

Poverty, Wage Structure and Social Security

by *Umesh Upadhyaya*

1. Background

Poverty, in the contemporary world, is in expansion as a giant socio-economic problem. According to Human Development Report-1997, more than one-third of the world population is poverty stricken. Even in the industrial countries, almost 10 million people are below poverty line. During 1960-1996, world income increased by six times, and the share of OECD Countries increased from 6 per cent in 1996 to 70 per cent in 1990, whereas the poorest 20 per cent of the world population gets 1.1 per cent of the world income which was 2.3 per cent in 1960. It is an indication of the conditions in least developed countries.

In South Asia, 43 per cent of population falls below poverty line which was 45 per cent in 1987. Thus the percentage of the poor has declined, but the actual number of poor has increased highly. As an example, we can look at the statistics of India, whereas 164 million people were under poverty line in 1951, it is 320 million at present.

However, poverty alleviation programmes have been launched in every country, unfortunately majority of the programme have not been effective. Experiences of various countries verify that increased productivity alone can not minimize poverty. Similarly, trickle-down theory based on growth-led poverty alleviation strategy has come to a failure. Therefore, for least developed countries, there is an urgent need of restructuring their socio-economic development strategy with the prioritized objective of poverty alleviation. With a focus on productivity, extension of gainful employment and comprehensive social security, National policy should be readjusted. Self-employment can be made gainful through various income generating and skill-training programmes based on backward areas, communities and women. On the other hand, wage structure should be changed so as to make wage employment gainful. Efforts should be cantered to change the distribution system in order to increase the share of wages in national income. Extension of

social security network and various welfare programmes will also play a vital role to make the distribution system equitable.

2. Poverty: extent and nature

The first effort to estimate the extent of poverty in Nepal was the NPC survey of employment income distribution and consumption pattern in 1976/77, which had given an estimate of 31.5 per cent with the minimum subsistence consumption approach and 36.2 per cent with the minimum subsistence income approach. Nepal Rasrtra Bank through Multi-Purpose Household Budget Survey 1984/85, based on per capita income for basic needs, has given an estimate of 42.6 per cent. WB/UNDP joint study(1989) on the basis of the previous surveys has given three different estimate. based on different approaches- 40 per cent on the basis of minimum subsistence income, 70 per cent on the basis of the population below the income of USD 150 and 66 percent on the basis of proportion of food expenses in total expenditure. Similarly the Eighth Plan Document has presented an estimate of the population below poverty line to be 49 percent and National Living Standard Survey 1996, based on per capita calorie intake of 2250, ha~ given an estimate of 45 percent. While looking at south Asian scenario, the percentage of below poverty line is in declining trend in India, Pakistan and Bangladesh, but our condition is worse in comparison. With the viewpoint of ecological belt and also the development regions, poverty in Nepal is of rural nature.

The first few plans of Nepal were directly cantered to the infrastructure development, although there had been some programmes targeted to poor population. Only in the sixth plan and onwards the problem of poverty has been emphasised. The forthcoming Ninth Plan has taken poverty alleviation as the prioritized objective and has fixed the target of pulling down poverty percentage to a level of 32.5 percent from the current level of 45 percent. The long-term target has also been mentioned that the level will have to come to 10 percent at the end of 12th plan in the year 2017.

3. Employment and wages

Unemployment in Nepal is not so serious at present, but is emerging seriously. While viewing the previous surveys and statistics, unemployment is in-between 3-5 per cent. The Multi-Purpose Household Budget Survey of 1984/85 has estimated unemployment rate at 3.1 percent and the National Living Standard Survey of 1996 at 4.9. It

is 8.4 in urban and 4.6 in rural areas. By ecological belt, the rate of unemployment is estimated to be 2.1 in mountains, 2.9 in hills and 7.0 in plain Terai. Unemployment, of course, is openly visible in urban areas, while it is disguised in the form of underemployment in rural areas. Also a considerable portion of rural underemployment has a tendency to shift towards urban centres which aggravates the open urban unemployment. Population census 1991 and Agricultural sample census 1991/92 have reported the percentage of workers working for less than 8 months in a year to be 35 and 39 respectively. Similarly, the National living Standard Survey 1996 has clearly indicated that 47 percent of the workers work for less than 40 hours per week. Thus, underemployment is more serious than unemployment and also the existing employment is not gainful.

