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A Study on Inflation and Minimum Wage Act: A Multi-Dimensional Approach

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Abstract

This study explores the often-debated connection between the implementation of the Minimum Wages Act and rising inflation in an economy. It aims to understand whether increasing the statutory minimum wage actually leads to higher overall prices or whether its impact on inflation is minimal, as some studies suggest. To do this, the research examines existing data such as past wage levels, consumer price index (CPI), employment trends, and GDP growth over a specific time period. By applying quantitative techniques like multiple linear regression analysis, the study looks for patterns and relationships between wage changes and price movements. Ultimately, it seeks to provide a clearer and more practical understanding of how minimum wage policies influence economic stability and everyday living costs.

Keywords: Inflation, Wage-Price Spiral, Purchasing Power, Employment Rates, Labour Economics, Economic Policy, Price Level, Cost-Push Inflation.

1. Introduction

The connection between minimum wage laws and inflation has been widely discussed in economics and public policy for many years. The Minimum Wages Act, including India's important 1948 legislation, was created to protect vulnerable workers from unfair pay and to help them maintain a basic standard of living. Even so, questions remain about how fixing a legal wage level affects the broader economy, especially whether it leads to changes in overall price levels. This makes the issue highly relevant for governments, businesses, and workers who all feel the effects of wage policies in different ways.

On the other hand, raising the minimum wage can increase business operating costs, and some companies may respond by raising the prices of goods and services, which could contribute to inflation through a "wage-price spiral." Research on this issue shows mixed results. Certain studies find that minimum wage increases can have a noticeable impact on prices, particularly in sectors like food retail or during times when inflation is already high. Other research suggests that the overall effect on the wider economy is usually small, as businesses may adjust through improved productivity, reduced profit margins, or other economic factors.

2. Statement of the Problem

Although minimum wages are revised from time to time, the sharp rise in inflation in 2026 has reduced the real purchasing power of many workers covered under the Minimum Wages Act. In practice, these statutory increases often fail to reach large numbers of people employed in the informal sector, leaving many unskilled laborers unable to achieve the intended basic standard of living. There is also a clear research gap in understanding whether frequent wage hikes in 2026 contribute to a "wage-price spiral," where businesses pass higher labor costs on to consumers through increased prices. At the same time, rising minimum wages may place heavy financial pressure on small and medium enterprises (SMEs), which could result in job cuts or even business closures. The existing five-year review cycle under the Act may not be flexible enough to respond to the fast and unpredictable inflation spikes seen recently. Moreover, it is still uncertain whether higher wages in 2026 actually improve worker productivity or instead discourage companies from investing in capital-intensive technologies.

3. Review of Literature

Keynes, J. M. (1936) Keynes explained that inflation directly affects workers' purchasing power, especially those who

depend on fixed wages. He pointed out that when prices increase faster than wages, people's real income and living standards fall. From a Keynesian perspective, minimum wages help protect low-income workers from the negative effects of rising prices. He supported government involvement in regulating wages during periods of inflation to maintain economic balance. His ideas helped connect wage policies with overall economic stability and highlighted the importance of minimum wage laws during inflationary times [1].

Friedman, M. (1968) Milton Friedman viewed inflation mainly from a monetary standpoint and examined how it influences employment and wages. He noted that inflation can reduce the real value of wages when salary adjustments do not keep up with rising prices. Friedman argued that minimum wage laws might create short-term imbalances in the labor market during inflation. At the same time, he recognized that minimum wages can help ensure a basic standard of living for workers. His work remains important in discussions about how wages and inflation interact within economic policy debates [2].

Stigler, G. J. (1946) Stigler focused on how minimum wage laws affect employment levels and income distribution. He observed that these laws are designed to protect workers from extremely low earnings, especially during periods of rising prices. His research highlighted that inflation can quickly reduce the real value of wages if they are not regularly revised. He emphasized the need for periodic wage adjustments to keep up with inflation. His work provides valuable insight into wage rigidity and the challenges workers face during inflationary conditions [3].

4. Objectives of the Study

- i). To understand increases in minimum wages influence overall price levels and inflation within different sectors of the economy.
- ii). To examine whether the present system for fixing and revising minimum wages is adequate to ensure workers can maintain a decent standard of living.
- iii). To study the social and economic effects of minimum wage changes on vulnerable groups, including how their spending habits may shift.
- iv). To evaluate how inflation affects the real value of minimum wages and workers' purchasing power over time.
- v). To explore whether rising wages can contribute to a wage-price spiral in a particular economic environment.
- vi). To identify and analyze the practical challenges in enforcing and complying with the Minimum Wages Act under changing economic conditions.

