

## DIVERGENCE IN THE WAGE SHARE AND PROFIT SHARE IN THE INDIAN MANUFACTURING SECTOR

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### **ABSTRACT**

*The issue of income distribution holds great significance. The size of the economic pie and its distribution are two intertwined issues. Growth, in itself, is not a sufficient objective for any economy. High growth with an inequitable distribution, where one social class prospers at the expense of another cannot usher in development. Profits spiraling at the expense of wages have become a global trend. The state of affairs in India is not very different from global trends. Data confirms profit inflation at the cost of a declining share of income of workers in the manufacturing sector. An important story that underlies these trends is that the secondary and tertiary sectors have capitalized on the consistent marginalization of the workers in the agrarian and rural sector of the country. The real wage stagnation and the large labor reserve, have contributed to a rise in the surplus incomes. The paper utilizes data from EPWRF, 1973-74 onwards till 2013-14. The analysis of the Indian manufacturing sector confirms a general trend of spiraling profit incomes and plummeting wage shares and a multitude of factors are responsible for these trends in varying degrees. These factors are: Compression of wages amidst rising costs of other factor inputs, the ability to set high markups, increased mechanization, Informalisation & contractualisation, union labor strength, the role of minimum wage laws, employment programs, etc. The factors listed above have a great contribution in affecting the current trends. Certainly, the factors might vary in their impact from one industry to another, making subsector analysis imperative. The paper tries to locate the role of the factors mentioned above in determining the share of wages, considering the output price as a cost-plus (or markup), as is often the case for non-primary commodities. The study finds that technological changes and innovation have played a significant role in pulling the labor share down. A rise in the other input costs also becomes a reason for a cut in the wage share. Mark-ups have risen as well, transferring the share of workers to the profit-earning class. Contractualization of workforce and informalization of work have also played a prominent role in keeping the growth benefits from the workers. Weak labor institutions have also added to the plight.*

**KEYWORDS:** *Manufacturing Sector, Divergence, Profit-Spiral*