

Analysis of Minimum Wages in Nepal

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Abstract

Fixation of minimum wage had been started since 1965 in manufacturing sector while it was practiced only since 1992 in tea estates and from 2000 in agricultural sector too. Money wage has increased where real wage has declined while considering the 1965 prices. But both the money and real wages on the basis of 1992 prices has increased during the period of 1992-2003. This indicates the positive role of the trade unions on wages increment. The increment of minimum wage of 2003 is more significant as compared to earlier. On the other hand, there are no specific rules for the fixation of minimum wages. Thus mainly all increments followed the dispute of the workers or pressure of the workers' union.

Introduction

Nepal is one of the least developed countries in the world, land locked by two highly populous countries with prominent economic situations (China and India). The economy of the country is dominated by traditional agricultural sector providing employment to nearly 76 percent of its labour force. The GDP growth is negligible in comparison to population growth. Industrialization is very low, though the year 1936 is considered as the year beginning modern industry in the country. The employment generating capacity of the existing industries is far below from the level of satisfaction. Again this is highly affected negatively by the new economic policy (privatization, liberalization and globalization). On the other hand, statistics show that at present the existing number of industrial units is going to be declining while being unable to compete with imported cheap foreign products in the domestic market due to the free trade or no protection policy of the Nepalese government. Now it is estimated that only two percent of the total labour force is employed in manufacturing sector.

In the early phase of industrialization, labour was considered only as a factor of production like others. But during the course of time both the government and employers compelled to recognize the importance of labour in the economic reconstruction and to pay due attention to the interest and welfare of labour since the first recorded labour movement 1947.

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During the interim period (1951-59) labour unions realized relatively free themselves, although their activities were not legalized. Again they suppressed during partyless Panchayat System where all labour unions were banned along with political parties. Only since the restoration of multiparty democracy they became free to operate their activities and organize in a union. They got some fundamental rights to organize through the Constitution of the Kingdom of Nepal 1990. The first Labour Act was constituted in 1992 for the welfare of the workers. In the same year (1992), Trade Union Act was also enacted. Consequently now their activities are increasing for the welfare of the workers community particularly and nation as a whole in general under the legal framework.

Wage Determination

Wages of the workers is considered a principal cause of industrial disputes in most of the developing countries. Nepal is not an exception from it. A study on the causes of industrial disputes reveals that nearly 65 percent disputes were associated with wage and fringe benefits of the workers (Pant and Manandhar, 1998: 209). The prevalence of low wage rate has aggravated the extent of economic exploitation of the workers although there are no specific studies on the degree of exploitation of employees that exists in both the traditional as well as modern sector of the economy. A crude assessment reflects that employers themselves are retaining a greater part of the profits & benefits and only a small part to other sectors including social securities and labour welfare activities. Wages and other benefits are not compatible with increasing productivity and overall economic development of the country (Dahal *et al.*, 1999: 31-32).

Wage determination has assumed several forms during Rana regime. In the early stage of industrialization the labour market was neither competitive nor organized. Government intervention in the labour issues was rare. In this situation the employers decided the wages of the workers unilaterally. Under such circumstances the employers did not have any legal obligations towards welfare services for industrial workers.

After the advent of democracy in 1950 labour unions came into existence openly and demands were made for increment of wages and fringe benefits. Strikes and lockouts emerged as a result of the refusal to fulfill the workers demands (Pant and Manandhar, 1998: 203).

In the third stage of wage determination **Factory and Factory Workers Act** came into existence in 1959 as a first labour legislation. But unfortunately this legislation enforced only since 1961 with modification because of change in the political system of the country in 1960. The Act provided that the government would prescribe the minimum wages of all categories of industrial workers. The government also may constitute a committee to submit recommendations on minimum wages under the provision of the Act (ILO, 1998: 106). Similarly the Act also incorporated some protection measures on the issues of wages in favour of workers including the provisions of punishment against unauthorized deduction of wages to the workers. But this Act did not enforced in practice. The first Wage Recommendation Committee was set up in 1965 to enforce minimum wages while it was noticed that the minimum wage given by the industries to the same skill category of workers differs vastly at the same area. It is

surprising that in the manufacturing sector still there is variation in the market wage rate and prevailing wage rate on the one hand and on the other intra-industry variation in wages is still prevalence contrary to the minimum wages already fixed by the government.

Labour Act 1992 has a provision of fixing minimum wage on the basis of recommendations made by the **Minimum Wage Fixation Committee**. The government can fix the minimum wage of the workers only in case of absence of the committee. The committee is constituted with the equal representation of the three major social partners of industrial relations. Informal sector workers were deprived from the minimum wage fixed by the government earlier. Only in 2000 AD the government of Nepal has fixed the minimum daily wage for the agricultural workers too. The tea estates workers were benefited from the minimum wage fixed by the government since last few years though it is below then the workers in manufacturing sector.

The first Wage Fixation Committee (1965) fixed the wage rate considering the subsistence need of the workers, their efficiency and paying capacity of the industry. The rising cost of living is to be met by dearness allowance. But the subsequent increments are based mainly on the influence of the workers representatives in the tripartite committee for fixation of wages of the workers.

