

Analysis of the Wage Structure in Nepal

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Introduction

Nepal is one of the least developed countries in the world sandwiched between two highly populous countries with strong economy (China and India). The economy of the country is dominated by traditional agricultural providing employment to nearly 76 percent of its labour force. The GDP growth is negligible in comparison with the population growth. Industrialization is very low although modern industries began operating in Nepal in 1936. The employment generating capacity of the existing industries is quite unsatisfactory. The situation has gone worse with the onslaught of the new economic policy (privatization, liberalization and globalization). Statistics shows 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, which enjoys no protection from the government against 'free trade'. 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 recognized the importance of labour in the economic reconstruction. They started to pay due attention to the interest and welfare of labour since the first recorded labour movement of 1947.

During the interim period (1951-59) labour unions were relatively free to operate although their activities were not legalized. They were suppressed during the party less Panchayat System where all labour unions were banned along with the political parties. Only since the restoration of multiparty democracy in 1990 have they become free again to operate their activities and get organized. Their rights to organize through were recognised by 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 adding to the welfare of the workers community as far as the legal framework is concerned.

Wage Determination

Wages of workers are considered a principal cause of industrial disputes in most of the developing countries. Nepal is not an exception to this. 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 a 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 profits and 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 had taken several forms during the 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 and demands were made for wage increments and fringe benefits. Strikes and lockouts emerged when workers demands were not fulfilled (Pant and Manandhar, 1998: 203).

In the third stage of wage determination, the **Factory and Factory Workers Act** came into existence in 1959 as a first labour legislation. Unfortunately this legislation was enforced only after 1961 with modifications because of changes in the political system of the country in 1960. The Act provided that the government should prescribe minimum wages of all categories of industrial workers. The government was also expected to constitute a committee to submit recommendations on minimum wages under the provision of the Act (ILO, 1998:106).

Similarly the Act incorporated some protection measures on the issues of wages in favour of workers including the provisions of punishment against unauthorized deduction of wages. But this Act was not enforced. The first Wage Recommendation Committee was set up in 1965 to enforce minimum wages while it was notified that the minimum wages given by industries to the same skills category of workers differs vastly in the same area. It is surprising that in the manufacturing sector 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 minimum wages already fixed by the government.

The Labour Act (1992) has a provision of the fixation of minimum wage on the basis of recommendations made by the **Minimum Wage Fixation Committee**. The government can fix minimum wages of the workers only in case of the absence of the committee. The committee is constituted with the equal representation of three major social partners of industrial relations. Informal sector workers were deprived of the minimum wage fixed by the government earlier. Only in 2000 AD the government of Nepal fixed minimum wages for agricultural workers. Tea estate workers also have a minimum wage for a few years now although the rate is lower than the one in the 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 was met by dearness allowance. But the subsequent increments were based mainly on the influence of the workers representatives in the tripartite committee responsible for the fixation of wages.

Wage Structure

Looking at the trends in minimum wages for different skill categories of workers in the manufacturing sector since 1965 shows an increasing trend 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 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 are involved in rather than any other established norms. Thus they are willing to abolish such

skills category. The table also highlights that there is no fixed system of periodic adjustment of minimum wages, which were fixed on ad-hoc 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, in eastern Nepal, where modern industries originates. The same wage rate was extended to other industries and districts of the country in 1966. Only the 1973 adjustment covered all industries all over the country.

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

Year	Category of Workers				MDW** (7)	Difference between Higher & lower wages (%)
	Unskilled	Semi- skilled	Skilled	Highly skilled		
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 wages

Source: Labour Department, MOL, Kathmandu.

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

The minimum wage increased about 17 times during the 38-year period since 1965 (Table: 2). But on an average it increased by less than the

inflation rate in the country. 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 Rates of 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 unskilled, semi-skilled, skilled and highly skilled categories of workers respectively, because the proportion of workers to the total workers decrease as their skills increase.

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

As calculated by Ajeet N. Mathur, the subsistence wage of the workers (based on 1990 prices) should at least be NRs. 1765 (US\$ 60.24) to address basic subsistence needs of the worker and their three dependents. But during that period the wage was slightly more than half (\$33.73) of the required minimum subsistence. Similarly, the minimum subsistence wage rates calculated by one of the leading trade union confederations of the country – the GEFONT—in 1990, 1992 and 1994 were NRs 1274.5, 1478.83 and 1941.77 respectively, equivalent to US\$ 43.5, 34.55 and 39.16 respectively. GEFONT had submitted the wage rates to the **Wage Fixation Committee** with details of commodities essential to a family living, including children's schooling and so on. But the actual wage paid to the workers was lower than the proposed ones, thus forcing them live in stark poverty.

