THE EVOLUTION OF WAGE LAWS IN INDIA: FROM THE PAYMENT OF WAGES ACT, 1936 TO THE CODE ON WAGES, 2019

Rituraj, DES Shri Navalmal Firodia Law College

1. Introduction

The salary of an individual is much more than the sum credited to their bank account at the end of each month. For most people, it signifies the means to live in self-respect, economic security, and recognition of their labour. While for employers, wages are an important aspect of managing a workforce, they are the primary source of income for employees. It's no surprise that labour law has always been structured around wage-related laws.

India has a long and complicated history with laws about wages, which have evolved alongside the country's economy. The first law that dealt with wages was *the Payment of Wages Act*, which was passed in 1936. India's labour laws were initiated by this act to safeguard workers from unjust practices, such as illegal wage deductions and tardy payments. Despite its initial success, the Act eventually became insufficient as the labour market expanded. However, the growth of the service industry, contract labour, and the growing unrefined labour force demonstrated the limitations of a fragmented law in which various laws regulated different aspects (such as definitions, regulations, penalties, employment rates, etc.).

The *Code on Wages, 2019,* was enacted by Parliament to simplify and coherence with India's labour laws in order to address these challenges. The Code is not intended to replace earlier statutes, but rather to balance the needs of labour welfare with the realities of a contemporary economy. A study of the origins behind India' s wage laws is necessary to comprehend its importance.

2. Historical Background: Payment of Wages Act, 1936

The *Payment of Wages Act, 1936* occupies an important place in the history of Indian labour legislation. Initially introduced during the colonial period, it sought to ensure that industrial workers were not subjected to late wage payments or deducted at will by employers. Despite the expansion of industrialisation, workers still required limited legal protection, particularly in factories, railways, and plantations. The absence of transparency in terms of deductions or wage demotion, when implemented by employers, made workers vulnerable to financial loss.

The *Royal Commission on Labour (1931)* advocated for legislative intervention to regulate wage payments and enhance working conditions. Based on these recommendations, the colonial government passed the Payment of Wages Act to ensure that workers were paid their wages promptly while restricting deductions to legal limits. Despite being implemented during the colonial period, the legislation established a crucial foundation for India's labour welfare system.

Initially, this Act only applied to employees employed in factories, railways, and specific establishments. It stipulated precise deadlines for salary payments and permitted deductions only in specific cases, such as fines, absence from duty, reimbursement of authorised advances, and accommodations provided by the employer. Any deduction which was not specified in these categories may be challenged by the competent authority.

The Act introduced a legal definition of "wages," which encompasses compensation earned under employment conditions and does not cover employer contributions to the provident fund, house accommodation, or specified allowances. The definition was not as fitting as it seemed at first, as this differed from other labour laws, leading to inconsistencies across legal systems.

However, the Act had clear limitations. Instead of examining wages for fairness, attention was given to how and when they were paid. Later on, specific laws were implemented to manage issues related to minimum wages, bonuses, and equal remuneration, leading to the establishment of diverse definitions. Although this approach addressed various labour concerns separately, it resulted in a fragmented legal system over time. As India's economy continued to evolve, it became increasingly evident that regulating different aspects of wages through separate statutes was no longer practical. This realisation paved the way for a broader discussion on labour law reforms.

3. Need for Labour Law Reforms

India's labour laws were developed over many decades to address various economic and industrial problems. Despite having distinct functions, the legislation created a complex system that required employers to adhere to multiple statutes, each with unique definitions and procedural requirements. Wage regulation itself was spread across four different enactments which lead to inconsistency and frequent disputes.

One of the major concerns was that there was no fixed definition for wages. *The Payment of Wages Act, Minimum Wage Act, Payment of Bonus Act and Equal Renumerations Act* each had different definitions, leading to confusion about how to calculate statutory benefits such as provident fund, gratuity or bonus. Added compliance obligations and frequently resulted in legal action.

The previous labour regulations primarily applied to established manufacturing facilities. As India's economy expanded to new sectors such as services, information technology, outsourcing, contractual employment, and platform-based work opportunities, many workers were not adequately protected by the existing legal framework.