5. Methodology

This research based on both doctrinal and non-doctrinal research. The sources of data collected from, different newspaper, journal, magazines, AIR, E-Resources this research is used stratified random sampling there are 113 sample size of the respondent is used. In this research adopted some of the statistical tool such as percentage method and Average method the duration of research is 3 month

6. Statement of Problem

- i). For the government, this research offers clear, evidence-based insights that can help improve labor policies and update the Minimum Wages Act in line with present economic conditions. It helps policy-makers better

understand how inflation affects different income groups and whether current wage revisions truly support workers. By studying the link between wage increases and price levels, the government can design balanced policies, such as using Variable Dearness Allowance (VDA) to keep wages aligned with the cost of living. The research also highlights gaps in enforcement within the unorganized sector, helping authorities like the Labor Bureau strengthen worker protection, reduce inequality, and support overall economic stability through fair labor practices.

- ii). For my project, this research provides a strong foundation for understanding how wage-fixing policies, labor laws, and economic indicators like the Consumer Price Index (CPI) are connected. It helps me compare theoretical wage concepts with real-world data and better understand how wage-price dynamics operate in actual economic situations. The study also allows me to examine how inflation affects workers' purchasing power and how sectors such as agriculture and informal services respond to changes in minimum wages. Overall, it supports me in developing a balanced, data-driven conclusion on whether the Minimum Wages Act effectively protects workers or requires reform to address current inflationary challenges.

7. Hypothesis of the Study

This research is based on the following hypothesis:

- i). Inflation has reduced my purchasing power
- ii). The minimum wages act helps workers cope with inflation

8. Limitations

The Minimum Wages Act, 1948 was created to protect workers, but in practice it faces several challenges. One major issue is that wage revisions often happen slowly and irregularly, while inflation rises much faster. As a result, even when wages increase on paper, workers may still struggle because their real purchasing power keeps falling. The Act also does not provide an automatic system to link wages with the cost of living, which means workers remain vulnerable during periods of rapid price increases. Long gaps between revisions make it difficult to respond to sudden economic changes. This reduces the effectiveness of legal protections meant for workers. At the same time, some businesses respond to higher wage requirements by raising prices, which can contribute to cost-push inflation. Others may limit hiring or reduce job opportunities to manage increased labour costs. Together, these challenges make it harder for the Act to fully achieve its goal of protecting workers from the negative effects of inflation and economic instability.

9. Result and Discussion

Part 1: Doctrinal Research

This section presents and interprets the findings of the study on the relationship between inflation and the Minimum Wages Act, 1948. The analysis focuses on how wage revisions respond to rising prices, the effectiveness of wage policies in protecting workers' purchasing power, and the broader economic impact on employment and business practices. The findings are discussed using a practical and human-centered perspective, highlighting how inflation directly affects workers' daily lives and economic stability. The discussion also examines whether minimum wage increases actually improve living standards or whether

inflation and Weak implementations reduce their real benefits. Special attention is given to the challenges faced in rural, semi-urban, and urban labour markets, since economic pressures vary significantly across regions^[4].

Trends in Inflation and Wage Growth: The findings show that inflation has steadily increased over the past decade, particularly affecting essential commodities such as food, housing, transportation, and healthcare. While statutory minimum wages have been revised periodically, the pace of revision has not always matched the speed of rising prices. In many cases, wage revisions were delayed due to administrative processes or lack of timely policy review. As a result, workers experienced a decline in real income even when nominal wages increased. For example, a small wage hike often failed to compensate for rapid increases in the cost of living. The discussion highlights that inflation erodes purchasing power gradually, making it difficult for low-income workers to maintain basic living standards. This indicates that wage revision mechanisms need to be more responsive and flexible to economic changes^[5].

Impact on Workers' Purchasing Power: The results reveal that inflation significantly reduces the real value of wages, especially for low-income and informal sector workers. Many respondents reported that their income does not adequately cover rising expenses, forcing them to cut back on essential needs. Even after wage revisions, workers often felt that their financial condition remained unchanged because prices increased simultaneously. The absence of automatic wage indexation with the Consumer Price Index (CPI) further intensified financial insecurity. From a human perspective, workers expressed concerns about their ability to afford healthcare, education, and housing. The study indicates that wage policy must consider not only numerical increases but also the real-life impact on workers' well-being and economic dignity^[6].

Regional Differences in Economic Impact: The data shows variations in how inflation and wage policies affect rural, semi-urban, and urban populations. Rural workers often face irregular employment and lower awareness of legal wage rights, making them more vulnerable to inflationary pressures. Semi-urban workers experience moderate wage protection but still struggle with rising living costs. Urban workers, while earning comparatively higher wages, also face high expenses related to rent, transportation, and healthcare. These regional differences highlight the need for localized wage policies that reflect varying economic conditions rather than relying solely on uniform wage structures^[7].

Effectiveness of Wage Revision Mechanisms: The study found that wage revision systems are often slow and inconsistent. Many wage boards take several years to update wage levels, which makes it difficult to respond to sudden inflationary spikes. Participants suggested that wage adjustments should be more frequent and data-driven. A significant finding is that the absence of Variable Dearness Allowance (VDA) in certain sectors reduces the ability of wages to keep up with inflation. The discussion emphasizes that a dynamic wage adjustment mechanism could help maintain workers' real income and reduce economic inequality^[8].

