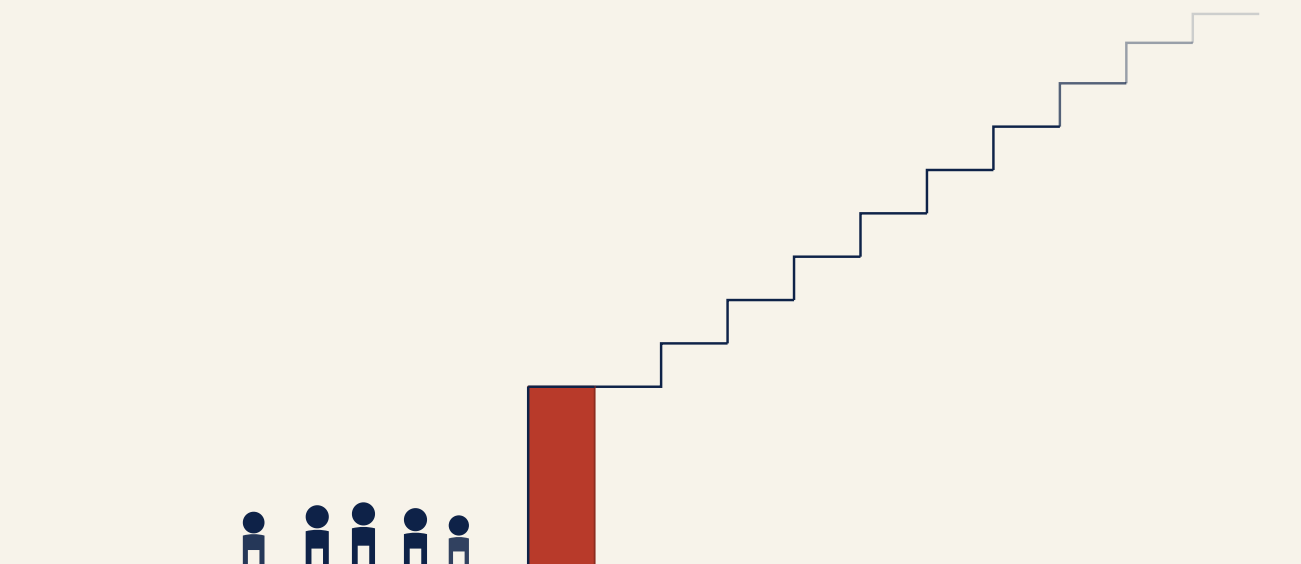

Minimum wages hurt the *most* *vulnerable* workers.

A policy report on India's wage floor, the workers it excludes, and the jobs it prevents from existing.



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Disclaimer

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MINIMUM WAGES HURT THE MOST VULNERABLE WORKERS

**India's wage floor, the workers it excludes,
and the jobs it prevents from existing.**

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Minimum wages hurt the workers they are designed to protect

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Minimum wages hurt the workers they are designed to protect.

Rigorous research repeatedly establishes that minimum wage reduces employment opportunities, especially for the least-skilled workers. In India, we have compounded this effect by setting the legal floor well above where the average worker can be employed.

For 47% of India's workers, hiring them at 30% above what they earn today would still be illegal.

INDIA'S MINIMUM WAGES ARE HIGH

64% workers
earn below them

In 14 of India's largest states, 40 to 79% of workers earn below minimum wage. This implies that most of our workers are locked out of formal employment.

1.5x above
competitor avg.

Being so much higher than major export competitors (relative to per-capita GDP) — prices our exporters out of the labour-intensive sectors and jobs the country most needs.

WHICH CONTRIBUTES TO

\$60bn annual
export shortfall

What India fails to export in low-skill goods each year because low competitiveness keeps our firms out of global supply chains. This represents lakhs of missing jobs!

~88% informal
workforce

The share of Indian workers with no contract, no PF, no legal protection — higher than Vietnam, Thailand, Bangladesh, or Mexico.

THE MECHANISM · HOW WORKERS END UP WORSE OFF

When the law mandates a wage above what a worker's labour can produce, employers cannot simply pay more. They adjust — and the adjustment travels in one direction.

01 THE LAW SETS A FLOOR

A wage above most workers' productivity.

India's floor is 1.7x what the median casual worker earns and 50% above its major export competitors — priced for an economy that does not yet exist.



02 EMPLOYERS ADJUST

Eight of nine options leave workers worse off.

Firms can lay off, automate, shut down, exit labour-intensive sectors, relocate, upskill, or stay informal. Only one response — paying the mandated wage — actually raises pay.



03 THE RESULT

Fewer formal jobs, slower growth, worse working conditions.

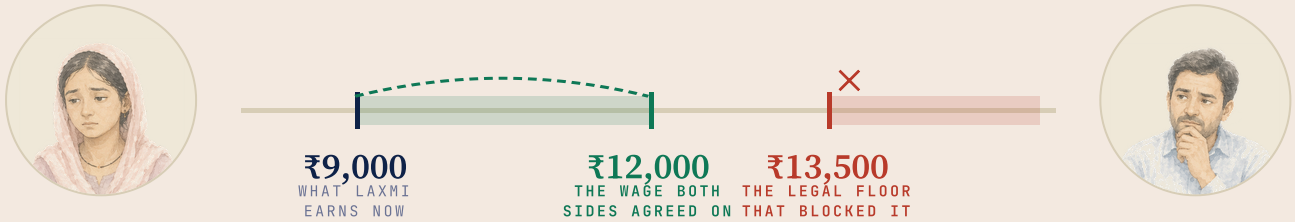
Labour-intensive exports run \$60 billion below what India's labour endowment predicts. Lakhs fewer formal jobs mean 88% of the workforce is informal. The protection exists on paper, not on pay-slips.

A wage both sides would have agreed to — and the law that stopped them.

SCENARIO · THE DEAL THAT NEVER HAPPENED

ILLUSTRATIVE · THE MECHANISM IN ONE HIRE

Laxmi would have earned ₹12,000. Aman would have hired her. The law stopped both of them.

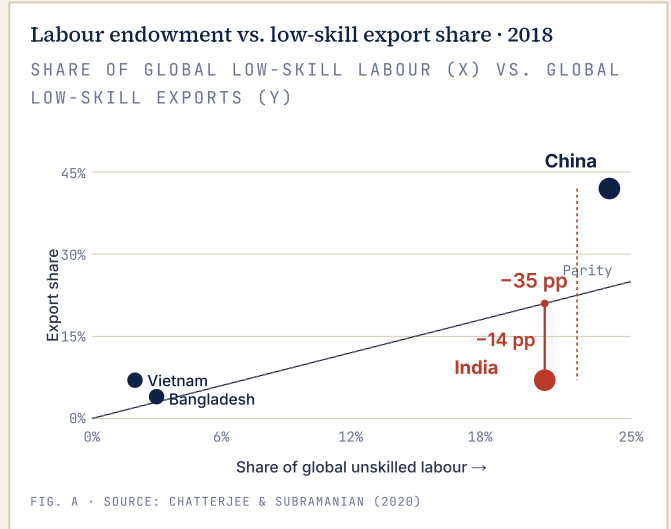


Laxmi works as a construction worker, earning ₹9,000 per month — no contract, no EPF. Aman wants to set up a t-shirt export unit in the town — a business model that works at ₹12,000 per worker, a 33% raise, with a written contract and provident fund. But the legal minimum for her category is ₹13,500. At that rate his unit can't compete with Dhaka. His factory opens there. Laxmi stays where she is.

Laxmi and Aman are hypothetical characters, but their situation is not. These numbers are the averages that workers are at today. And it is the sum total of many such missing mutually beneficial agreements that shows up in the overall lower quality of the employment eco-system in India.