These flaws were recognised and the *Second National Commission on Labour (2002)* recommended that labour laws should be simplified into a smaller number of comprehensive codes. The aim was to simplify the legal system, ensure compliance and protect workers while still respecting their rights.

This approach was also in line with the government's larger goal to improve the ease of doing business, and social justice. The aim of Parliament was to create one legal structure that could address wage-related issues comprehensively, rather than requiring employers to navigate a sea of legislation with similar concerns. The *Code on Wages, 2019*'s implementation was based on these recommendations and became one of the most significant labour law reforms in recent years.

4. Code on Wages, 2019

4.1 Objectives

One of the most crucial labour law reforms in recent years is the Code on Wages, 2019. Rather than introducing an entirely new concept of wage regulation, it modernises the existing framework by consolidating four important legislations into a single statute:

- *Payment of Wages Act, 1936*

- *Minimum Wages Act, 1948*
- *Payment of Bonus Act, 1965*
- *Equal Remuneration Act, 1976*

A central objective of the Code is to provide a uniform and transparent system of wage regulation across the country. Parliament also recognised that several legislations had led to overlapping definitions, inconsistent compliance requirements and avoidable litigation. The aim of a uniform system is to minimize uncertainty while providing statutory protection to broader workforce segments.

The legislation incorporates the Code, which includes provisions for timely payment of wages and minimum wages, bonus payments, and equal pay. In this way, it is acknowledged that effective wage protection requires a holistic approach rather than individual legislative mechanisms for all issues. Having understood why the Code was introduced, it is equally important to examine the reforms it brought to India's wage regulation framework.

4.2 Scope and Coverage

One of the key benefits of this new Code is its wider scope. In contrast to the Payment of Wages Act, which only regulated certain categories of workers and had wage ceilings, the Code provides protection to employees in almost every area of the economy.

This bill also defines an employee, including persons engaged in skilled, semi-skilled or unskilled, managerial, administrative, technical and clerical work. This wider coverage reflects India's changing labour market where employment is not limited to the traditional industrial sector.

An economy that is increasingly characterized by contractual employment, outsourcing, and platform-based work requires an expanded scope. Although implementation continues through subordinate legislation, the legislative intent is clear - to provide wage protection to a wider workforce. While wider coverage is an important reform, perhaps the most significant change introduced by the Code is the adoption of a uniform definition of wages, an issue that had long created uncertainty under the earlier legal framework.

4.3 How are wages defined and what is its practical value?

One of the most notable reforms is the adoption of a uniform definition of wages by the Code under Section 2(y). Although it may seem like a technical drafting alteration, it addresses one of the most persistent problems under the earlier labour law framework.

The definition of wages varied in previous labour statutes. Employers often needed to calculate their wages separately for compliance with requirements such as provident funds, gratuity, bonuses, and minimum wage. This was due to this reason. This made payroll administration very difficult and this frequently led to disputes with labour authorities.

Now all laws adopted the same definition, which is defined in the Code. Generally, wages comprise of basic pay, dearness allowance, and retaining allowance. However, they do not take into account other components like house rent allowances, employer contributions to the provident fund, gratuity, conveyance allowance or specific prescribed payments. The Parliament acknowledged the increasing trend of restructuring salary packages by maintaining a low basic wage and increasing allowances, which helped to decrease statutory liabilities. The Code introduced the renowned 50 per cent rule to discourage this practice. Employers will consider any excess above fifty per cent from employee total remuneration as part of their wage and salary, where excluded allowances are included.

The practical implication of this reform is very substantial. Employers may need to restructure payroll systems and make higher contributions towards provident fund, gratuity and other statutory benefits. Although this may increase compliance costs, it also provides greater legal certainty by eliminating conflicting interpretations.

Employees are particularly benefited by the reform. Increased wages typically lead to higher contributions to provident funds, better gratuity calculations, and stronger long-term social security benefits. The uniform definition promotes transparency by minimizing the risk of manipulating salary structures through excessive allowances.

5. Minimum Wages

Besides providing for a uniform definition of wages, the Code strengthens the law on minimum wages. Earlier, *The Minimum Wages Act, 1948* granted governments the authority to determine minimum wages for workers in scheduled positions. Although it offered safeguarding measures for a significant number of vulnerable workers, the legislation's scope was restricted to certain employee groups.

