratlam district were similar at 47.8%, 49.2%, and 3%. Only 33% of houses in rural MP were classified as permanent and even lower percentages in the study districts – 31% for Ratlam and 19% for Chhindwara.

In rural MP 60% of houses used unacceptable material for roofing, and more than 80% of houses in the state, including the two study districts, had mud flooring. More than 85% of houses did not have a proper toilet facility; fewer than 5% of houses had access to treated tap water, while more than 40% did not have access to electricity. During primary data collection, the research team visited 143 houses in the study districts. A majority of houses in the study districts (70% in Chhindwara and 69% in Ratlam) were either kutcha or had a semi-pucca structure with a temporary roof made of thatch of sun-dried bricks. As much as 77% of houses visited in rural Chhindwara and 58% in rural Ratlam did not have walls made of concrete or brick. Mud was the most commonly used material for walls of the houses visited in the study. The overall quality of sanitation, drainage, and safety conditions in the neighbourhood was extremely poor. Most houses did not have adequate ventilation.

According to NSS 2011–2012 (NSSO 2014), 91.1% of houses in rural MP were self-owned. Since rental markets are absent in rural India, a monthly user cost of adequate housing of a 53.8 square metre built up area, as per standards, is imputed. This estimate is based on (i) the construction costs obtained from local contractors (an average of INR 694,800), (ii) maintenance costs which are assumed to be 2% and (iii) an expected service life of 50 years for the house. The imputed costs of utilities (water, fuel, and lighting) were cross-validated using secondary data on household expenditures. The monthly housing cost for Chhindwara has been calculated to be INR 3,757 per month for the reference family, which includes the cost of utilities (INR 1,441) and housing user cost equivalent value (INR 2,316). The cost of the same for Ratlam has been calculated to be INR 3,701 per month for the reference family, including the cost of utilities (INR 1,385) and user cost equivalent value of INR 2,316.

The third step after estimating the cost of food and housing is to calculate non-food non-housing (NFNH) costs, which are assumed to be a certain proportion of food costs. This proportion is determined using CMIE Consumer Pyramids Household Survey data for January 2020 (CMIE 2020) at the 30<sup>th</sup> percentile of the household expenditure distribution because such households are likely to be out of poverty, but still living at a fairly basic level. However, adjustments are made by eliminating items not considered necessary for decent living such as tobacco, or excessive eating out, or private vehicle ownership when not required. Multiplying the adjusted proportion by the cost of the model diet (INR 7,502 for Chhindwara and INR 8,092 for Ratlam) gives the preliminary NFNH expenses as INR 6,039 for Chhindwara and INR 6,514 for Ratlam.

Further, the cost of important items such as education, healthcare, and transportation is reviewed to assess adequacy of funds available for these purposes. For instance, even though there were state-owned schools and medical centres in these areas offering education and health services for free, their quality was questionable, and workers resorted to using private facilities. Thus, given the poor quality of public schools in the area, the post checks ensure availability of adequate funds to cover expenses of secondary school at private schools, which is required for decency. Similarly, funds for healthcare expenses are augmented to cover the consultation fees of private doctors, medicines, and investigative tests during routine illnesses. The estimates also ensure that transportation costs are sufficient to own and maintain a two-wheeled vehicle, required to access basic facilities, since public transport was not available. After making these post checks, the revised NFNH costs are estimated at INR 7,066 per family per month in Chhindwara and INR 7,684 in Ratlam. In addition, a margin of 5% has been added for unforeseen emergencies and discretionary spending.

**Table 1.** Estimation of living wages for rural Chhindwara and rural Ratlam

|   | All figures in INR |        |
|---|--------------------|--------|
|   | Chhindwara         | Ratlam |
| Food cost for family per month              | 7,502              | 8,092  |
| Housing cost per month                      | 3,757              | 3,701  |
| NFNH costs                                  | 7,066              | 7,684  |
| Funds for sustainability and emergency (5%) | 916                | 974    |
| Total family costs (living income)          | 19,241             | 20,450 |
| Net monthly living wage                     | 11,508             | 12,231 |
| Gross monthly living wage                   | 12,198             | 12,965 |

Source: Authors' calculations.