The macro data is consistent with the mechanism. **~88% of India's workforce is informal** — higher than Vietnam, Thailand, Bangladesh, or Mexico. Labour-intensive sectors (footwear, leather, apparel) grew at 7–9% while capital-intensive sectors grew at 13–14%. Employers who cannot legally hire at the agreed wage instead automate, or do not hire at all.

The high cost of labour is visible in trade outcomes. India and China each hold roughly a fifth of the world's low-skill labour — yet China captures six times India's share of low-skill exports (Fig. A). The gap, measured in unrealised trade, is **roughly \$60 billion a year**. This is the primary reason India's structural transition out of agriculture has stalled: in its first 30 years of reform, China shifted 32 percentage points of its workforce off the farm. India shifted 19pp, 40% less — millions of workers continuing in invisibly inhumane conditions, in large part because we make visible formality so onerous.



A choice between protection in name — and jobs in reality.

The cruel irony of a minimum wage set too high is that it does not protect the most vulnerable worker. It prices them out of the labour market entirely — leaving no better option than casual, unprotected, informal work.

FROM THE ARGUMENT OF THIS REPORT

When a legal wage is set above what firms can afford, firms have nine realistic options — and only one of them, paying the higher wage, delivers the outcome the policy intends.

Far from preventing exploitation, the floor creates the very conditions it claims to prevent. Our choice is between a high minimum wage that excludes the most vulnerable workers from the formal economy, and a realistic wage policy that gives those workers a genuine foothold.

THE STAKES

8–10M NEW WORKERS JOIN INDIA'S LABOUR FORCE EACH YEAR

Manufacturing and labour-intensive sectors can absorb them — but only with competitive wage structures. So long as minimum wages remain set far above what these sectors can bear, workers are denied the first step on the economic ladder.

India will do far more for its workers by making it easier to create jobs than by mandating wages that hinder job creation.

SECTION 5 · THREE RECOMMENDATIONS THAT PUT WORKERS FIRST

01

Let workers and employers freely negotiate wages.

This is the position that evidence and theory most strongly support. Even starting below the current floor, this would open up formal jobs to those presently excluded — with the advantages that come with formality (the ability to contract, PF, ESIC) retained.

This will be politically difficult to achieve in the short term, but since it is best for workers, we must begin by building understanding and acceptance for it.

02

Replace further minimum wage hikes with wage subsidies.

Fiscally expensive but politically easier and economically sound: the state pays a fixed per-worker subsidy, this would actually increase demand for workers, instead of minimum wage, which reduces demand for workers.

It would also provide relief to workers while letting rising market wages narrow the gap with higher wages.

03

Allow any national floor wage to reflect regional reality.

The interior of Uttar Pradesh is very different from the outskirts of Bangalore. Costs, infrastructure, weather, all vary enormously across the country.

A uniform national floor would take away any advantage poorer states have in attracting investors to employ their workers, giving richer states an even greater advantage than they already have.

01

Employers have nine ways to respond to minimum wages, and only one helps workers.

Supporters of the minimum wage assume wages will simply rise. In reality, employers have a wide menu of choices, especially in the medium to long term, and almost all of them leave the worker worse off.

Minimum wages legally mandate what employers must pay. Economic reality mandates what they can.

Although the intention behind minimum wages is to protect workers from low pay, economic reasoning and empirical evidence show us that they hurt the very workers they claim to help - by reducing their options.

This report examines the impact of minimum wages in India by reviewing the theoretical arguments, the global evidence base, and data from the Periodic Labour Force Survey 2023–24 for the 14 most populous states.[†]

Supporters of minimum wages assume that higher mandated wages will force employers to pay more, thereby preventing exploitation and ensuring a living wage. The central assumption is that when minimum wages are enforced, employers have no choice other than to employ the same number of people as they would have otherwise, at the wage decided by law.

In reality, existing and potential employers have a wide menu of alternatives.

To understand this, try examining situations in your daily life where you personally employ people. How formally employed are your poorest workers? If tomorrow the government mandated an increase in their wages, what would you do? Would you willingly pay the increase - or would you look for another solution, especially if the worker is not very good and the raise is well above the value they provide?

Scaled up across the firms of an economy, individual responses like yours are exactly what produces the data in this report. The menu has nine realistic entries - eight of which leave the worker worse off. *Turn the page* to see them all.

The remainder of this report maps each of those nine options to the data that documents it. Section 3 shows that India's minimum wage is unusually high; Section 4 shows what employers actually do in response; Section 5 sets out what to do about it.

[†] India's minimum wage for this report is calculated as the average minimum wage of the top 14 most populous states, excluding Bihar. We excluded Bihar as PLFS wage and earnings data for Bihar appeared to have errors, showing reported wages higher than those in the southern states.

SIDEBAR · THE BROADER REGULATORY WEB

Minimum wages sit inside a wider set of hiring-cost rules.

India's labour framework contains a range of interventions labelled "protections" that, while well-intentioned, raise the effective cost of hiring well above the take-home wage. ESIC and EPF deductions trade current earnings for delayed, uncertain benefits. The spread-over cap limits working hours per day. Overtime rules restrict both hours and demand a 2× wage premium. Night-shift rules limit when women can be rostered. Employer-funded maternity leave, at 26 weeks, is among the longest in the world. Added together, these obligations discourage expansion and push millions into informal work where none of the protections apply. The minimum wage is the most visible — and most consequential — of them, and it is the focus of this report.

Where India is more restrictive

VS. COMPETITOR BENCHMARKS

MEASURE	INDIA	BENCHMARK
Spread-over cap	10.5h	12h
Overtime hours per quarter	75h	216–312h
Overtime premium	2.0×	1.0–1.5×
Maternity leave (employer cost)	26w	14–16w
Women in night shifts	Allowed with conditions	Allowed

BENCHMARK COUNTRIES INCLUDE VIETNAM, BANGLADESH, CHINA, MALAYSIA, SINGAPORE, UK, NETHERLANDS AND FRANCE

SOURCE · COUNTRY LABOUR CODES; FED RESEARCH COMPILATION

When minimum wages exceed productivity, employers have *nine* realistic options.

<p>Lay off low-productivity workers</p> <p>JOBS GET ELIMINATED</p>	<p>Automate the role</p> <p>JOBS GET ELIMINATED</p>	<p>Shut the factory down</p> <p>JOBS GET ELIMINATED</p>
<p>Exit labour-intensive sectors</p> <p>JOBS GET ELIMINATED</p>	<p>Relocate to Vietnam or Bangladesh</p> <p>JOBS GET DISPLACED</p>	<p>Relocate to a lower-wage state</p> <p>JOBS GET DISPLACED</p>
<p>Hire only high-skilled workers</p> <p>JOBS GET DISPLACED</p>	<p>Push the worker into informality</p> <p>JOBS GET DISPLACED</p>	<p>Pay the higher mandated wage</p> <p>WAGES RISE</p>

Of nine realistic options, only one delivers the wage the policy intends — and only when firm productivity can absorb the cost.

- JOBS GET ELIMINATED · 4
- JOBS GET DISPLACED · 4
- WAGES RISE · 1

Section 4 walks through each category of option. Every subsection carries its category tag in the margin.

S	WHAT THE SUBSECTION COVERS	CATEGORY
4.1	The constraint on export competitiveness	JOBS DISPLACED
4.2	The structural transition that has stalled as a result	JOBS ELIMINATED JOBS DISPLACED
4.3	Workers stay in, or are pushed into, informal employment	JOBS DISPLACED
4.4	The shrinkage of labour-intensive sectors	JOBS ELIMINATED JOBS DISPLACED
4.5	The compression of manufacturing	JOBS ELIMINATED JOBS DISPLACED
4.6	Inter-state relocation toward lower-wage states	JOBS DISPLACED
4.7	Shutdown, when no other option is feasible	JOBS ELIMINATED
4.8	The gap between the legal floor and state median wages	JOBS ELIMINATED JOBS DISPLACED

02

Economic research shows minimum wages reduce opportunities — especially for the most vulnerable.

