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INDEX

Sr. No.	Title	Author	Subject	Page No.
1	Vat And Accounting and Emerging Financial Services	Dr.Kishor V. Bhesaniya	Accountancy	1-2
2	Regulations for Alternative Investment Funds – A Primer	Dr. Bheemanagouda	Commerce	3-4
3	Financial Inclusion in India: A Real Effort for Growth	Dr. Jyotindra M. Jani, Manish B. Raval	Commerce	5-6
4	Tourism Industry and Medical Tourism in India – An Analysis	Dr. M. K. Maru	Commerce	7-8
5	Enhancing Supply Chain Performance through Effective Transportation	Dr. Vipul Chalotra	Commerce	9-10
6	Growth of Consumer Co-Operatives in J&K- A Study	Tarsem Lal	Commerce	11-12
7	Uses of College Funds in Assam-With Reference to Lakhimpur District	Dr. Niranjan Kakati	Commerce	13-14
8	LIC –A Modle Employer	Dr.J.K.Sehgal	Commerce	15-16
9	A study of the use of Information technology enabled banking services by Indian Customers	Dr Sunny Thomas, MsWaheeda Sheikh	Economics	17-18
10	The Role of Women Entrepreneurs in The Emerging Economic Force	Dr.Sangappa.V. Mamanshetty	Economics	19-21
11	Trade-off Between Inflation and Unemployment for BRICS Countries – Dead or Alive?	Krunal K Bhuva, Ashok R. Bantwa	Economics	22-23
12	Urbanisation and its Impact on Poverty	Dr. K.J. Thankachan, Mrs. Nazia Ansari	Economics	24-25
13	Food Security- Issues and Concerns	Munisha Gaur	Economics	26-27
14	Teaching Strategies : A Model Approach	Dr. Mujibul Hasan Siddiqui	Education	28-29
15	School Curriculum in Terms of Life Skills and its Implications for Teacher Education	Ramesh B. Sakhiya	Education	30-31
16	Edge Detection using live video acquisition	Patel Janakkumar Baldevbhai, R.S. Anand, Patel Nilam J.	Engineering	32-34
17	Topological Characteristics of Dynamics of Heart in Various Pathological Cases using Lyapunov Exponent and RBF Network	Abinash Dahal, Deepashree Devaraj, Dr. N. Pradhan	Engineering	35-37
18	Implementation of Digital Logic Method for Selection of Material of Automotive Brake Disc	Mr. Keval J. patel, Tushar M. Patel, Ankit A. Darji	Engineering	38-40
19	Initial and after Market Performance of Indian IPOs	Dr. Ashvin H. Solanki	Finance	41-43
20	Facilitation of Collateral Free Loan to Improve Financial Linkages For Start Up & Growth – A Case Study	D M Parikh	Finance	44-46
21	Impact of Maternal Nutrition Education Module on Nutritional Knowledge And Status in Rural Pregnant Women	Dr. Anjali A. Rajwade	Home Science	47-49
22	Trends and Challenges in Indian Insurance Industry	Dr Mahalaxmi Krishnan	Insurance	50-51
23	(Raksha Patrakarita : Dayra Badhae Media Sansthan)	Dr. Subodh Kumar	Journalism	52-53
24	NATIONAL WAGE POLICY VIZ-A-VIZ CORRELATION BETWEEN WAGES, PRICE AND TAX	Manish Parshuram Pawar, Dr. Ashok Shankarrao Pawar	Law	54-55

Sr. No.	Title	Author	Subject	Page No.
25	Shobha De's treatment of sex in Starry Nights	Chetan J. Marakana	Literature	56
26	A Catalyst to Promote Teaching and Learning English Grammar	Elsamma Sebastian	Literature	57-58
27	A Study on Effectiveness of Employee Training in Health Care Industry in a Private Multi-Speciality Organization	Dr C Swarnalatha, TS Prasanna	Management	59-61
28	Insights in to the Tomorrow Retailing in India: A Point of View and Method	Anuradha Averineni	Management	62-63
29	A Study on the Excellence of Worklife Among the Employees of it Sector in Coimbatore	G. Murali Manokari, R.Kanaka Rathinam	Management	64-65
30	Socio Cultural Issues in Marketing	Kavita A. Trivedi	Management	66-67
31	Organised Multi Brand Retailing: Opportunity For Sustainable Development	Rachita Sambyal	Management	68-69
32	Investors Perception for Mutual Fund Investment in 21st Century	Dr. Deepak H. Tekwani	Management	70-71
33	FDI in India	Dr. M Venkata Subba Reddy, Mr.udaya Banu	Management	72-73
34	Global Crisis and Indian Economy, A Comparative Analysis with World Economy	Dr. Pankaj K. Trivedi	Management	74-76
35	Practical Utility of Intellectual Capital Approach-A Critical Analysis	Dr. Shilpa Trivedi	Management	77-78
36	An In-depth study of Consumer Preference towards Personal Care Products	Dr.Sharif Memon	Management	79-81
37	Consumer Awareness and Preferences towards Ayurvedic Cosmetic Products in Coimbatore City	Mrs. B. Menaka, Dr. T. Ramasamy, Dr. R. Ganapathi	Management	82-90
38	Miracle combination of five herbs Methi, Kalongi, saunf, jeera and Rai	Dr. Sneh Harshendra Sharma	Management	91-93
39	Social Marketing: Towards a new horizon	Dr Partha Sarkar	Marketing	94-95
40	Epidemiological Transition and Emerging Conflicts in Health Care	Dr. Pawan Kumar, Dr. Abdul Majeed Khan	Public Health	96-97
41	Knowledge, Attitude and Practice of Reproductive Health Care Services among the Members and Non-members of Self Help Groups (SHGs)	Dr.K.Jothy	Social Sciences	98-100