### **Estimates of total cost for living and living wages**

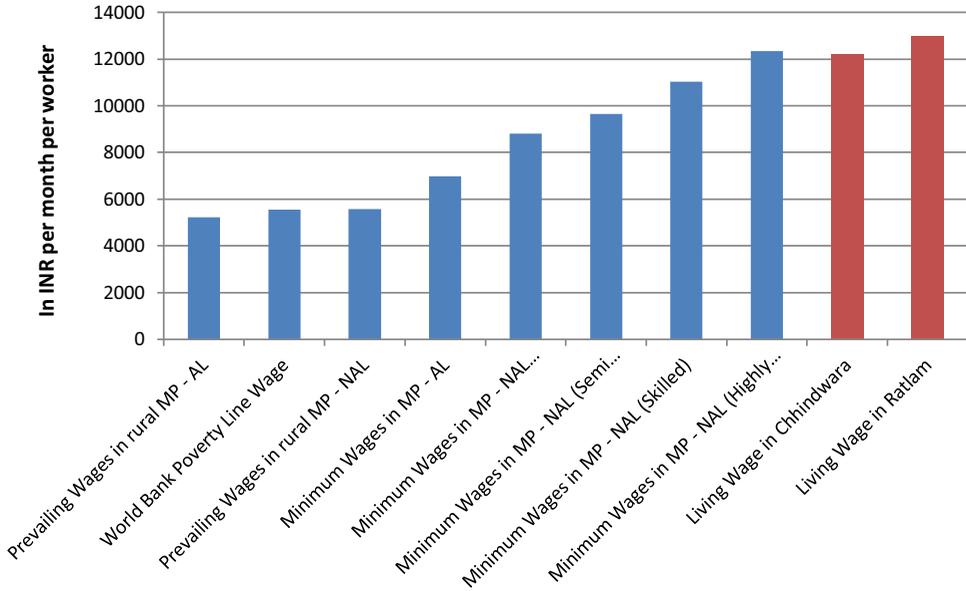
Based on the calculations of above components, the living income for a family of 4.5 persons (reference size) has been estimated at INR 19,241 per month in Chhindwara and INR 20,450 per month in Ratlam. As there are 1.672 workers per family, the net monthly living wages for rural Chhindwara and Ratlam are INR 11,508 and INR 12,231, respectively. Making adjustments for statutory deductions, the gross living wage estimates are INR 12,198 for Chhindwara and INR 12,965 for Ratlam. A summary of the components of the living costs in the two areas is given in Table 1.

Noticeable differences have been observed between the two districts, especially in terms of the demographic composition of the population, structure of settlements, major cultivation patterns, and food habits. A large part of rural Chhindwara consists of a tribal population living in scattered settlements, with close proximity to and dependence on forest and non-timber forest products. On the other hand, the population of Ratlam consists more of a non-tribal population belonging to land-owning and other backward castes, living in clusters of settlements, mostly segregated by communities in different areas in the villages of rural Ratlam. This results in two separate living wage benchmarks. Although the benchmarks are for the rural areas of Chhindwara and Ratlam districts of MP, the estimated living incomes and living wages for these areas are considered to also be applicable for the larger regions of rural southern and rural western regions of the state, respectively.

### **Comparison of living wage estimates with existing benchmarks**

Figure 2 shows a comparison of the living wage benchmark for rural MP in 2021, with other wage indicators.

The estimates of the living wage are based on prices prevailing in October–December 2021. At that time, INR 6,988 was the minimum monthly wage prescribed by the state of MP for agricultural labour and INR 8,800, INR 9,657, INR 11,035, and INR 12,335 were the minimum wages prescribed for non-agricultural workers in the categories of unskilled, semi-skilled, skilled, and highly skilled, respectively. Thus, the quantum of living wage recommended in the previous section is 1.8 times that of the minimum wages for agricultural labourers and 43% higher than the minimum wages for non-agricultural unskilled labourers. Moreover, the living wage recommended is 14% and 2% higher than the minimum wages for non-agricultural skilled labourers and highly skilled labourers, respectively.



**Figure 2.** Wage ladder for rural Chhindwara and rural Ratlam (in INR per month).  
 Source: Authors' calculations. AL = agricultural labourers; NAL = non-agricultural labourers.

Although the minimum wages provide a legal protection to the small percentage of workers in the organised sector, the rest of the story on prevailing wages projects a very dismal picture. The average daily wage reported in rural MP in November 2021 was INR 217.6 for male agricultural labourers and INR 232.6 for male unskilled non-agricultural labourers. Assuming a person works 24 days in a month, an agricultural labourer can earn a maximum of INR 5,222 per month while INR 5,582 could be the monthly earnings of an unskilled non-agricultural labourer. These numbers are a mere 42% and 44%, respectively, of our estimates of the living wage. The prevailing wages for an agricultural labourer, in fact, are lower than the World Bank Poverty Line wage<sup>6</sup> of INR 5,554.

These comparisons clearly indicate that families in rural MP do not earn enough to be able to afford the minimum standards of decent living. The current incomes and wages for workers and farmers of rural MP are far from adequate to lead a decent life. This is not surprising, because based on the Human Development Index, MP is the third poorest state in India.

