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A Study on the Concept & Implementation of Minimum Wages under Indian Labour Laws

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A Fundamental Component of Social Justice and Labor Welfare is the Minimum Wage. It is a guard against exploitation and guarantees that each employee receives fair compensation that meets their basic needs and minimum living requirements. The 1948 Minimum Wage Act, which forms the basis of the wage regulation in India, is the subject of research. This research investigates the historical development and the methods used by the state and central government to fix and amend wages. It focuses on how various economic variables like productivity, cost of living, and inflation affect minimum wages in various industrial and geographical areas. The focus of this research is to identify whether the existing legal framework effectively ensures the rights of the workers, mainly in the unorganised sector, where exploitation is prevalent. It also discusses implementation challenges such as inadequate inspection, lack of awareness, proper distribution, checks and balances between the employer and employee. The study highlights discrepancies between legal provisions and real-world situations through case studies and judicial interpretations. It also provides a comparative analysis of wage policies around the world to identify best practices that India could adopt for the improvement of wage structure and labour welfare.

The objective of this study is multifaceted, focusing first on understanding the historical background and aims of the Minimum Wages Act of 1948. It seeks to examine how relevant authorities determine and periodically update the minimum wage, ensuring that it reflects current economic conditions. Additionally, the study aims to assess the adequacy of existing wage structures in guaranteeing a decent standard of living for workers. Finally, the research will recommend measures to enhance the effectiveness of the Minimum Wages Act in fulfilling its intended purpose.

Keywords: *minimum wage, social justice, economic equality, wage deduction, labour welfare.*

INTRODUCTION

Wages are often the most apparent and contentious dimension of the employment relationship. They set the standard for workers' quality of life, support economic productivity, and define the way growth dividends are shared through society. Even considering their extreme relevance, systems of wages are very unequal due to globalisation, technology, labour laws, collective bargaining capacity, and continuing power disparities between workers and employers. In much of the developed economy, wage stagnation has correlated with rising living expenses, putting pressure on governments and industries to reconsider wages and how they are set and regulated. The article examines minimum wages in India and their role in protecting workers by ensuring fair pay for basic needs. It focuses on the Minimum Wage Act 1948, looking at its history and how the government sets wage rates.

It highlights challenges in enforcing minimum wages, especially in the unorganised sector, where workers often face exploitation. Issues include insufficient inspections, a lack of awareness about rights, and gaps between the law and reality. It also discusses how factors like inflation affect wages. The goal is to determine if current laws adequately protect workers and to suggest improvements while comparing India's wage policies with those of other countries for potential enhancements.

Examining labour wages is not just about examining wage levels. Understanding labour wages depends on understanding the historical foundations of wage theories, the legal structures around work, and the socio-economic conditions driving inequality. Moreover, labour markets today are more complicated than at any point in history, with traditional sectors existing alongside new sectors that are remote (from home), digital, or using algorithms to manage workers. The growth of these new conditions impacts how wages are set, how work is valued, and how workers negotiate fair payment. Analysing labour wages in more contemporary periods requires contemporary frameworks, as well as drawing on economics, law, public policy, and industrial relations.

WAGE THEORIES AND ECONOMIC CONDITIONS

A close examination of the historical economic theories behind wage regulation and employment helps to grasp the concept of labour wages. It offers general explanations about how wages are determined, why wage inequality exists, and how wages impact general economic activity. While no theory successfully explains modern labour markets, each theory offers valuable perspectives on income distribution.¹

Political economy offered the first systematic explanations of wage formation. The subsistence theory of wages is one of the most significant. It assumes that wages tend toward the subsistence level for workers. The surging and Marxist schools later built a supporting theory that population growth would 'dilute' wage increases, thereby keeping wages low. While the subsistence model may be deemed excessive by today's standards, it nonetheless highlighted the fragility of a deregulated labour market and provided a rationale for subsequent social protections.

Another early framework Wage Fund theory, posited that employers have a fixed fund to be spent on labour, thus wages are dependent on the size of the fund relative to the workforce. While Wage fund theory has been largely dismissed, it contributed to a long debate on the supply of labour, the accumulation of capital, and employer bargaining strength.