Rigorous RCTs, Natural experiments and literature reviews consistently find negative causal effects. Recent studies also show harms go beyond wages and employment.

Decades of research, one consistent finding — especially for the vulnerable.

The weight of the available evidence — and the best-quality evidence — both converge on the same conclusion: minimum wages reduce employment opportunities and hurt the workers they are meant to protect.

For the longest time it was an uncontroversial view among economists that minimum wages are a bad idea. In 1992, **79% of economists** believed minimum wages hurt young and less skilled workers.

A few papers, most famously Card and Krueger (1994), did not observe job losses in fast-food restaurants after a minimum-wage hike, and set off a wave of research popular among those sympathetic to the policy. Scholars later pointed out substantial methodological issues with those studies — focusing only on the number of employed workers instead of total compensation, looking only at particular employers (fast food), and using telephone surveys that were not reproducible.

Review studies synthesising the broader literature consistently find a preponderance of negative employment effects, particularly for younger and less-skilled workers.

"...among the papers we view as providing the most credible evidence, almost all point to negative employment effects... the studies that focus on the least-skilled groups provide relatively overwhelming evidence of stronger dis-employment effects for these groups."

— NEUMARK & WASCHER (2006)

"There is a clear preponderance of negative estimates in the literature... strong and consistent evidence of negative employment effects for teens, young adults, the less-educated, and directly-affected low-wage workers."

— NEUMARK & SHIRLEY (2021)

A recent randomised controlled trial — often treated as the gold standard of evidence — reinforces these findings. **Horton (2025)** worked with an online job platform, requiring some randomly chosen job listings to offer a minimum hourly wage while others had no such rule. Employers were less likely to hire when required to pay a minimum wage, and when they did, they more often chose higher-skilled workers. Workers who were hired earned more, but worked fewer total hours; less-skilled applicants were hired less often. Overall, imposing a minimum wage led to a large reduction in the number of jobs posted

Kreiner, Reck & Skov (2018) exploited the sharp discontinuity at age 18 in Danish minimum wage rules, where hourly wages jump by ~40%. Employment among workers just crossing the 18-year threshold fell by **33%** and total hours worked fell by **45%**.

A growing literature indicates that minimum-wage hikes can have broader and more concerning impacts than just those on employment. **Burkhauser, McNichols & Sabia (2025)** estimate that a 10% minimum-wage increase is associated with a 0.17% *increase* in long-run poverty. **Hill (2024)** finds evidence consistent with minimum-wage hikes contributing to higher homelessness rates.

The evidence above is drawn from the broader global literature on minimum wages. It speaks to employment, earnings distribution, poverty, informality, and firm behaviour — the channels this report examines in the Indian context in Sections 3 and 4.

03

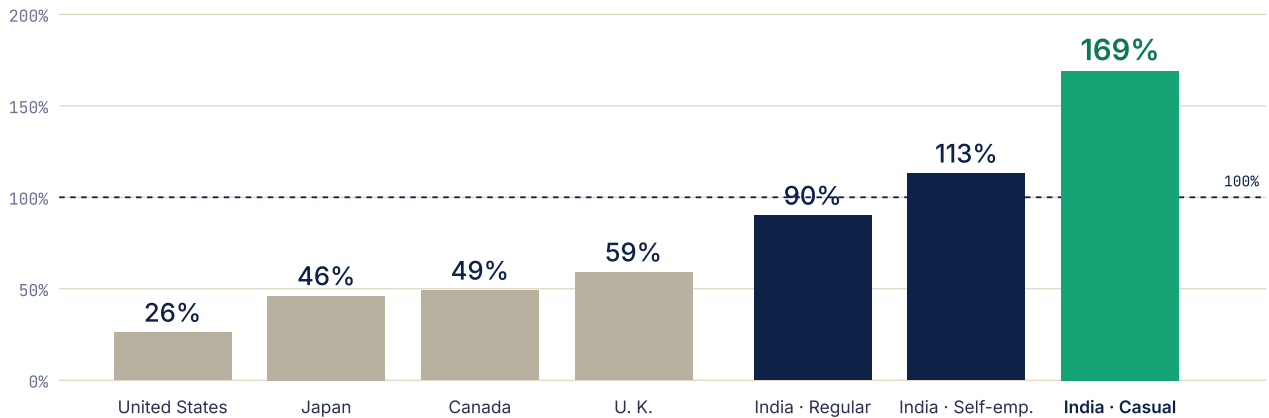
India's minimum wage is unusually high relative to its income and productivity.

India's minimum wage is high compared to what workers actually earn, high compared to competitor economies, and high compared to the government's own benchmark. For nearly half of India's workers, even a 30% raise over today's earnings would still be illegal.

India's floor sits at **169%** of what the median casual worker actually earns.

Minimum wages as a proportion of median wages

INDIA VS. MAJOR DEVELOPED ECONOMIES



SOURCE · OECD DATA EXPLORER; PERIODIC LABOUR FORCE SURVEY 2023-24

The US minimum is 26% of the median. In India, the minimum is 169% of what the median casual worker earns — the group that needs formal jobs the most.

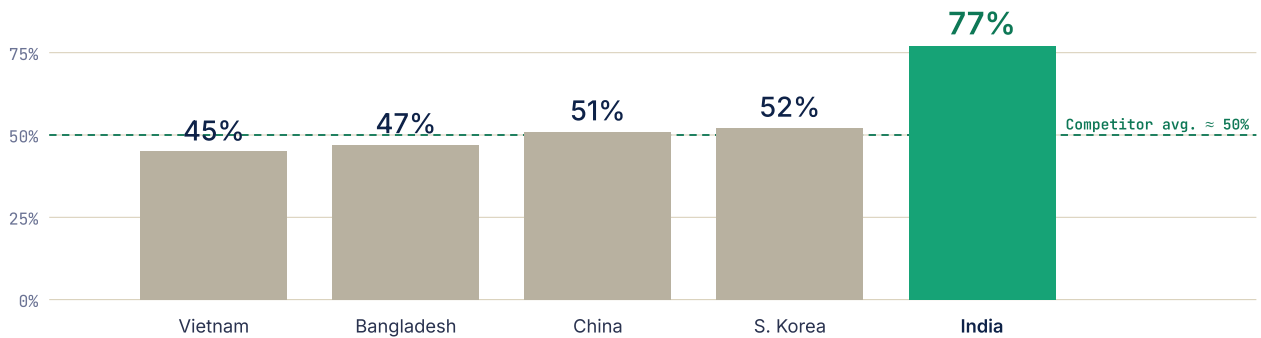
In developed economies where earnings distributions are available, minimum wages sit at modest shares of the median: 26% in the US, 46–59% in Japan, Canada and the UK. In India the minimum is **90%** of the median for regular workers, **113%** for self-employed, and **169%** for casual workers.

This means for the categories that need formal jobs the most, minimum wages are set well above the productivity of even the median worker — let alone the poorest. For competitor economies, earnings-distribution data is not available, but India's minimum wage as a share of per-capita GDP is an outlier there too.

India's minimum is **54%** *higher* than its export competitors' benchmark.

Minimum wage as proportion of monthly per-capita GDP

INDIA VS. MAJOR EXPORT COMPETITORS



SOURCE · GOVERNMENT PORTALS; ECONOMIC TIMES; STATISTA; IMF

India's major export competitors keep their minimum wage at ~50% of monthly per-capita GDP. India sits at 77% — 54% above the competitor average.

To align with the ~50% competitor benchmark, India's minimum wage would need to be roughly ₹9,000 / month (USD 103).

Without a fundamental shift, India will keep losing cost competitiveness and manufacturing jobs to countries like Vietnam and Bangladesh, which offer more attractive wage structures for labour-intensive industries.