Wage Structure

While looking at the trends in the minimum wages for different skill categories of workers in manufacturing sector since 1965 shows increasing trends in monetary terms (Table 1). The gap between unskilled and highly skilled workers is narrowed down in each increment since 1973 with only few exceptions. The increment after the restoration of multiparty democracy shows equal amount for all categories of workers. Highly skilled workers had got 181.25 percent more wage in the beginning (1965) as compared to unskilled counterparts. It declined gradually and came down to 13.67 percent in 2003. As of the trade unionists the skill categories are based on simply the occupation they involved rather than any other well-established norms. Thus they are willing to abolish such skill category. The table also highlights that there is no fixed system of periodic adjustment of minimum wages, which were fixed on adhoc basis in between two to eight years since 1965. Ten adjustments out of 12 were made only since 1980.

The minimum wage rate in 1965 was fixed only in limited industries of Biratnagar- the originating place of modern industries located at Eastern Nepal. The same wage rate was extended in other industries and districts of the country in 1966. Only the 1973 adjustment covered all industries all over the country.

The concept of reducing the wage difference among the different skill categories of workers mainly after 1990 may be the policy to avoid such categories fixed without any concepts and definitions.

Table 1. Minimum Monthly Wage Rate* in Nepal by Skill Category 1965-2003
(Manufacturing Sector) (In NRs)

Year	Category of Workers					
	Unskilled	Semi-skilled	Skilled	Highly skilled	MDW** (7)	Difference between Higher and lower wages (%)
1965	110	137.5	206.25	309.38	-	181.25
1966	110	137.5	206.25	309.38	-	181.25
1973	150	173	228	320	-	113.33
1978	250	280	340	440	8	76.00
1980	310	349	427	557	10.4	79.68
1983	375	415	502	648	13	72.80
1985	475	515	602	748	17	57.47
1987	582	632	740	923	22	58.59
1989	850	900	1008	1191	32	40.12
1992	1150	1200	1310	1500	40	30.43
1995	1450	1500	1610	1800	50	24.14
1997	1800	1850	1960	2150	63	19.44
2000	2116	2166	2276	2466	74	16.54
2003	2560	2610	2720	2910	90	13.67

Note: *Wage rate including dearness allowance

** MDW stands for Minimum Daily Wage

Source: Labour Department, MOL, Kathmandu.

The minimum wage increased about seventeenth times during the 38 years since 1965 (Table 2) but on an average it increased by less than the inflation in the country. On the other while considering the wage rate in terms of US\$ it has reached 1.7 times more during the same period. Those who were getting \$ 20.44 in 1965 are now entitled to get \$35.31 (Table 2).

Table 2. Change in Wage Rate of the Workers in Nepal 1965-2000.

Year	Monthly Average wage rate in (NRs)* (Weighted)	Change over the years (%)	Wage in US \$**	Change over the years (%)
1965	157	-	20.44	-
1966	157	No charge	20.44	No charge
1973	190	21.02	17.92	-12.33
1978	296	55.79	24.46	36.50
1980	370	25.00	30.58	25.02
1983	440	18.92	30.14	-1.44
1985	540	22.73	30.34	0.66
1987	663	22.78	29.08	-4.15
1989	931	40.42	33.73	15.99
1992	1232	32.33	28.79	-14.65
1995	1532	24.35	30.07	4.45
1997	1882	22.85	32.84	9.21
2000	2198	16.79	31.22	-4.9
2003	2642	20.20	35.31	13.10

Note: *Weights 4, 3, 2 and 1 have been assigned to the unskilled, semi-skilled, skilled and highly skilled categories of workers respectively, because the proportion of workers to the total workers decreases as their skill increases.

**Exchange rate was taken from NRB quarterly bulletin Vol. xxxiv, No. 3 & 4, 2000 and The Rising Nepal.

As calculated by Ajeet N. Mathur the subsistence wage of the workers (based on 1990 prices) will be NRs. 1765 (US\$ 60.24) as required for a worker (including three dependents). But during that period their wage was slightly more than half (\$33.73) as needed for their minimum subsistence. Similarly, the minimum subsistence wage rate calculated by one of the leading trade union confederation of the country – GEFONT in 1990, 1992 and 1994 is NRs 1274.5, 1478.83 and 1941.77 respectively which is equivalent to US\$ 43.5, 34.55 and 39.16 respectively. The GEFONT had submitted this proposal of wage rate to the **Wage Fixation Committee** each time with detail of the commodities essential to a worker just to live, where schooling of the children, house rent etc. are not included. But the actual wage drawing by the worker was low than this proposal. This leads to force the workers to live in a stark poverty. The minimum daily wage also reached NRs 90 (1.20 dollar) in 2003 contrary to NRs 8 (0.66 dollar) in 1965.

In Nepal it is found that money wage of the workers is increasing but which is below than the inflation rate prevailing in the country. Consequently the real wage has declined every year (Table 3), which leads to decline in the living standard of the workers. In real terms the wage rate of the Nepalese workers has declined by 36.31 percent during the past 38 years since 1965. As a result of this their productivity did not increase as of expectation, which directly affect the economic development of the country.