An additional prominent explanation to consider is the Efficiency Wage Theory. Efficiency Wage Theory suggests that firms may willingly pay wages higher than market rates because increased wages lead to increased productivity, decreased worker turnover, and better quality or able workers. In addition, Efficiency Wage Theory provides some explanatory grounds for high wages in certain sectors and for persistent unemployment despite an available workforce.

Current labour markets, especially in the 2020s, are leading theorists and economists to consider behavioural, social, and technological problems. Behavioural economics demonstrates that perceptions around fairness, job security, and enjoyment with work significantly impact a worker's performance and corresponding wage demand. The global transformation brought on by digital technology added algorithmic and other decision-

¹ David Ricardo, *Principles of Political Economy and Taxation* (Martino Fine Books 2016)

making processes, skills-biased technological change, and work based in a platform economy. In many cases, especially in gig-based employment, wages are determined algorithmically based on demand, performance ratings, and platform rules and expectations, proving that outdated classical models are less applicable.²

In 2025, wage determination relies on multiple interdependent economic, legal, and technological factors that provide the context for wage determination. Classical approaches point out structural vulnerabilities, neoclassical models provide a market-based theoretical prism for wages, and behavioural and technological perspectives allow us to consider the realities of labour markets today. Each of these theories, in conjunction with labour market developments, provides a positive foundation for understanding the wage systems of today, as well as persistent challenges to promote fair and equal compensation.³

LEGAL AND INSTITUTIONAL FRAMEWORK GOVERNING WAGES: -

The regulation of wages is based on a range of legal standards, systems of public institutions, and mechanisms of enforcement to protect workers and ensure a fair wage system. Although countries differ in the way they regulate wages, most contemporary wage systems include some combination of statutory law, constitutional law, structures of adjudication, and structures of collective bargaining. All of these elements establish wage floors, protect against the exploitation of workers, and ensure that wages meet broader economic and social goals.

One of the most significant forms of wage regulation is the statutory minimum wage in law, which is a wage floor intended to ensure that all workers receive a baseline level of income. The International Labour Organisation (ILO)⁴ states that minimum wages serve two discrete purposes: to prevent wages that are too low and to support social justice. Many jurisdictions today incrementally raise minimum wages yearly through a structured process that considers inflation, changes in productivity, and macroeconomic factors. There continues to be debate as to whether statutory wage floors achieve these planned goals, particularly given

² John Bates Clark, *The Distribution of Wealth* (Macmillan 1899)

³ George A Akerlof and Janet L Yellen, 'The Fair Wage-Effort Hypothesis and Unemployment' (1990) 105(2) *Quarterly Journal of Economics* <<https://doi.org/10.2307/2937787>> accessed 20 December 2025

⁴ David H. Autor, 'Skills, education, and the rise of earnings inequality among the "other 99 percent"' (2014) 344 *Science* 843 <<https://www.science.org/doi/10.1126/science.1251868>> accessed 20 December 2025

critics who say that excessively high minimum wages reduce employment opportunities, especially for small businesses.⁵

In addition to minimum wage laws, equal pay regulations provide another key component of wage control. Equal pay laws require employers to pay men and women equally when the work has equal value, addressing past inequalities that were grounded in discriminatory social norms. Equal pay laws in the European Union and other similar national laws extend beyond equal pay for work of equal value to include transparency obligations,⁶ reporting requirements and processes to challenge pay discrimination. Despite laws to equalise wages and pay fairly, wage inequalities⁷ persist for reasons such as occupational sex segregation and child caring responsibilities, limited enforcement capacity, etc.

