

Living Wage Update Report: Rural Bhadohi, Uttar Pradesh, India 2023

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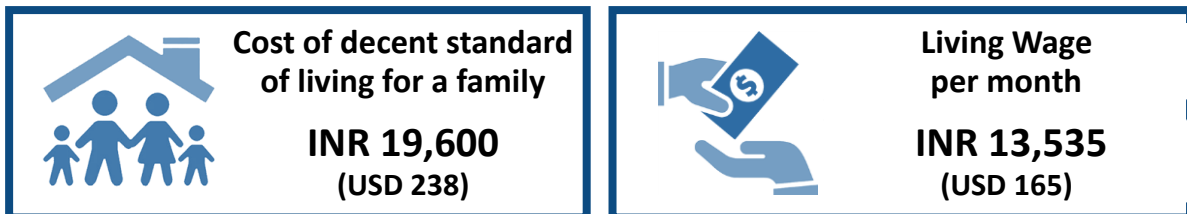


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Living Wage Update Report: Rural Bhadohi, Uttar Pradesh, India, 2023

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Abstract:

This report provides updated estimates of family living expenses and living wage for rural Bhadohi, Uttar Pradesh, India. The update for 2023 takes into account payroll deductions and inflation since the original Anker living wage study carried out in December 2015 (Kuriakose and Kaicker, 2015).

Keywords: Living costs, living wages, Anker Methodology, India

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the Anker living wage and family living expenses to 2023 for rural Bhadohi district in Uttar Pradesh, India. This area is part of the largest hand-knotted carpet weaving industry hub in south Asia. This update report takes into account the amount of inflation since the original study in December 2015 (Kuriakose and Kaicker, 2015). This is done by updating the December 2015 net living wage and family living income expenses to June 2023 by inflation. This provides average living wage and living expenses estimates for 2023. Without accounting for inflation, the living wage estimated in 2015 would not be sufficient for workers to have a basic but decent standard of living in 2023, because the purchasing power of the living wage would have decreased compared to what it was in 2015.

Since rural carpet weavers in Bhadohi are informal sector workers doing piece rate work, they do not have payroll deductions, and for this reason, the original 2015 living wage report considered the net living wage and the gross living wage (aka living wage) to be the same. However, the gross living wage is higher for formal sector workers who have mandatory payroll deductions of 6% for provident fund and 0.75% for ESI health insurance. The current policy of the Anker Research Institute and the Global Living Wage Coalition is that the operative living wage for a location should be for formal sector workers in part because it is important to avoid a race to the bottom on wages and in part because informal sector workers have additional uncertainties and insecurities and costs. Therefore, as in the previous update for 2022, this living wage update report includes not only an inflation adjustment, but also provident fund and ESI payroll contributions.

2. LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM DECEMBER 2015

The original living wage country report for rural Bhadohi estimated the net living wage and gross living wage as INR 8,929 in December 2015 for informal sector piece rate workers. This was the required take-home pay for decency in December 2015 for such workers who did not have payroll deductions because of the informal nature of their work. The living expenses for a basic but decent standard of living for a reference family in the original country study was estimated as INR 13,803 in December 2015 (Kuriakose and Kaicker, 2015).

3. INFLATION RATE USED FOR UPDATE

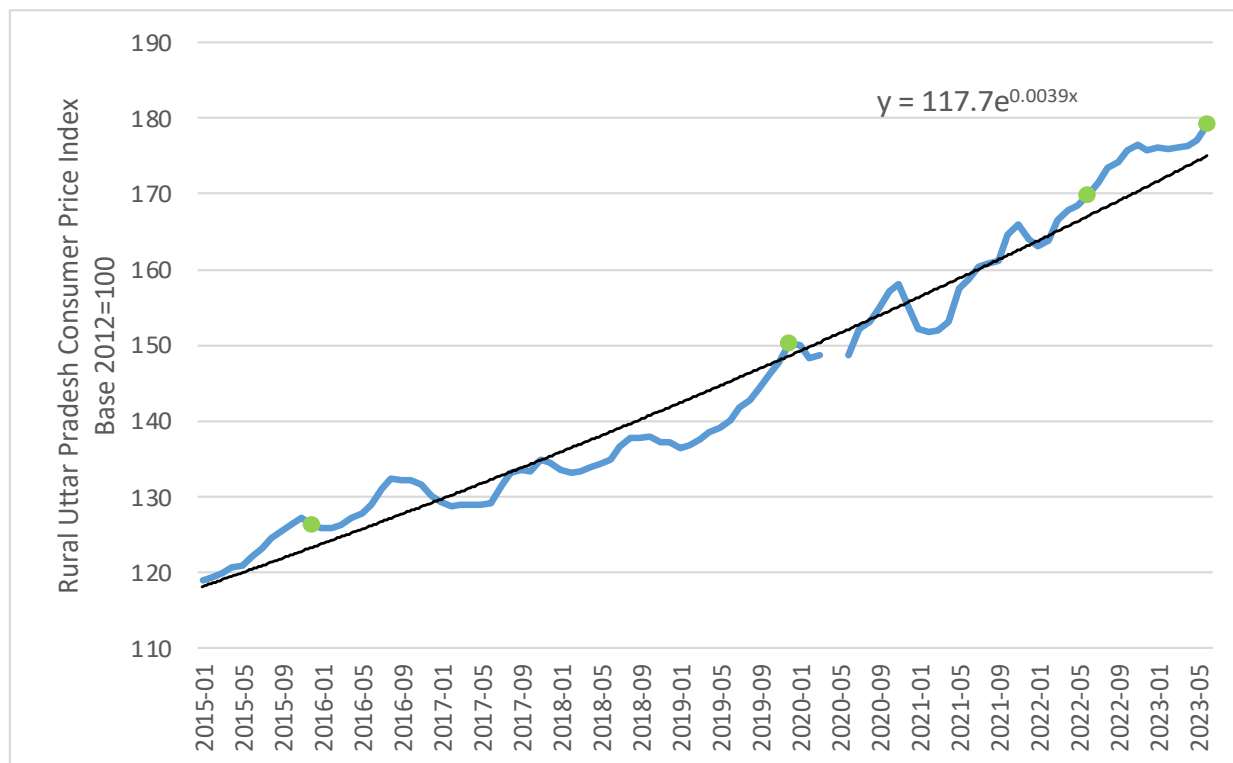
The Government of India's Ministry of Statistics and Programme Implementation (MSPI) reports several consumer price indices (CPI) for India at different levels of aggregation. The MSPI collects monthly price data from 1,181 village markets for rural prices and 1,114 markets across 310 towns for urban prices. These prices are used to calculate the following: a national CPI, an urban CPI, a rural CPI, a CPI for each state, and a CPI for industrial workers. The CPI for each state is also reported for rural and urban areas, and the CPI for industrial workers is reported for 78 major industrial centers. The base year for all the indices is 2012.