This is not to say that the wages have not increased over time. But they have always fallen short of meeting the inflation rates. In fact the real wage has declined every year (Table 3) leading to a decline in the living standard. In real terms the wage rate of Nepali workers has declined by 36.31 percent in the past 38 years since 1965. Consequently, labour productivity did not increase as of expectation thereby directly affecting the economic development of the country.

Table 3: Real Wages of Workers (1965-2003)

(Base year 1965=100)

Year	Consumer 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 and 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. With the advent of democracy the real wage of the workers increased particularly in the manufacturing sector, by Rs. 14.26, testifying that there is a positive impact of unionisation on wage structures.

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 Wages of Minors and Tea Estate Workers

The government fixed the minimum wage for minors, aged 14-16, in the formal sector for a six-hour per day work. The wages were also fixed for tea estates workers. But the rate they get is lower than the one in the manufacturing sector. But within the tea estates wage rates vary on the basis of the type of job as well as between private and public tea estates. Variations can also be seen estates after estates. The wage rate fixed by the government is presented in table 5.

Table 5: Wages for Minors in Formal Sectors 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
Minor					
Monthly	725	959	1275	1527	110.62
Daily	25	34	46	56	124
Agriculture					
Daily			60		
Hourly			7.5		

Source: Department of Labour

The government has declared the minimum wage but it is difficult to implement because of anti-worker and anti-union mentality of various

employers. On the part of the government, there is no system of implementation and mechanism for monitoring the progress. From the very beginning, disputes have emerged with respect to the implementation of the wages particularly in the formal sector. Until a decade back, the wage of unskilled workers was higher than that of the peon/helper in the government. Now it is considerably low and the gap has increased alarmingly.

Wage issues have now become the most important agenda in the industrial relations in the country. If the government and employers do not take this matter seriously and if they fail to implement corrective measures, the workers will go frustrated resulting in industrial unrests and other adverse effects in productivity.

Conclusion

Fixation of minimum wages in Nepal started only since 1965 for the workers involved in the manufacturing sector. The **Factory and Factory Workers Act** was enacted in 1959 as the first labour legislation with the provision of minimum wages covering the manufacturing sector only. A separate minimum wage is fixed for the workers in tea estates. But it is lower than the minimum wage in manufacturing industries. In 2000, the government fixed the minimum wage for the agricultural workers as well.

Available information shows that, time and again the wage rate has increased. Between 1965 and 2003, the wage has increased by about 17 times but in real terms the wage has declined significantly (36%).

For long, the minimum wages earned by workers fell far below the amount needed to satisfy the family subsistence. After the restoration of multiparty democracy some positive developments occurred in terms of real wages as a result of unionisation.

However, only the fixation of wages cannot maintain healthy industrial relations. Regular monitoring of the implementation of the wages is very important. In the case of Nepal, this aspect is fully absent. Workers in enterprises or sectors where union is absent or weak are still compelled to work for a wage that is insufficient to earn a living.

It is recommended that the minimum wage is fixed for workers taking into consideration the existing inflation rate, that the wage is reviewed periodically and a wage index is prepared separately for different sectors.

References

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Additional Tables

Table 1: Real Wage of Workers, Nepal 1992-2003 (*Tea Sector, Adult*)
(Base year 1992=100)

Year	Consumer Price Index (CPI)	Money Wage Index	Real Wage
1992	100.00	100.00	100.00
1995			
1997	148.60	151.37	101.86
2000	175.25	182.95	104.39
2003	187.69	219.26	116.82

Table 2: Real Wage of Workers, Nepal 1992-2003 (*Tea Sector, Minor*)
(Base year 1992=100)

Year	Consumer Price Index (CPI)	Money Wage Index	Real Wage
1992	100.00	100.00	100.00
1995			
1997	148.60	132.28	89.02
2000	175.25	175.86	100.03
2003	187.69	210.62	112.22

Table 3: Real Wage of Workers, Nepal 1992-2003 (*Mfg Sector, Minor*)
(Base year 1992=100)

Year	Consumer Price Index (CPI)	Money Wage Index	Real Wage
1992	100.00	100.00	100.00
1995			
1997	148.60	155.56	104.68
2000	175.25	182.67	104.23
2003	187.69	225.44	120.11

Table 4: Real Wage of Workers, Nepal 1965-2003
(Base year 1989=100)

Year	Consume Price Index (CPI)*	Money Wage Index**	Real Wage Index***
1989	100.00	100.00	100.00
1992	144.59	132.33	91.52
1995	183.49	164.55	89.68
1997	214.86	202.15	94.08
2000	253.39	236.09	93.17
2003	271.38	283.78	104.57

(Analysis prepared for GEFONT and published in the Economic Journal, 2003)