The third pillar of the wage regulatory system is collective bargaining, or agreements made between an employer and trade unions, or associations of workers, to establish the wage paid at a sectoral level, or an enterprise level that is frequently above the minimum wage. This process is widely understood as providing balance to the power relations between employers and labour and gives workers a greater chance of securing decent and sustainable wages. Strong institutional arrangements for collective bargaining, such as those in the Nordic countries, are associated with lower inequalities and higher wage standards overall. Despite this knowledge and the rights personnel have through collective bargaining, a decline in union density across much of the world has contributed to declining institutional arrangements for collective wage setting and greater inequalities, especially because of globalisation, technological change, and deregulation of the labour market.

STRUCTURE OF WAGES AND CONTEMPORARY LABOUR MARKET REALITIES

The composition of wages in any kind of economy not only reflects the economic theories but also social realities, technological shifts, institutional shifts, and interventions. In India, wage standards differ across sectors, skills, and forms of employment. Understanding wage types is important for analysing these outcomes. Minimum wages refer to the legally

⁵ International Labour Organization, *Minimum Wage Policy Guide* (2016)

⁶ Judy Fudge, 'Regulating for Decent Work in a Global Economy' (2011) 43(2) *New Zealand Journal of Employment Relations* <<https://www.nzlii.org/nz/journals/NZJLEmpR/2018/9.pdf>> accessed 20 December 2025

⁷ 'Minimum Wages After the Crisis' (OECD, 06 May 2015)

<https://www.oecd.org/en/publications/minimum-wages-after-the-crisis_efa169af-en.html> accessed 20 December 2025

mandated floor wages that ensure basic economic security and protect workers and labourers. Fair wages are between the living wage and the minimum wage, balancing what employers can afford with what the workers require, while living wages aim to provide a dignified standard of life beyond mere subsistence.⁸ Wages may also be structured as time-based, piece-rated, or performance-linked, depending on the type and nature of the work. With the growth of corporate human resources management, pay for performance and bonuses tied directly to the output have become a standard method for boosting productivity⁹ and efficiency.

India's wage structure is largely and mostly defined by its expansive informal sector, which encompasses roughly 80-90 percent of the working population.¹⁰ This demographic often lacks employment contracts, social security benefits, and consistent pay. Wage theft, including late, partial, and non-payment of wages, is a prevalent issue. Weak enforcement methods, lack of awareness among people, and unequal bargaining power mean many workers earn far below the mandated minimum wages. Casual workers, domestic workers, and agricultural workers continue to experience insecure and irregular earnings, illustrating the vulnerability embedded in informal employment.¹¹

The rapid rise of the gig economy has further added complexity. Platform workers like delivery personnel, ride-share drivers, and freelancers face fluctuating earnings shaped by different factors.¹² This has intensified the debate on whether gig workers should be classified as employees or independent contractors. Some of the countries have begun extending

⁸ ILO, *India Employment Report 2024: Youth employment, education and skills* (29 March 2024)

⁹ Prasanna Mohanty, 'Why centre must prioritise informal jobs alongside formal ones' *The Federal* (22 July 2025) <<https://thefederal.com/the-federal-special/why-centre-must-prioritise-informal-jobs-alongside-formal-ones-198021>> accessed 20 December 2025

¹⁰ TCA Sharad Raghavan, 'Real wages grew just 0.01% over the last 5 years and contracted in Haryana & UP, Ind-Ra report finds' *The Print* (28 November 2024) <<https://theprint.in/economy/real-wages-grew-just-0-01-over-the-last-5-years-and-contracted-in-haryana-up-ind-ra-report-finds/2379071>> accessed 20 December 2025

¹¹ Shagun, 'COVID-19 lockdown cost 80% informal sector workers their jobs: Survey' *Down To Earth* (13 August 2020) <<https://www.downtoearth.org.in/economy/covid-19-lockdown-cost-80-informal-sector-workers-their-jobs-survey-72812>> accessed 20 December 2025

¹² Vaibhavi Rai et al., 'Platform-Based Labor: Economic, Social, and Legal Dimensions of Delivery Work in the Digital Age' (*IISPPR*) <<https://iisppr.org.in/platform-based-labor-economic-social-and-legal-dimensions-of-delivery-work-in-the-digital-age/>> accessed 20 December 2025

labour protections to gig workers, but India is progressing slowly, with only a few of the states introducing limited welfare measures.¹³

Deep-rooted wage differences based on gender, caste, creed, and migration status persist. Cultural constraints, occupational segregation, and undervaluation of care work suppress women's wages.¹⁴ Marginalised communities are concentrated in low-paid and low-mobility jobs¹⁵. Migrant workers often suffer exploitation due to various issues.