Table 3. Real Wage of Workers, Nepal 1965-2003

(Base year 1965=100)

Year	Consume Price Index (CPI)*	Money Wage Index**	Real Wage Index***
1965	100.00	100.00	100.00
1966	101.83	100.00	98.20
1973	157.29	121.02	76.94
1978	222.10	188.54	84.89
1980	378.43	235.67	62.28
1983	506.95	280.25	55.28
1985	611.38	343.95	56.26
1987	769.03	422.29	54.91
1989	912.00	592.99	65.02
1992	1319.59	784.71	59.47
1995	1673.95	975.80	58.29
1997	1960.19	1198.73	61.15
2000	2311.73	1400.00	60.56
2003	2642.00	1682.80	63.69

Note: *Central Bureau of Statistics & Nepal Rastra Bank.

** Calculated on the basis of Table 2.

***Money wage index divided by consumer price index times 100.

Unionisation in Nepal started only after the restoration of multiparty democracy in 1990. The real wage of the workers in manufacturing sector during one decade (after 1992) has increased by 14.26 percent while it was insignificantly high up to 2000. This proves that there is a positive impact of unionisation on wages.

Table 4. Real wage of the workers 1992 to 2003

Base Year 1992=100)

Year	CPI	MWI	Real Wage
1992	100.00	100.00	100.00
1995	126.90	124.35	97.99
1997	148.60	152.76	102.80
2000	175.25	178.41	101.80
2003	187.69	214.45	114.26

Minimum Wage of the Minor and Tea Estate Workers

The government also had fixed the minimum wage for minor workers (aged 14 to 16 years) in formal sector who are not allowed to work more than six hours per day. Similarly the workers working in tea estates are getting low wages as compared to the workers in manufacturing sector. Within the tea estates wage rate varies greatly on the basis of type of job. Similarly the wages of the tea estates workers differs between private and public estate on the one hand and within the private estates it varies from one estate to another. But the wage rate fixed by the government is presented in table 5. Based on the 1992 prices both the money and real wage of the minor workers in manufacturing and tea plantation as well as the workers of tea estate during the past one decade has increased as of the adult workers of manufacturing sector but the increment of 2003 is remarkable.

Table 5. Wage Rate of Minor Workers in Formal Sector and Tea Estate Workers

(in RS Including dearness allowance)

Type of Workers	1992	1997	2000	2003	Growth % during 1992-2003
Minor					
Monthly	900	1400	1644	2029	125.44
Daily	30	50	60	73	143.33
Tea Estate					
Adult					
Monthly	950	1438	1738	2083	119.2
Daily	40	50.5	62	74	85.0
Minor					
Monthly	725	959	1275	1527	110.62
Daily	25	34	46	56	124.0
Agriculture					
Daily			60		
Hourly			7.5		
Real wage					
Tea Estate (<i>Adult</i>)	100.00	101.86	104.39	116.82	
<i>Minor</i>	100.00	104.68	104.23	120.11	
Manufacturing sector	100.00	89.02	100.03	112.22	
Tea Estate					

Source: Department of Labor

Government has declared the minimum wage but it is difficult to implement because of the anti-worker, anti-union mentality of various employers. System of implementation and mechanism of monitoring has virtually absent. Disputes have started to emerge with respect to the implementation of the wage rate particularly in formal sector from the very beginning. During the period before a decade, the wage of the unskilled worker was higher than that of the peon/helper in government service but now it is considerably low and the gap has increased painfully. So the wage issues of the workers now become most important agenda to influence the industrial relation in the nation. Frustration among the workers, industrial unrest and adverse effects on productivity may be the natural harvests if government and employers do not think over it seriously.

Conclusion

Fixation of minimum wage in Nepal was started only since 1965 to the workers involved in manufacturing sector though the **Factory and Factory Workers Act** was enacted in 1959 as a first labour legislation. The Act had incorporated the provision of minimum wage fixation to the workers. The concept of minimum wage still covers the manufacturing sector only. A separate minimum wage rate is fixed for the workers working in tea estates of the country, which is below than the minimum wage for the workers in the manufacturing industries. In 2000 the government fixed the minimum daily wage for the agricultural workers too.

Available information shows that, time and again the wage rate is increasing. During 1965 to 2003 the money wage has increased by about seventeenth times but in real terms the wage rate has declined significantly (36%). On the other the minimum wage earned by the workers is found far below then the minimum amount needed to the worker's family for their subsistence. Consequently, the living standard of the working family has declined instead of increase and this reflects the deteriorating condition of the Nepalese economy.

Similarly, only fixation of wage cannot maintain healthy industrial relations. Its proper implementation and regular monitoring by the government is equally important which is virtually absence in Nepal. As a result of this, workers of those sectors or enterprises where union is absence or weak are still compelled to work at lower rate than minimum wage for their livelihood. This situation caused to increase in the number of disputes in the organization.

Lastly, it is recommended that to prevent the living condition of the workers at least it is necessary to fix the minimum wage considering the prevailing inflation rate at a fixed interval of time preparing a wage index separately for different sectors.

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