The Code takes a broader view by expanding the scope of minimum wages to include broader employment sectors. More importantly, it brings forth the notion of a minimum wage that could be determined by consensus with the Central Government, taking into account their living standards for all employees. State Governments are unable to establish minimum wages below the floor wage, but can raise them in accordance with regional and economic circumstances. It provides a basic level of wage protection throughout the country and the ability to adjust to local circumstances.

Moreover, the importance of minimum wages has been clarified by law. In ***People's Union for Democratic Rights v. Union of India (1982*)**,** popularly known as the *Asiad Workers Case*, the Supreme Court ruled that the payment of wages below the prescribed minimum constitutes forced labour under Article 23(4) of the Constitution. This case was known for its controversial take upon the nature of work that if poverty forces an individual to work for less than the minimum wage, the Court concludes that such labour cannot be considered truly voluntary.

Similarly, in ***Sanjit Roy v. State of Rajasthan (1983)****,* the Supreme Court declared that workers who were working under famine relief programs in Rajasthan could not be paid less than the minimum wage as per statute. These rulings reinforce the notion that fair wages are more than just statutory entitlements, they also emphasize the importance of dignity, equality and social justice. While labour protection involves ensuring fair wages, it is equally important to ensure that those wages are paid on time. Even today, the Code places great importance on this goal.

6. Payment of Wages

Although the Code has a much wider range of wage regulation, it still maintains what was once called the Payment of Wages Act, 1936's primary objective - to give workers their wages as soon as possible.

Timeframes are clearly established by the Code, depending on the type of work. Workers who are paid for their work every day must receive payment at the end of the working day, while those who earn on the previous week's salary per week and each month must be paid within the prescribed time frame. Recognising the growing digitisation of the economy, the Code also permits payment through bank transfers, cheques and other electronic modes.

Additionally, it persists in managing authorized deductions and enhancing enforcement procedures, thus upholding the protective principle that was once the foundation of the Payment of Wages Act. However, timely payment alone does not ensure complete wage justice. The law must also guarantee that employees performing similar work are treated equally, irrespective of gender.

7. Equal Remuneration

The principle of equal remuneration has long been recognised as an essential component of labour justice. Earlier governed by the *Equal Remuneration Act, 1976*, this principle is now incorporated into the Code on Wages, eliminating the need for a separate statute.

Its constitutional foundation was established by the decision in ***Randhir Singh v. Union of India (1982*)**, where the Supreme Court held that Articles 14 and 16 of the Constitution establish **"equal pay for equal work".** While not explicitly stated as a fundamental right, the Court noted that it is part of the overall constitutional obligation to uphold equality.

Parliament has reaffirmed India's commitment to constitutional equality and international labor standards by including equal pay in the Code, affirming that gender-based wage discrimination is not acceptable in present employment relationships. Additionally, these reforms significantly enhance the legal framework on paper. The efficiency of their execution hinges on their practicality.

8. Status of Implementation of the Labour Codes

Although the Code on Wages received Presidential assent in 2019, its implementation has progressed gradually. Since labour falls within the Concurrent List, effective enforcement depends upon the notification of rules by both the Central and State Governments.

The Central Government has created the *Code on Wages (Central) Rules*, while most States have prepared or communicated draft rules. But implementation has moved along unevenly across the country.

This has caused concern among employers, trade unions, and practitioners of labour law. The new definition of wages, specifically the 50 per cent rule, has led employers to seek clarification on their obligations for payroll restructuring and compliance. Labour groups have emphasized the importance of effective enforcement, particularly in the unstructured sector where labour protections have been historically weak.

Despite these obstacles, the Code is a crucial step towards achieving broader collective labour law. Consistent implementation, administrative readiness, and judicial interpretation are essential for its long-term success. Having examined the principal features of the Code, it is useful to compare it with the legislation it replaced in order to understand the extent of the reforms introduced.