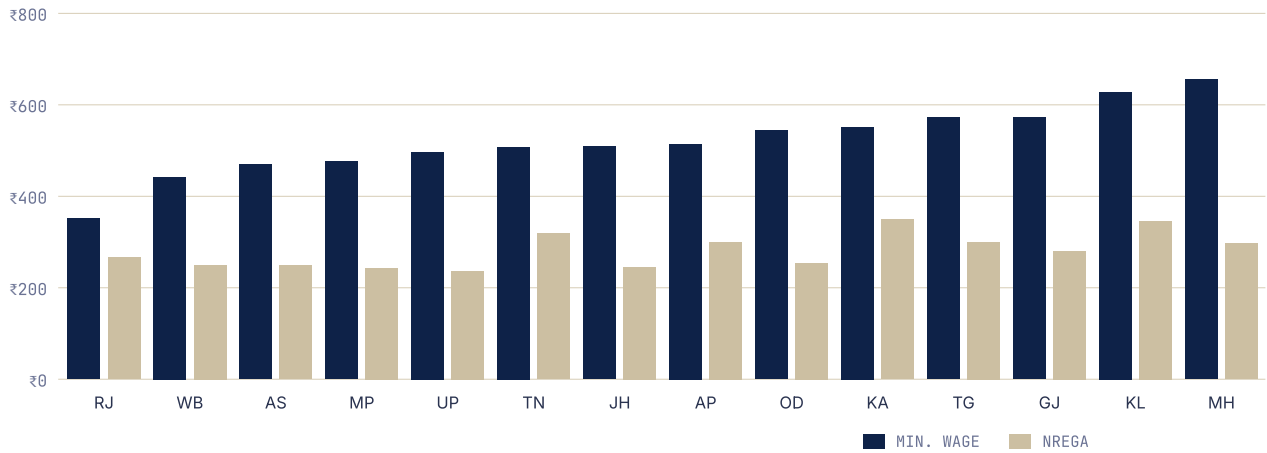
● JOBS GET DISPLACED · SCENARIO

A mid-sized garment exporter in Bengaluru — a decade-long supplier to a European fast-fashion brand — was asked to scale up by 40%. After modelling compliance with Karnataka's scheduled minimum-wage increase, the owner determined margins would turn negative. He moved the expanded order to his sister concern in Dhaka. **The 200 new jobs went to Bangladesh. The Bengaluru unit shed 60 existing workers in the same quarter.**

Even the government's own safety-net wage is often *half* the minimum.

Minimum wage vs. NREGA wage · selected states

DAILY WAGE, INR · STATE MINIMUM WAGE (NAVY) VS. NREGA FLOOR (TAN)



SOURCE · MINISTRY OF RURAL DEVELOPMENT; STATE MINIMUM WAGE NOTIFICATIONS

Across all 14 largest states, the minimum wage runs 1.3–2.2× the NREGA floor. NREGA was designed as the government's own safety-net baseline — yet the mandated private-sector floor sits well above it.

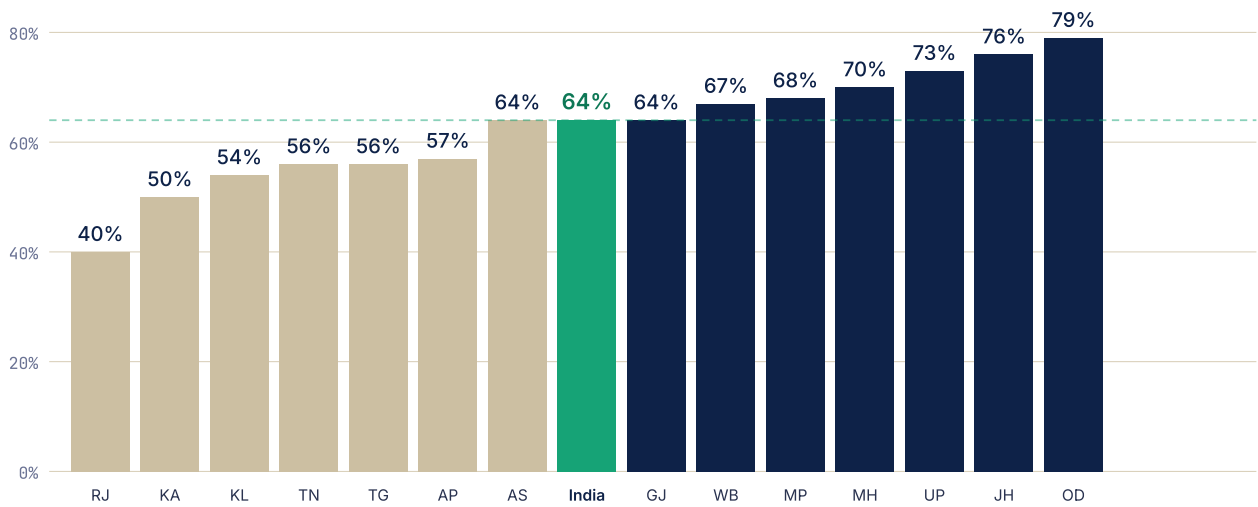
As a robustness check, we compare minimum wages to the daily wage the government itself sets for the erstwhile Mahatma Gandhi National Rural Employment Guarantee Act — a scheme meant to provide a baseline safety net for rural workers. Across multiple states, the minimum wage is 1.3–2.2× higher than the NREGA wage.

The implication is stark. Even the government, when setting wages for a scheme *it* funds and operates, calibrates below the minimum-wage floor it requires private employers to meet. If the state's own safety-net baseline sits below the minimum wage, it is difficult to argue that the minimum reflects genuine market conditions.

Across India's 14 largest states, between 40% and 79% of workers earn below the minimum wage.