Since the original study focuses on the rural area of Bhadohi, Uttar Pradesh, this report uses the rural Uttar Pradesh CPI, instead of the national CPI, to update the living wage and living expenses.¹

4. RECENT LEVEL OF INFLATION

Between December 2015 and June 2023, inflation to amount to 42.0% in rural Uttar Pradesh, India (see Figure 1). This is the inflation used in this report.

Figure 1: Rural Consumer Price Index for Uttar Pradesh, from January 2015 to June 2023



Notes: Green circles highlight the months of the original study and earlier update. The black line is the fitted exponential trendline. Information for April and May of 2020 were missing, but that did not affect any of our calculations.

Source: Authors' calculations based on CPI data from MSPI.

5. MANDATORY DEDUCTIONS

There is a statutory payroll deduction for the Provident Fund of 12% which is assessed on worker's basic wage and dearness allowance components of the total salary. Although there is no legislative norm in India on the actual proportion of pay and allowances that are subject to the 12% provident fund deduction, some court judgements and general practice suggest that allowances do not generally exceed 50% of the total pay. Given this background, we estimate that about 6% of the net living wage is deducted as employees'

¹ See <https://www.mospi.gov.in/cpi>. Information accessed: 21 September 2023.

contribution to the Provident Fund. These court decisions have come to our attention after the publication of the previous update report (Andersen et al., 2022). Consequently, this treatment of mandatory deductions for the Provident Fund differs from that used in the in previous update report. Additionally, employees contribute 0.75% of their wages to the Employee’s State Insurance (ESI) Corporation. The ESI Scheme performs the role of a social security scheme that includes medical, sickness, maternity, disablement, and dependant’s benefits and funeral expenses². Therefore, we estimate that the mandatory deductions amount to the equivalent of 6.75% of the net living wage.

Regarding income taxes, workers earning a living wage are exempted as India has a progressive income tax system and the living wage is well below the income tax threshold of INR 300,000 per year or about INR 25,000 per month³.

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2023

The gross living wage (aka living wage) for 2023 is INR 13,535 (USD 165), consisting of INR 12,679 (USD 154) needed take home pay and INR 856 (USD 10) in payroll deductions (provident fund and ESI health insurance). These are average estimates for 2023.

Table 1 provides details of the original and the updated living wages and family living expenses.

Table 1: Living wages and living expenses for rural Bhadohi, Uttar Pradesh, India (in Indian Rupees and US Dollars)

Item	December 2015 Original Study		2022 Update Report		2023 Update Report	
	INR	USD	INR	USD	INR	USD
Family Living Expenses (1)	13,803	206	18,525	244	19,600	238
Net Living Wage (2)	8,929	133	11,984	158	12,679	154
Total mandatory deductions and income tax (3)	0	0	1,751	23	856	10
Gross Living Wage (2+3)	8,929	133	13,735	181	13,535	165
Exchange Rate to USD	67.0		75.9		82.3 ^a	
Source of Exchange Rate	Original Study		IMF Archive		IMF Archive	

Notes: USD values are indicative only because exchange rates are volatile. ^aAverage exchange rate for June 2023.
Source: Authors’ calculations.

² See <https://www.esic.in/web/esic/benefits>

³ See <https://taxsummaries.pwc.com/india/individual/taxes-on-personal-income>

7. REFERENCES

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