Technological change and globalisation significantly influence how wages are structured. Automation is slowly increasing, displacing routine jobs, often pushing workers into low-paid and insecure positions, while the highly skilled labourers benefit from global markets and various digital opportunities. Overall, India's wage trends reflect a complex mixture of traditional labour patterns, emerging digital work methods, and persistent socio-economic inequalities. Addressing these kinds of challenges demands a holistic approach, integrating strong wage regulation, effective enforcement, and robust social protection.¹⁶

CHALLENGES AND FUTURE DIRECTIONS

Modern labour markets grapple with a wide variety of complex issues that affect the determination, distribution, and enforcement of wages. These issues arise from structural pressures in the economy, changes in technology, demography, and the increasing diversity of work arrangements. All these make it hard for traditional wage-setting mechanisms to keep pace with the rapid transformation of work.

Wage inequality, one of the most challenging consequences, has widened in many countries over the past several decades.¹⁷ The new technological changes benefit high-skilled labour much more than low- and middle-skilled ones, who have thus experienced relative wage

¹³ 'Informality and Control in the Gig Economy: A Study of Cab Drivers and Food Delivery Riders in Delhi-NCR' (RUPE, 16 June 2022) <<https://rupe-india.org/aspects-no-77/informality-and-control-in-the-gig-economy-a-study-of-cab-drivers-and-food-delivery-riders-in-delhi-ncr/>> accessed 20 December 2025

¹⁴ Tushar Agrawal, 'Gender and caste-based wage discrimination in India: some recent evidence' (2014) 47 *Journal for Labour Market Research* <<https://link.springer.com/article/10.1007/s12651-013-0152-z>> accessed 20 December 2025

¹⁵ Pallavi Gupta and Satyanarayan Kothe, 'Interpreting the Caste-based Earning Gaps in the Indian Labour Market' (2021) (unpublished) *arXiv* <<https://doi.org/10.48550/arXiv.2110.06822>> accessed 20 December 2025

¹⁶ T Navin, 'Reality of Gig Workers in a booming Gig Economy' (*Counter Currents*, 18 August 2024) <<https://countercurrents.org/2024/08/reality-of-gig-workers-in-a-booming-gig-economy/>> accessed 20 December 2025

¹⁷ Thomas Piketty and Arthur Goldhammer, *Capital in the Twenty-First Century* (HUP 2014)

stagnation and loss of bargaining power.¹⁸ This divergence is largely explained by skill-biased technological change, where automation and digital tools complement high-skilled labour and replace routine or manual work.¹⁹ The labour market thus rewards specialised competencies, making large sections of the working population susceptible to falling real wages.

Today's labour markets are confronted with a variety of complex issues that have direct effects on pay setting, distribution, and enforcement. These challenges come from demographic changes, advances in technology, and ongoing structural economic pressures, along with a growing variety of work arrangements. Conventional wage-setting practices often struggle to keep pace with the rate of change in work.

Additionally, one of the key issues is pay equity, which has increased in many countries over the last several decades²⁰. While wages have stagnated or declined for individuals in low- and middle-skilled occupations and bargaining power has weakened, individuals employed in high-skilled occupations tend to reap a disproportionate share of benefits from advances in technology. This has been largely attributed to skill-biased technological change, in which automation and digital technologies replace routine or physical labour but are increasingly complementary to high-skilled jobs.

RECOMMENDATIONS AND SOLUTIONS

1. Active Support from Workers and Unions: Effective minimum wage legislation requires the support of workers, trade unions, and labour associations. To ensure that minimum wage policies are implemented successfully, these groups must be actively engaged in the process. Their involvement can lead to better representation of workers' needs and more accountability in the enforcement of wage standards.