Share of workforce earning under the minimum wage

REGULAR + CASUAL + SELF-EMPLOYED · 14 MOST POPULOUS STATES

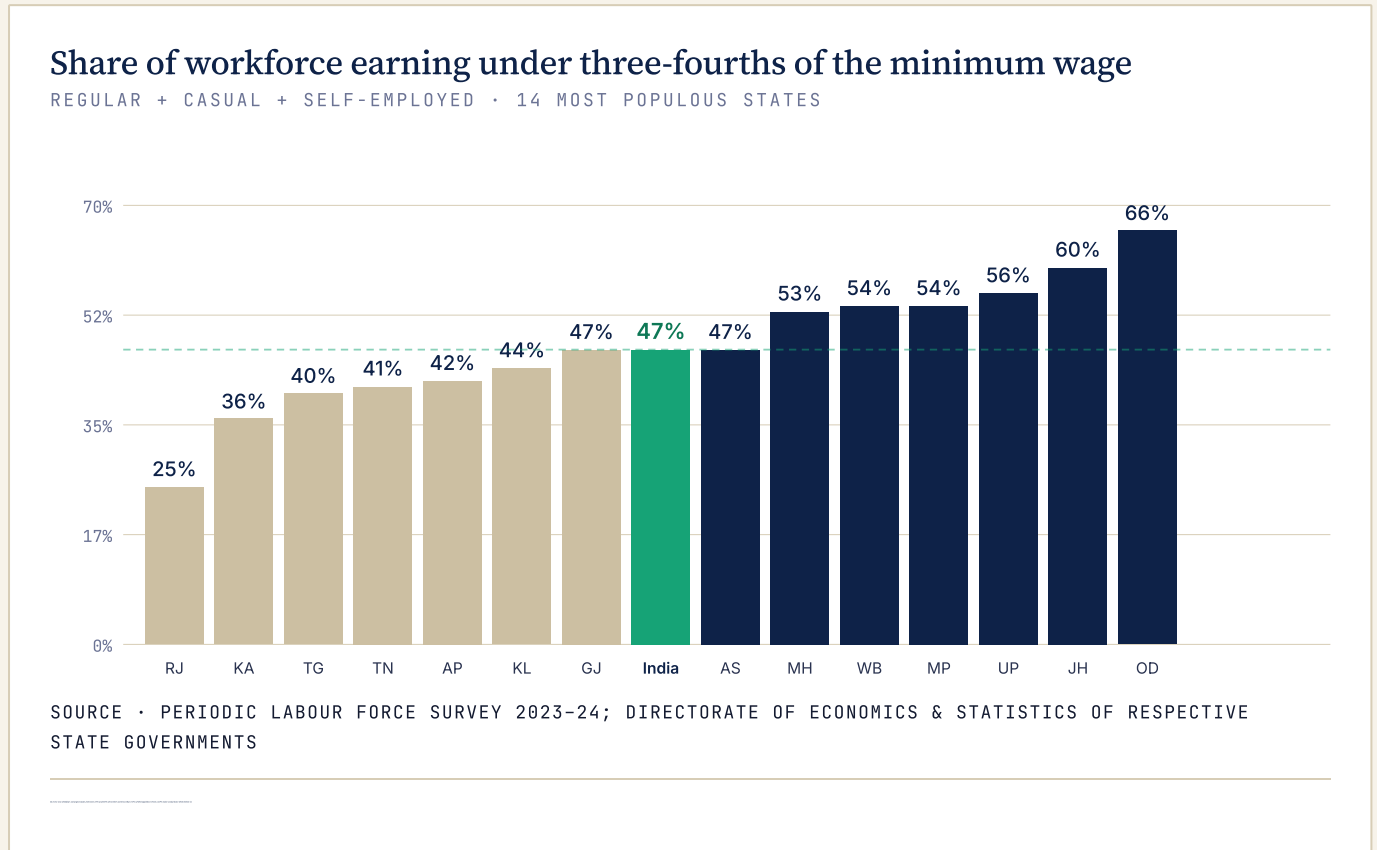


SOURCE · PERIODIC LABOUR FORCE SURVEY 2023-24; DIRECTORATE OF ECONOMICS & STATISTICS OF RESPECTIVE STATE GOVERNMENTS

Minimum wages are set so high that in every one of these 14 states, between 40% and 79% of workers earn below the legal floor — and nationally, it is 64% of all workers.

The statutory minimum is not a binding price at the bottom of the labour market — it is a line that most of the workforce already sits under. The scale of non-compliance is not a rounding error; it is the normal state of employment across the country's largest state economies.

For 47% of workers, hiring them at a 30% raise would still be illegal.



This mismatch between the mandated minimum wage and on-ground economic reality forces many firms to operate informally. Employers — especially small ones — must work around rigid wage laws, fearing penalties or even shutdowns if they fail to comply. That constant uncertainty puts workers' jobs at risk, as their employers may be forced to close operations rather than struggle with unaffordable wage requirements.

04

What high labour 'protections' do to workers.

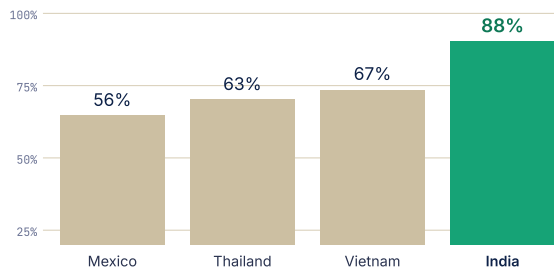
When legal protections sit far above where firms can compete globally, export competitiveness erodes. The structural transition out of agriculture never comes. Formal jobs go elsewhere. Labour intensive sectors - that could absorb millions - grow slowest of all. Median wages sink.★

★ **A NOTE ON EVIDENCE** *The data here are snapshots and correlations, but read together with the predictions made by the theoretical mechanism and causal research, they provide very strong evidence that our protections have hurt workers.*

India exports *\$60 billion less* in low-skill goods than its workforce would predict.

Share of informal employment · global comparison

% OF TOTAL EMPLOYMENT, 2023 · ILO

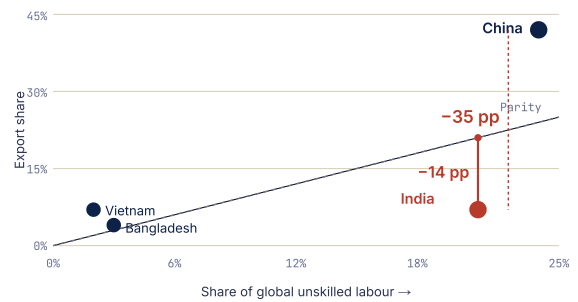


SOURCE · ILOSTAT, 2023

India's informality rate is ~88% — higher than every comparable emerging economy, with Mexico 32 points lower and Vietnam 21 points lower.

Labour endowment vs. low-skill export share · 2018

SHARE OF GLOBAL LOW-SKILL LABOUR (X) VS. GLOBAL LOW-SKILL EXPORTS (Y)



SOURCE · CHATTERJEE & SUBRAMANIAN (2020)

India and China each hold ~20% of the world's low-skill labour, but China captures 42% of low-skill exports while India only 7%. India's export share sits 14 points below what its labour endowment would predict — roughly \$60 billion in unrealised exports every year.

Minimum wages push workers into the informal sector. Informal employment is a defining characteristic of India's labour market — ~88% of the workforce. This is in sharp contrast to Vietnam, Thailand, and Mexico, which have successfully created millions of stable, formal jobs.

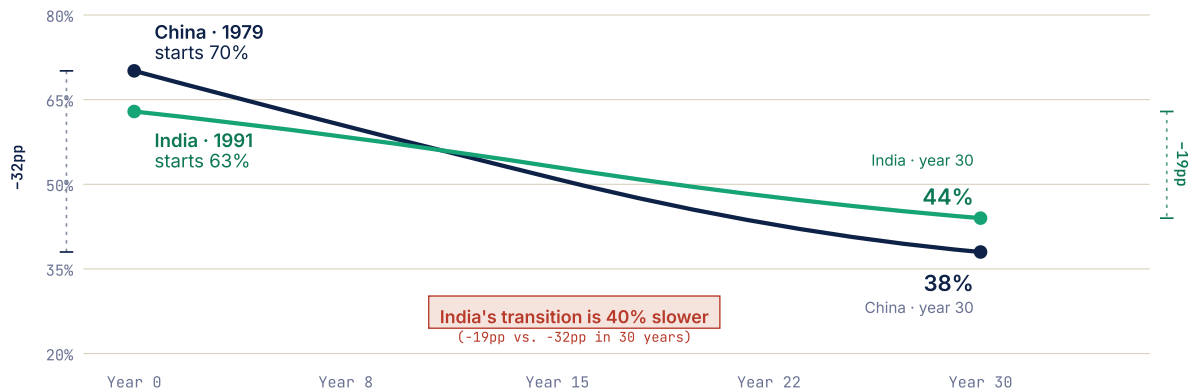
High informality is corrosive to exports because global customers have strict standards for compliance with local labour laws. When a large share of the workforce is informal, firms struggle to meet compliance standards — making it harder for India to integrate into global supply chains and compete in export-driven industries.

All fast-growing economies have relied on exports to accelerate industrial expansion. Japan, Taiwan, South Korea, and other East Asian nations followed that path. India captures less than 1% of global electronics exports and only ~3% of the global apparel market.

In 30 years of reform, India shifted *19 pp* off agriculture. China shifted *32*.

Employment in agriculture · first 30 years of reform

% OF TOTAL EMPLOYMENT · CHINA FROM 1979 · INDIA FROM 1991



SOURCE · WORLD BANK

India's 30-year structural transition off agriculture has been 40% slower than China's. The missing labour-intensive manufacturing boom is where the gap sits.