The sectoral distribution of employed force indicates the nature of underemployment. Of the total employed labour force, 81 percent is in agriculture whereas only 2.72 is engaged in industrial sector and almost 17 percent in services. Agriculture is traditional and self-employment is the dominant form of employment. Only 21.41 percent of the employed force is in wage employment and it is 18.88 of the rural force & 54.93 of the urban force. Clear indication is towards the high underemployment in agriculture.

4. Minimum wages

The tradition of fixing minimum wages was started from 1965, but no system of reviewing it timely on the basis of permanent criteria has been developed yet. It is always determined on ad hoc basis. Also it is to be noted that existing minimum wages cover the organised segment which covers only 7-10 percent of the workers. And the large mass of the unorganised workers are not addressed by the provisions. This minimum wage, too, is in four categories - unskilled, semi skilled, skilled and highly skilled. Present minimum wages are Nrs. 1300, 1350, 1460, and 1650 The daily wage rate is single and is Nrs. 63. Even in an ad hoc basis dearness allowance has now reached to Nrs. 500 from Rs. 22 in 1965. For tea plantation workers, separate minimum wages have been fixed which are lower than the general minimum wages.

5. Wages in the market

Diversity is natural in market wage rate. Wage-differential is high in accordance with the nature of industries and occupation. Wage-structure includes basic wage, dearness-allowance and fringe benefits but different

in not only among industries but also among factories. But majority of workers are restricted to live under low basic wage.

Still a number of employers consider minimum wages as the maximum payment. Many unskilled and semi skilled workers are not getting even the minimum wages. White-collar workers are getting a few benefits but the mass of the workers is still out of the different elements of wage structure.

Existing wage structure is not following any justifiable system. Throwing wages in the kindness of the market will further worsen the problem of poverty. In the process of globalization and liberalization, even the formal sector is being informalised. This trend will have serious impact on wage-structure & effectiveness of unions in wage determination and also have adverse effect in the living standard of workers.

The condition is more serious in agricultural sector. Kamaiyas (the bonded labourers) are working under almost non-wage conditions. The government farm workers are not getting the Gazette-published minimum wages. All other scattered agricultural workers - tillers, cattle herders and daily wage labourers are under highly diverse wage conditions

To sum up, wages are neither closely associated with productivity and efficiency nor with cost of living and capacity to pay. Indexation of wages is not taken as an agenda. And everything is beneath the giant adhocism.

6. Social Security System and Nepal

Social security is considered these days as an effective instrument for social transformation and progress. But the working population of the least developed countries is still out of the social security network even on the threshold of 21st Century. In Nepal, some provisions are made by Labour Act 1992 as sick leave, maternity leave, workmen's compensation, gratuity, provident fund as old age benefit and OSII provisions. Besides, it also includes child care, recreation, canteen and welfare officer. But it is limited to organised sector and the industrial estates only, that to, not implemented in practice. Additional complication is that these provisions are completely left to the liability of employers. The fund created by tripartite contributions and social security schemes are non-existent. Modern social insurance techniques are not adopted up to now. Social Security Planning and Administrative

Reform Project of UNDP/ILO initiatives has recommended new techniques and has justified the need of the extension of social security. The preparatory works for National Pension scheme by the Ministry of Women and Social Welfare may be taken as an indirect result of the recommendations of the project.

Existing labour law has not considered the need of pension and is limited to provident fund. It has ignored the effective role of social security network in productivity improvement. The forth-coming Ninth Plan concept-paper has mentioned about social security, but has not given due emphasis.

In non-government side, social organisations working for social security of working population are almost not existent. Trade Union Centres have raised various demand connected with social security, but the examples of schemes in their own initiatives cannot be found. In this context, the 'Emergency Fund Scheme' of GEFONT can be considered as a mile stone, although it has not yet made an access to the large mass of the workers.

7. What can be done?

The problem of poverty is a problem of productivity as well as a problem of distributional inequality. One sided solution may not minimize the problem. Poverty of Nepal, by its nature, is the rural poverty and rural poverty can be minimize through adequate and effective land reform, because the foundation of our National life is the land itself. Poverty can be attacked effectively through optimum management of land. By taking land reform as the nucleus, attention should be given to employment creation, developing a gainful employment situation, productivity movement and comprehensive social security system. In short the major focus should be given to:

- i. multi-dimensional land reform- neither radical nor slow
- ii. productivity movement
- iii. permanent criteria based system of minimum wages- national as well as sectoral
- iv. wage indexation and sound wage structure
- v. social security act and social security fund based on tripartite contribution
- vi. employment promotion - self-employment and wage employment.

(Synopsis of paper presented in First National Labour Conference, 23-25 November 1997, Kathmandu, Nepal)