**Conclusion**

As the cost of living soars globally, living wage discussions are becoming even more critical. Policymakers, civil society, NGOs, and employers are increasingly aware of the inadequacy of minimum wages and the need to move towards living wages. Living wages have been defined as the amount of remuneration required for a worker and the dependent members of her/his family to lead a decent life. It is determined by assessing the actual cost of living contextualised in a given time for a specific geographical region, which could be applicable to broader areas provided they share similar socio-economic, agro-climatic, and other important characteristics. By reducing wage disparities not just between high and low earners generally but also specifically on the basis of gender, caste, age, disabilities, and region, living wages can help to address several SDGs around poverty, hunger, decent work, reduced inequalities, and quality education, among others.

The Government of India and the state governments announce minimum wages for different categories of workers, which are reviewed periodically. However, the increasing cost of living and inadequate access to public utilities and resources have made it difficult for the common man, especially those at the lower echelons, to lead a decent life. India is considering shifting to minimum wages as it strives to meet its SDGs commitment to eliminating extreme poverty by 2030 (*The Economic Times* 2022). Although there are references made to 'living wages' in government pronouncements and documents, there is no clarity or consensus on the concept or its meaning among the various stakeholders such as employer, workers, or trade unions. In the policy formulations of the government and the actual wage negotiations between employers and trade unions, the paying capacity of the employer (without impinging on the profit margin) often limits the bargaining scale.

Empirical studies carried out in more than 50 countries using Anker Living Wage Benchmark methodology have helped to determine living wages as worker remuneration. In this paper, we have discussed the concept of living wages, its components, and implications as prescribed by Anker Methodology and have illustrated through the benchmark case studies carried out in two districts of MP, a large Indian state, the method, steps, and processes for assessing the actual cost of living based on which living wages could be determined. The gross living wage estimates are INR 12,198 for Chhindwara and INR 12,965 for Ratlam, which are found to be 80% higher than the minimum wages for agricultural labourers and 43% higher than the stipulated minimum wages for unskilled non-agricultural labourers. The prevailing wages in the state are found to be less than half of our estimates of the living wage. The case studies, thus, show the gaps that exist between the living wage benchmarks and the minimum or prevailing wages. Although the study focused on the rural areas of Chhindwara and Ratlam districts of MP, estimated living incomes and living wages for these areas are also considered to be applicable for the larger regions of rural southern MP and rural western MP, respectively.

There has been increased scepticism among India Inc, and a reluctance for living wages as it puts pressure on costs and dents on profits. While the impact of adopting living wages by employers in their workplaces and in their supply chains, and on corporate strategy and business modelling is beyond the scope of this study, the concerns may not be unfounded. However, the importance of living wages in ensuring corporate sustainability, performance, and strengthening the resilience and stability of value chains cannot be undermined either.

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## Notes

1 The CD Block is a rural area earmarked for administration and development purposes which is administered by a BDO (Block Development Officer). Under a given CD block, there are several gram panchayats which are the local administrative units at the village level.

2 The average household size in rural Madhya Pradesh in 2011 was 4.75 when single person households and especially large households are excluded. Another way to arrive at an appropriate reference family size is to determine the typical number of surviving children per woman in the study area and add 2 adults (the parents) to this. In our case, the total fertility rate of 3.05 in rural Madhya Pradesh is adjusted for the child mortality rate of 60 per 1000 births resulting in an average of 2.87 surviving children, and thus a 4.87 reference family size. Since the data used for these calculations are somewhat outdated, and there is a general downward trend in these

parameters, the estimates were rounded down resulting in a reference value for this study of 4.5. The choice of the reference family size of 4.5 was also further corroborated by our field investigation.

3 The following formula is used to determine the number of full-time equivalent workers in the reference family. Number of full-time equivalent workers per family =  $1 + [\text{LFPR} \times (1 - \text{UR}) \times (1 - \text{Part-time employment rate}/2)]$ . This formula is calculated separately for adult males and females and then an average of the two is taken. For 2019–2020, the LFPR for males and females is 97.8% and 63.1%, respectively, and the unemployment rates are 0.35% and 0.05% for males and females, respectively. Since estimates for India are not reported, we based our part-time employment rates (14.1% for males and 38.0% for females) on values for other countries in the Indian sub-continent (Bangladesh, Pakistan, Nepal, and Sri Lanka).

4 These are based on a person's age, gender, and body size.

5 The recommended model diet for the two study districts shall be made available on request.

6 Calculated by multiplying the World Bank poverty line of USD 3.20 per person per day by the reference family size, the conversion rate of INR per USD using PPP exchange rates, and the number of days in a month, and dividing by the number of workers in a reference family.

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