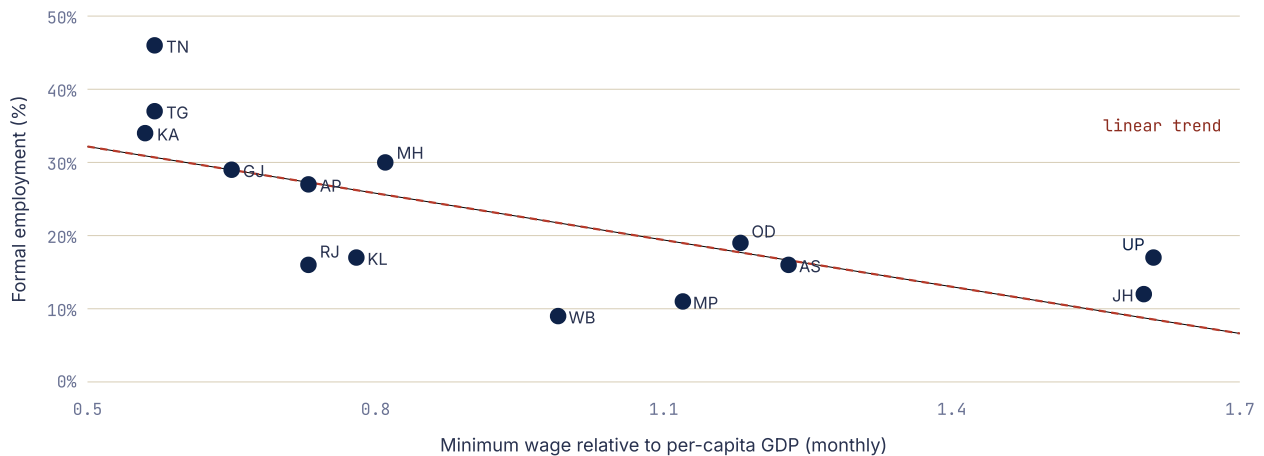
India's struggle to create enough good jobs — particularly in manufacturing — is closely linked to how its labour market is structured. Despite rapid economic growth, India has not replicated the large-scale shift from agriculture to manufacturing and services seen in other fast-growing economies like China and Vietnam.

A key reason has been that India's labour regulations, especially minimum wages set above prevailing market wages, have raised the cost of formal employment — discouraging firms from hiring more workers or scaling up labour-intensive industries. Millions of Indian workers remain trapped in informal, low-paid, and unprotected jobs.

The states with high relative floors have the *thinnest* formal sectors.

Formal employment vs. minimum wage relative to per-capita GDP

14 MOST POPULOUS STATES · PLFS 2023-24



SOURCE · PLFS 2023-24; MOSPI STATE-LEVEL GDP PER CAPITA

Where the minimum wage is set high relative to what the state's economy can support, the formal sector is thinnest. In Tamil Nadu, Telangana and Karnataka roughly a third of workers are formal; in Jharkhand and Uttar Pradesh it is barely one in eight — the states with the highest relative floors have the fewest formal jobs.

When the floor is set at a level the state's firms cannot absorb, the firms do not simply pay the floor and keep formal headcount steady — they exit the formal channel. Formal jobs are the one thing the minimum-wage regime is meant to protect; they are also the first thing to disappear where it is set above what productivity supports. Workers who cannot secure a formal job accept informal work — despite the lack of contracts, social security, or legal protections — because they need a way to earn a livelihood.

Rekha would have preferred the *formal* job. It wasn't on offer.

Rekha stitches garments from her home in Varanasi for a local contractor. He pays her ₹6,000 a month in cash. She has no written contract, no provident fund, no sick leave, no paid holiday — no legal recognition that she is his employee at all.

Her contractor once tried to register the arrangement formally. The labour inspector calculated what he would owe under the minimum-wage schedule for her category and concluded the unit would not be viable. He let it drop. Rekha has never been offered the choice.

Across rural Uttar Pradesh, informal home-based garment work is the modal form of employment for women Rekha's age. It is what the data in Section 4.1 measures: the **direct relationship** between states where the minimum wage sits well above median earnings and states where informality is highest.



Rekha

HOME-BASED GARMENT WORKER · VARANASI
· 28

● JOBS GET DISPLACED · INFORMALITY

₹6,000

Rekha's monthly cash earnings

~88%

India's workforce that is informal

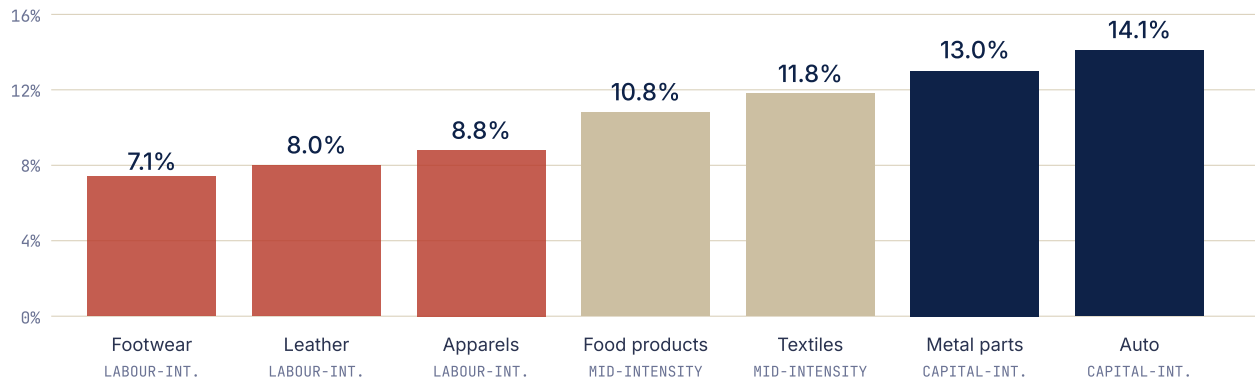
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Legal protections a formal job would provide

The sectors that could absorb the most workers are growing the *least*.

GVA growth by sector · labour-intensive vs. capital-intensive

ANNUAL GVA GROWTH, 2013-14 TO 2023-24 · SELECTED MANUFACTURING SECTORS

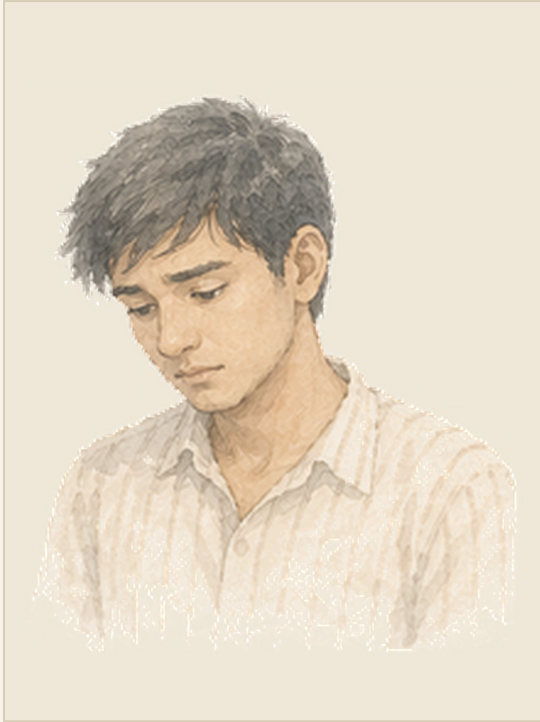


SOURCE · ANNUAL SURVEY OF INDUSTRIES, 2013-14 AND 2023-24

The labour-intensive sectors India needs to expand (footwear, leather, apparels) grew at 7.1–8.8%. The two capital-intensive sectors — metal parts and auto — grew at 13–14.1%, roughly 1.7× as fast.

India is adding 8–10 million new people to its labour force every year, and that pace will continue for at least another decade. Manufacturing is one of the few sectors that can absorb a workforce of this size — particularly workers with lower skill levels. Labour-intensive industries like apparel, footwear, and electronics assembly offer entry-level jobs that require minimal prior skills and provide on-the-job training.