2. Addressing Implementation Challenges: The primary challenge in the unorganised sector is the implementation of government policies and legislation related to minimum wages. State labour departments need to act with sincerity and dedication to address this issue. This

¹⁸ *Employment Outlook 2019: The Future of Work* (OECD Publishing 2019)

¹⁹ Autor (n 4)

²⁰ *Ibid*

includes conducting regular inspections, providing training for enforcement officers, and ensuring compliance through strict penalties for employers who fail to pay minimum wages.

3. A Shift in Perspective: There is a pressing need to not only increase minimum wage rates but to fundamentally shift the approach toward minimum wage issues. This means looking beyond just meeting basic food needs. The focus should be on creating a wage system that supports workers' overall well-being, considering factors like health, education, and social security, which are essential for a decent standard of living.

4. Introduction of 'Fair Wage' Concept: Borrowing from developed countries, India should consider implementing the concept of 'fair wage' rather than just minimum wage. A fair wage would ensure that workers receive compensation that reflects the cost of living and allows them to maintain a reasonable standard of living, which goes beyond mere survival.

5. Comprehensive Review of Living Standards: A holistic review of what constitutes a decent living standard is necessary. This should include not just food security, but also access to health services, quality education, and social safety nets. Policies should be revised to ensure that minimum wages adequately support these broader life needs.

6. Raising Awareness Among Employers and Workers: Educating both employers and workers about the legal minimum wage and the rights associated with it is critical. Creating awareness can empower workers to demand their rights and inform employers about the consequences of failing to comply with wage laws. Campaigns could be launched to inform both parties of their responsibilities and the benefits of paying fair wages.

7. Regular Updates and Adjustments of Wage Rates: Minimum wage rates should not be static. Regular reviews and adjustments are necessary to keep pace with inflation, changes in living costs, and economic conditions. A systematic approach to revising minimum wages would ensure that they remain relevant and effective in meeting the needs of workers.

8. Involvement of Stakeholders in Wage Setting: A transparent process involving stakeholders from different sectors should be established for setting and reviewing minimum wages. This would create a sense of ownership and help in collecting diverse input that reflects the realities faced by workers and employers alike.

By implementing these recommendations, minimum wage laws can become more effective in promoting economic stability and improving the quality of life for workers, particularly in the unorganised sector. This holistic approach ensures that wages are not just a means of survival but contribute to a dignified and meaningful life for all workers.

CONCLUSION

The yet-to-be-implemented code has sparked debate and discussion on the topic of minimum wage. When legislation is applied effectively, it might be beneficial for all the major stakeholders. There is a lack of research on the impact of minimum wage on the employment level from determining the wage level that is fair to all wage earners. Therefore, I analysed that there is a need to remove the disparity existing among different states in the same occupation within the same categories of workers and take necessary steps for the proper implementation of the Minimum Wage Act, 1948.

In conclusion, while the principle of a minimum wage is widely supported for its social justice objectives, its practical implementation requires a delicate balance of economic factors, including the specific labour market conditions, the size of the increase, and the capacity of businesses to absorb the additional costs. Effective minimum wage policies often involve careful adjustments, such as indexing to inflation, regional variations, or complementary support programs (like the Earned Income Tax Credit), to maximise benefits for workers while mitigating potential negative consequences for employment and the broader economy. Additionally, it is essential to consider the role of public awareness and education regarding minimum wage policies, ensuring that both employers and employees are informed about their rights and responsibilities. Engaging stakeholders in the process, including local communities and businesses, can facilitate more tailored approaches that reflect the unique economic landscapes of different regions. Furthermore, continuous monitoring and evaluation of the effects of minimum wage increases can help identify areas for improvement and adjustment over time, ensuring that the policy remains responsive to changing economic conditions and that it effectively meets the needs of both workers and employers. Ultimately, fostering a collaborative environment that prioritises fair compensation while supporting economic growth will be crucial in achieving the intended outcomes of the Minimum Wage Act of 1948.