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Research Paper | Law

NATIONAL WAGE POLICY VIZ-A-VIZ CORRELATION BETWEEN WAGES, PRICE AND TAX

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ABSTRACT

The term 'wage policy' refers to the legislation or Government action undertaken to regulate the level or structure of wages, or both, for the purpose of achieving specific objectives of social and economic policy. The social objectives of a wage policy aim at eliminating the exceptionally low wages, establishing fair standards, protecting wage-earners from the impact of inflationary tendencies and increasing the economic welfare of the community as whole. The social and economic aspects of a wage policy are normally inter-related; measures inspired by social considerations inevitably have economic effects and are designed to achieve specific economic results. When the social and economic implications measures of wage-policy are in conflict, a choice has to be made.

According to the International Labour Organisation, 'wage policy' means "legislation or Government action calculated to affect the level or structure of wages, or both for the purpose of attaining specific objectives of social and economic policy". A wage policy may be viewed from three different angles. At the 'Macro-Economic Level', the problem is that of resolving the conflict between the objectives of an immediate rise in the standard of living of workers, additional employment and capital formation. At the 'Semi-Aggregative Level', the problem is that of evolving a wage structure which promotes economic development. At the 'Plant Level', the problem is that of a system which provides incentives for increased productivity and improved skills.

KEYWORDS: Wage policy, National Commission on Labour, Taxation, Impact of price

National Commission on Labour on Wage Policy:

In the view of the National Commission on Labour [hereinafter referred to as NCL], "the main aim of a wage policy, as we envisage it, is to bring wages into conformity with the expectation of the working class and, in the process; seek to maximise wage employment". To achieve this, NCL noted that, "On an overall plane, issues concerning wage policy are interrelated with broader economic decision, on the one hand, on the other, with the goals set for social policy wage rates and differentials have a functional role in sustaining and developing the structure of society and thus merge with other element of economic and social policy. The income and wage policy that may be formulated has to take into account the structural features of the national economy and has to be in accord with the pattern of income generation and distribution envisaged in the plans. Our wage policy will comprise a set of principles which are consciously adopted to guide, by means of legislative or otherwise, the actions of the Government as also of the parties vitally concerned. The conflict between employment and wage goals exists, and its intensity depends on the choice of techniques and industries in the course of planned development. A wage policy should, therefore, foster an appropriate choice of technique so as to maximise employment at rising levels of productivity and wages.

A wage policy should aim at a progressive increase in real wages. Sustained improvement in real wages can be brought about by increasing productivity. This needs a widening and deepening of capital to raise technology on the one hand, and investment in human capital, on the other. The wage levels will have to organize that in India a modern capital intensive, large scale section exists, side by side with the small and traditional labour- intensive sector. A uniformity in wage levels is either likely to affect the growth of the latter if the wage level is high or make the inequalities more glaring if the level is low and fiscal measures inefficient. The wage differentials, consequent on this dualism are inevitable and desirable. The steps should, therefore, be taken to standardise job classification and to reduce differentials, wherever necessary, to suitable limits on a scientific basis.

The determination of wages implies evolving and sustaining a wage structure which permits a fair remuneration to labour, permits a fair return to capital, and strengthens incentives to efficiency. In the determination of wage differentials, the capacity to pay becomes relevant. This calls for the creation of a wage-regulating mechanism that should deal with both the wage structure and its level from time to time.

A critical appraisal of wage policy:

In India, where a sizeable change of the work force is in the strong clutches of poverty and indebtedness, and is scantly armed with social security measures, the role of wages in maintaining happy industrial relations cannot be under estimated. The Government, through its various five year plans, has tried to give what it calls a "fair deal" to its working class. But it is disguising to note that in spite of 48 years of independence, the Government has failed to evolve a dynamic national wage policy in its true sense, the lack of which is evident in the prevailing turmoil of industrial relations in the country. The increasing prices, stagflation, heavy tax rates and debt burden on the masses are largely the outcome of an ill-conceived wage policy. In the following paragraphs, an attempt has been to explore some inherent pitfalls of the system.