9. Comparison between the Payment of Wages Act, 1936 and the Code on Wages, 2019

Aspect	**Payment of Wages Act, 1936**	**Code on Wages, 2019**
Primary Objective	Timely payment of wages and regulation of authorised deductions.	Comprehensive framework governing wages, minimum wages, bonus and equal remuneration.
Coverage	Applied to specified establishments and employees within prescribed wage limits.	Extends protection to employees across a much wider range of establishments without a similar wage ceiling.
Nature of Legislation	Focused only on payment of wages.	Consolidates four labour legislations into one Code.
Definition of Wages	Separate definition limited to the Act.	Uniform definition applicable throughout the Code.
Minimum Wages	Governed separately under the Minimum Wages Act, 1948.	Incorporated within the Code along with the concept of a national floor wage.
Equal Remuneration	Not covered.	Incorporated from the Equal Remuneration Act, 1976.
Mode of Payment	Primarily cash-based, later amended to include electronic modes.	Expressly recognises bank transfer, cheque and digital payment systems.
Compliance	Multiple statutes required separate compliance.	Single legislative framework intended to simplify compliance and reduce ambiguity.

The Code on Wages, 2019 doesn't just come as an update to the *Payment of Wages Act*, it is part of a wider overhaul of India's wage regulation framework. While the 1936 Act was primarily concerned with providing wages on time and safeguarding against arbitrary deductions, the Code takes a more comprehensive approach by combining minimum wage requirements, bonuses, and equal pay in one single statute. This leads to increased consistency, simplifies compliance and provides statutory protection to a larger workforce. Although there have been significant improvements, the Code has not always received criticism. A number of pragmatic questions remain relevant in its implementation.

10. Challenges and Criticisms

Although the Code on Wages is progressive, it has been subject to criticism from various groups.

Amongst the major issues is implementation. Co-ordinated enforcement of labour is necessary for both Central and State Governments, as it falls under the Concurrent List. The Code's practical application has been hindered due to a delay in the notification of rules.

The 50 per cent rule has sparked debate. Despite the intention to prevent employers from cutting statutory liabilities through excessive allowances, businesses contend that restructuring pay packages may result in higher employment costs, particularly through increased contributions to the provident fund and gratuity. There have been various concerns raised by trade unions. They maintain that the expansion of legal coverage won't lead to better enforcement mechanisms, particularly in the unorganized sector where labour inspections have been limited. The practical implementation of the Code on new forms of employment, such as gig and platform workers has also sparked concerns.

However, these worries are primarily about implementation rather than the goals of the legislation itself. It has been widely welcomed that a single framework could be used to consolidate several wage laws, which are both crucial for improving legal clarity and simplifying administration. Although these practical difficulties are real, they don’t diminish the importance of this reform. In contrast, they emphasize the need to ensure that legislative intent is translated into meaningful protection for workers.

11. Conclusion

India's labour policy is influenced by the changing priorities of its wage laws. The Payment of Wages Act, 1936, was enacted to address the problem of delayed wage payments and arbitrary deductions during a time when industrial workers were not adequately protected by the law. With the expansion of the economy and the increasing complexity of employment relationships, it became apparent that separate legislations could no longer adequately address wage-related issues.

The Code on Wages, 2019 is a crucial milestone in this progression. By consolidating the four major labour legislations into a single Code, Parliament has strived to create unified and transparent legal systems. A more integrated approach to wage control has been reflected by the introduction of uniform wages definition, national floor wage, and equal pay.

The validity of the concept of fair wages being closely linked with constitutional values of equality, dignity, and protection against exploitation has been reinforced by rulings such as those made by ***Randhir Singh and Sanjit Roy*** on the case of ***People's Union for Democratic Rights***. The Code adapts these principles to the needs of a contemporary labour market.

The Code has a significant attempt to simplify labour regulation without jeopardizing worker welfare, but implementation is still problematic. Effective enforcement, coordination between the Centre and the States, and ongoing judicial interpretation are essential for its long-term success. Despite this, the change in legislation from the Payment of Wages Act, 1936 to the Code on Waxes, 2019, remains one of the most crucial developments in the evolution of Indian labour law.

REFERENCES

1. The Payment of Wages Act, 1936.
2. The Minimum Wages Act, 1948.
3. The Equal Remuneration Act, 1976.
4. The Code on Wages, 2019.
5. *People's Union for Democratic Rights v. Union of India*, (1982) 3 SCC 235.
6. *Randhir Singh v. Union of India*, (1982) 1 SCC 618.
7. *Sanjit Roy v. State of Rajasthan*, (1983) 1 SCC 525.