Yet the very sectors that could absorb these millions remain under-developed. When firms can't afford to retain workers at the minimum wage, they either automate, exit labour-intensive sectors for IT or finance, hire only already-skilled workers, or relocate to states with lower floors. Each response reduces the opportunities available to entry-level workers.



Raju

MIGRANT WORKER · ODISHA → SURAT · 19

● JOBS GET ELIMINATED

● JOBS GET DISPLACED

Raju was willing to work for less *while he learned*. The law did not allow it.

Raju moved from a village in Odisha to Surat hoping to find work in the textile industry. Every unit he approached told him the same thing: they could only take on workers who could already operate specific machines, because the minimum wage meant they could not afford to train anyone from scratch.

Raju had been willing to work for less while he learned. The law did not allow it. He returned home after two months without a job, his savings spent on rent.

What Raju ran into is what the data in Section 4.3 measures: firms facing a legal minimum wage above entry-level productivity respond by **hiring only already-skilled workers** — a clear case of *Jobs get eliminated* for the unskilled — leaving entry-level workers with no way to cross the experience threshold.

For many workers, the first job is the hardest to get. It's the starting point — an opportunity to learn, build skills, and prove themselves. In India, many workers never get that chance because the minimum wage is set far above what businesses can afford to pay entry-level workers.

2 mo.

Raju spent in Surat without finding work

8–10M

New workers entering India's labour force each year

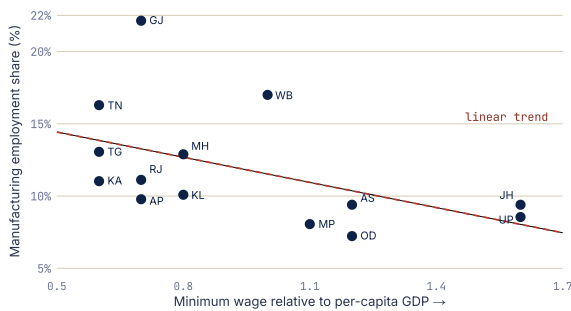
<3%

India's share of the global apparel market

States with higher relative wage floors have *smaller* manufacturing workforces.

Manufacturing employment vs. minimum wage relative to per-capita GDP

14 STATES · PLFS 2023-24

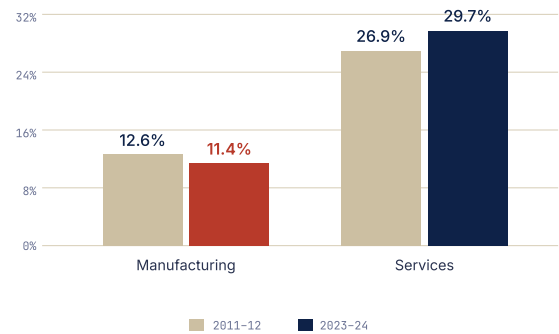


SOURCE · PLFS 2023-24; MOSPI STATE-LEVEL GDP PER CAPITA

Higher relative wage floors correlate with a smaller manufacturing workforce. The relationship is weaker than for informality - manufacturing share is driven by many factors beyond the wage floor - but the sign is consistent with the mechanism, and Uttar Pradesh, Jharkhand and Madhya Pradesh again cluster in the low-employment tail.

Share of employment by industry · India

2011-12 VS. 2023-24 · PLFS



SOURCE · PLFS 2011-12 AND 2023-24

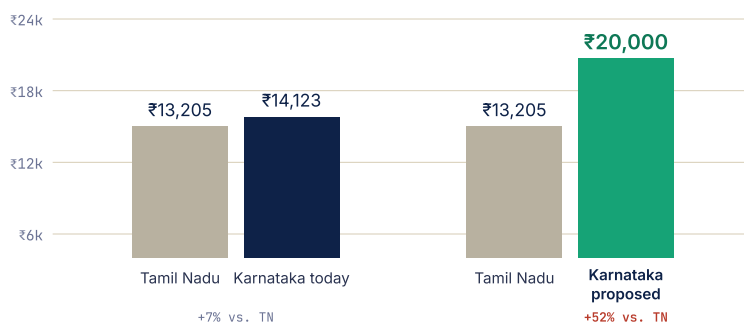
The share of the workforce in manufacturing is falling — the opposite of what a growing economy with surplus labour should expect.

When businesses cannot afford to retain or hire workers at the minimum wage, they automate processes, exit high-employment sectors to invest in capital-intensive ones (like IT and finance), hire only high-productivity workers in services, or relocate to lower-wage states. Each response reduces the opportunities available to entry-level workers — the result of which is visible in the sector-level GVA growth and the falling manufacturing share.

A Karnataka wage floor hike would make hiring there *52% more expensive* than across the border.

Minimum wage gap · Karnataka vs. Tamil Nadu

MONTHLY MINIMUM WAGE, INR · CURRENT AND PROPOSED



SOURCE · PERIODIC LABOUR FORCE SURVEY 2023-24

Karnataka is already 7% more expensive than Tamil Nadu. The proposed hike widens the gap to 52% — a clear cost signal for every firm with the option to relocate.

The current gap. Karnataka's minimum wage is already 7% higher than Tamil Nadu's, per PLFS 2023–24.

The proposed hike. Karnataka is considering raising the minimum wage to ₹20,000/month. At that level, hiring a worker in Karnataka would cost 52% more than hiring the same worker in Tamil Nadu.

The likely response. Firms with production in Karnataka and the capacity to operate elsewhere will move. Not immediately, and not all at once — but the cost signal is unmistakable, and once firms move elsewhere, it may be tough to get them and the jobs they provide back.



Kiran

PRECISION-TOOLING OWNER ·
NEAR BENGALURU

Kiran took pride in providing *200 formal jobs*. He's now moving them to Tamil Nadu.

For a decade, Kiran's life was defined by the growth of his precision-tooling unit and the pride of providing 200 formal jobs. The proposed minimum-wage hike threatens to make his operations 50% more expensive than his competitors across the state border. He now plans to mitigate the impact by relocating.

The 200 jobs that existed in Karnataka will exist in Tamil Nadu. Kiran's workforce — most of whom cannot easily relocate — will be unemployed.

When no other option is feasible, factories *close*.

When employers cannot operate informally, cannot automate, and cannot relocate to other states or countries, factories may eventually be forced to shut down. The Agra shoe cluster, the Kanpur leather cluster, and the Tirupur garment cluster all contain units that ran out of options and had to shut down.

If shutting down is not an option, employers may be forced to pay the higher mandated wage — which may be unsustainable for the business over the long run. Either way, the outcome for workers is negative: either the job disappears, or it disappears more slowly.



SCENARIO · FOUR OF FOUR

Sunita had a *formal job*. Now she can barely make ends meet.

Sunita worked at a shoe-assembly unit in Agra until the factory closed last year. The owner, unable to compete with units operating informally in the same district or with manufacturers in Bangladesh, decided it was no longer viable to run a formal operation.

She had worked there for six years, earning a stable wage with EPF contributions. She now sells vegetables from a handcart, earning less than half her previous income — with no social protection of any kind.