CORRELATION BETWEEN WAGES, PRICE AND TAX:

Taxation:

Taxation is a system of raising money to finance the Government services and activities. Earlier, the procedure or technique of paying tax was different. People used to send products i.e. food grains to the King. The taxes were paid in 'kind', but now days, the taxes are paid in terms of 'money'. Tax is the main source of funds for the Government. It is a process by which people pay the expenses of carrying on the activities of the Government. Tax is the amount which is compulsorily imposed upon the public for their own benefit.

a) Essential characteristics of taxation:

i) Tax is compulsory payment and is paid to the Government.

ii) No direct relationship between payment of tax and benefits accruing from it. The Government spends the tax in different sectors of the economy for maximum benefit of the people living in the society.

b) Classification of Taxes:

i) Direct Taxes: Direct Taxes are levied or charged on the incomes or wealth of individuals or companies, i.e, Income Tax;

ii) Indirect Taxes: Indirect Taxes are levied on money spend by individuals or companies, i.e, V.A.T.

iii) Other Taxes:

- Property Taxes: This taxes are levied on the property i.e Shops, Houses, Factories, etc;
- Income Taxes: This taxes are levied on the income from such sources as wages, salaries, interests, rent, etc;
- Capital Gains Taxes: This is a tax separate from income tax levied on the profits received from the sale or exchange of property, shares or other assets;
- Taxes on Transaction: This tax is levied on the sale of goods and services and on the privileges i.e, General sales Tax, Exercise Taxes and Tariffs;
- Proportional Tax: This is a single uniform rate fixed for all incomes;

- Progressive Tax: Here, the tax rates increase with the increase in income.

c) Impact of Tax on the Wages and Consumers:
The Government collects taxes to run its various departments, ministries, etc. Taxation has an effect on production, distribution, ability to work, savings and investment. It transfers the purchasing power from the individual to the Government.

Heavy taxes on the poor will curb their ability to work, save and invest. However, heavy taxation on the rich will only reduce their expenditure on the luxuries. If people's savings are reduced, the capital formation and investment also is reduced resulting in the lower production and employment.

Due to the increase in taxes, the workers demand for higher wages, and due to the demand for higher wages, the employer is compelled to increase the prices of goods to maintain profits and such price increase ultimately affects the consumer. For example, if the Government decides to collect Service Tax from professionals, i.e, doctors, advocates, etc, naturally, they will in turn collect it from the patients and clients by way of fees and so the burden of taxes is ultimately on the consumer. The burden of taxation should be distributed among the tax payers according to their ability to pay. Where the Government imposes taxes on essential goods, the consumer pays a lot of taxes since he cannot do without these goods. The imposition of heavy taxes affects the ability of the tax-payer to work or the tax-payer may even refuse to work more since his additional income will be taxed.

Price:
Price is the amount of money for which something can be bought or sold. Price is a convenient means of comparing the value of the goods and services with another.

a) How price is determined:
Price is based on the economic factors of demand and supply. Demand is the quantity of goods and services that the consumers are willing and ready to purchase. Supply is the quantity the producers and other people are willing and able to offer for sale.

Demand usually varies according to the product prices, the lower the price, the greater the demand. This is because the people who want the product will buy more of it at lower prices. The supply is opposite of demand, for example, if the prices increases, supply also increases, vice versa.

b) Causes of rise in prices:
i) Concealment of articles or products by the traders creating an artificial shortage;
ii) Demand and supply;
iii) Mounting Government expenditure
iv) Increase in money supply;
v) Decline in GDP growth;
vi) Accumulation of black money in the market;
vii) Growth in population;
viii) Depreciation in the value of money;
ix) Fluctuations in output and supply;
x) Increased taxation;
xi) Hike in oil prices and global inflation;
xii) Failure of the Government policy on the price front.

c) Impact of price on the wages and consumer:
i) Price increase is a major cause of unrest in the common people of the country. Basically, strikes are due to rise in prices of goods in the market which makes workers unable to meet their daily needs as a result of low wages;
ii) Price rise means shrinkage of purchasing power and increase in cost of living;
iii) If there is increase in the prices of the commodities, the workers will demand higher wages;
iv) Rise in prices reduces the purchasing power of the individuals;
v) Rich people have a high purchasing power and are willing to pay any price for a certain commodity, but the poor suffer more due to the rise in prices;
vi) Price fluctuations creates an atmosphere of uncertainties to the consumer and such an atmosphere is not conducive for the economic development;
vii) Price rise affects production especially when the products are produced in large quantities and then there is a sudden increase in prices of such products. This will make the consumers not to buy such a product thus creating havoc to the industrial products.
viii) Price rise creates inequalities in income. The consumer with low wages finds it difficult especially in stabilizing their purchasing power because they have to make preference first on the most essential goods;
ix) Price rise is an advantage or disadvantage to some. The worst suffer is the consumer. Industrial workers have a powerful organization which normally protects their interests and they stand at a better position of getting their wage increase. The industrialists benefit most from sudden price rice by earning huge profits of stocked products;
x) Strikes which results in stoppage of the work in industries, affects also the economy of the country;
xi) Price rise also affects the society in the sense that, if the employer has to increase the wages of the workers, then he recovers that from the consumers by increasing the price of the goods.

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