Sunita

FORMER SHOE ASSEMBLY WORKER · AGRA · 32

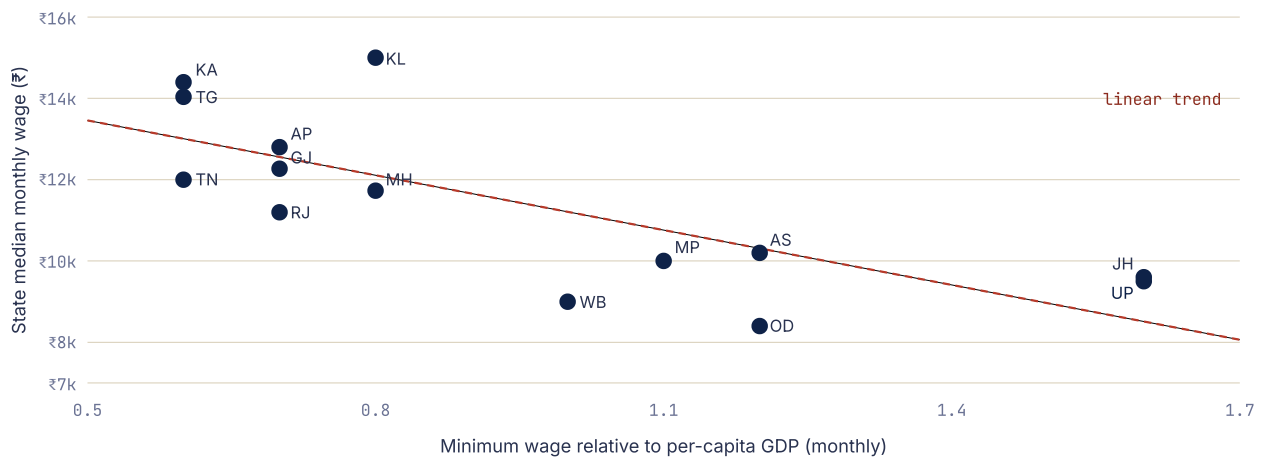
● JOBS GET ELIMINATED · SHUT DOWN

6 yrsIn the formal economy
before the unit closed**<1/2**Her previous income,
selling vegetables**0**Social protections she
has now

Where the floor is highest relative to GDP, the median wage is *lowest*.

State median monthly wage vs. minimum wage relative to per-capita GDP

14 MOST POPULOUS STATES · PLFS 2023-24



SOURCE · PLFS 2023-24 · MEDIAN MONTHLY EARNINGS FOR REGULAR, CASUAL AND SELF-EMPLOYED WORKERS COMBINED

States that set their minimum wage well above per-capita income are the same states where the median worker earns the least. The states on the right of the plot - Uttar Pradesh, Jharkhand, Odisha, Madhya Pradesh - have some of the lowest median wages. The floor is not lifting them; if anything, it is holding them back.

The statutory minimum wage is meant to pull the bottom of the distribution up. In practice, in India's poorest states, it sits *above* the state's own median wage - i.e., more than half the state's workers earn less than the legal floor. A policy calibrated this far above productivity cannot be delivered by employers; it can only be declared on paper.

05

Three recommendations that put workers first.

Respecting choices, allowing flexibility and expanding options are key to widening the path into formal employment for workers currently excluded from it.

The path out runs through flexibility, not floors.

RECOMMENDATION 01

Respect the choices that workers and employers make by freely negotiating wages.

A negotiated wage — even if it starts below the current statutory floor — would allow many workers to enter formal employment for the first time, gaining contract and legal protections they currently lack entirely. Workers already earning above the minimum would be unaffected.

Freely negotiated wages are not unregulated ones. They can operate within a formal employment framework, with full labour-law protections. Singapore's tripartite National Wages Council sets guidelines rather than a universal minimum.

RECOMMENDATION 02

Replace further minimum wage hikes with wage subsidies.

Fiscally expensive but politically easier and economically sound: the state pays a fixed per-worker subsidy, which, instead of reducing demand for workers like a minimum wage would, will provide higher demand for workers — while letting rising market wages narrow the gap with the minimum wage.

A subsidy could bridge the gap between legal wage floors and actual market wages. As market wages rise naturally through growth, the divide between statutory and actual wages will narrow without legislative intervention.

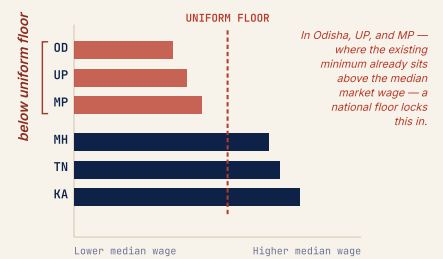
RECOMMENDATION 03

Allow any national floor wage to reflect regional reality.

The Code on Wages, 2019 empowers the Centre to set a national floor wage. Median wages and productivity vary widely across states — a uniform floor would sit above the median in poorer states with surplus labour, making the majority of their workforces legally un-hireable.

Firms weighing India vs. Bangladesh will decide on the all-in cost of labour. A binding national floor would, in many cases, tip that decision against India.

WHAT A NATIONAL FLOOR WOULD DO



SUMMARY OF RECOMMENDATIONS

Each recommendation addresses a specific constraint.

RECOMMENDATION	CONSTRAINT ADDRESSED	FISCAL COST	POLITICAL DIFFICULTY
01 · Free negotiation	Exclusion from formal jobs	None	High
02 · Wage subsidies, not hikes	High floors make firms unviable	High	Low
03 · No national floor	Poor states' competitive edge	None	Medium

06

SECTION 6 · CONCLUSION

A choice between
protection in name
— and jobs in reality.

When the law mandates what employers cannot afford, the result is not higher wages.

The result is fewer jobs, more informality, and a shrinking of the very sectors that could have lifted millions out of poverty and into better wages.

The evidence presented across every section of this report points in the same direction. The mechanism is clear: when a legal wage is set above what workers can produce, firms have nine realistic options, and only one of them – paying the higher wage – delivers the outcome the policy intends.

This matters most for those at the bottom. The cruel irony of a minimum wage set too high is that it does not protect the most vulnerable worker. It prices them out of the labour market entirely, leaving them no better option than casual, unprotected, informal work.

Therefore we see that the minimum wage, far from preventing worker exploitation, actually creates worse conditions for workers. Our choice is between a high minimum wage that excludes the most vulnerable workers from the formal economy, and a realistic wage policy that gives those workers a genuine foothold.

India adds eight to ten million new workers to its labour force every year. The manufacturing and labour-intensive sectors that could absorb them require competitive wage structures to grow.

So long as minimum wages remain set far above what these sectors can bear, workers are denied the first step on the economic ladder: a formal job, a legal wage, and the chance to build a better life.

India will do far more for its workers by making it easier to create jobs than by continuing to mandate 'protections' that hinder job creation.

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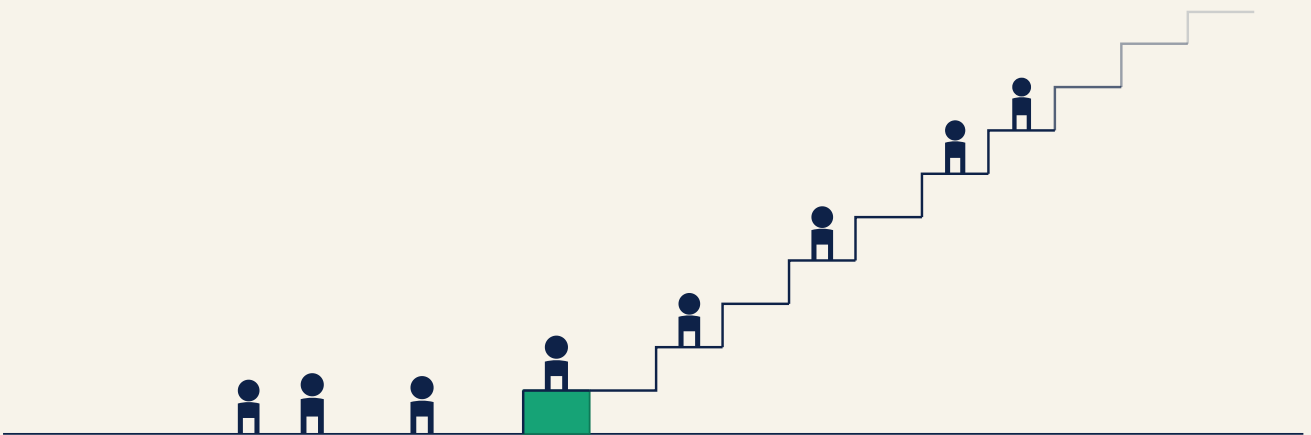
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