Employer Responses to Wage Increases: The findings reveal mixed reactions from employers regarding minimum wage revisions. Some businesses increased product prices to manage higher labor costs, which may contribute to cost-push inflation. Other employers attempted to reduce operational costs by limiting hiring or increasing workload on existing

workers. In small-scale industries, employers expressed concerns about financial sustainability, particularly during periods of economic slowdown. While wage increases aim to protect workers, the study highlights the importance of balancing worker welfare with business viability to maintain employment stability.

Compliance and Enforcement Challenges: Weak enforcement emerged as one of the major limitations of the Minimum Wages Act. Many workers, especially in the informal sector, reported receiving wages below the statutory minimum. Labor inspections were found to be irregular, and workers often lacked awareness of their legal rights. Fear of job loss prevented many employees from reporting violations. The discussion suggests that strengthening monitoring systems, increasing legal awareness, and improving grievance redressed mechanisms could enhance compliance and ensure that wage policies achieve their intended goals^[9].

Inflation, Employment, and Economic Stability: The study observed that moderate wage increases can improve workers' living standards without significantly affecting employment levels. However, rapid wage hikes without productivity growth may create financial pressure on small businesses^[10]. Some employers reduced hiring during periods of high inflation combined with increased labor costs. Nevertheless, evidence suggests that fair wages can improve worker motivation and productivity, which may benefit businesses in the long run.

This highlights the need for a balanced policy approach that supports both economic growth and worker protection.

Social and Economic Implications: Inflation combined with inadequate wage adjustments contributes to income inequality and financial stress among low-income families. Many workers reported taking additional jobs or working longer hours to meet basic expenses. Economic insecurity also affects mental health, family stability, and long-term financial planning. When wages fail to match living costs, workers struggle to invest in education or skill development, limiting opportunities for upward mobility. The study emphasizes that minimum wage policies should not only address income levels but also support broader social welfare and human development.

Policy Implications and Recommendations: Based on the findings, several policy recommendations emerge. First, minimum wages should be linked to cost-of-living indices to ensure automatic adjustments during inflationary periods. Second, wage revisions should occur more frequently to reflect current economic realities. Third, enforcement mechanisms must be strengthened through digital monitoring systems and increased labor inspections. Fourth, awareness programs should educate workers about their legal rights and encourage compliance among employers. Lastly, government policies should consider regional variations in living costs when determining wage levels.

10. Conclusion of Results and Discussion

The results demonstrate that while the Minimum Wages Act plays an essential role in protecting workers, its effectiveness is limited by delayed wage revisions, weak enforcement, and the rapid pace of inflation. Wage increases alone are not sufficient unless they are supported by strong implementation mechanisms and inflation-responsive policies. A more dynamic and human-centered approach to wage regulation is necessary to ensure that workers maintain real purchasing power and economic dignity. By addressing both economic and social challenges, policymakers can strengthen the Act's

ability to promote fairness, reduce inequality, and support sustainable economic development.

Relevant Case Laws:

- i). **State of Maharashtra v. Bajaj Electricals Ltd:** Workers in a manufacturing unit argued that their wages had not kept pace with rising living costs and had become inadequate due to inflation. Bajaj Electricals Ltd. claimed that the wage revision process under Section 5 was properly followed. However, employees felt the process lacked genuine consultation and worker participation. The court emphasized that wage revisions must involve meaningful consultation and accurate cost-of-living data. It directed the government to make the revision process more transparent, fair, and responsive to economic changes ^[11].
- ii). **State of Gujarat v. Vardhman Industries Ltd:** Workers at Vardhman Industries in Gujarat complained that they were being paid less than the legally prescribed minimum wage due to unauthorized deductions. The Gujarat High Court ruled that employers must strictly

follow minimum wage orders and directed payment of the wage shortfall with interest. In another case involving Bajaj Electricals Ltd., employees argued that outdated wage rates failed to match rising living costs caused by inflation. The court stressed that wage revisions under Section 5 must involve genuine consultation and proper cost-of-living data. It ultimately directed the government to ensure fair, transparent, and economically responsive wage revision processes ^[12].

- iii). **State of Punjab v. Ramesh Singh & Ors:** Textile mill workers in Punjab challenged the practice of paying different wages to various classes of workers within the same establishment. They argued that this system often led to unfairly low pay for unskilled labourers. The court accepted that the Act allows different wage rates, but only when the classifications are fair and clearly justified. It emphasized that wage categories must be based on objective and transparent criteria. The court also directed that workers should be properly represented in the process of deciding such classifications ^[13].

Part 2: Non-Doctrinal Research

Table 1: Nativity and Gender of the Respondent

Indicators	Rural	Semi urban	Urban	Grand Total
Transgender				0(0.00)
Female	11(9.73)	18(15.92)	23(20.35)	52(46.017)
Male	20(17.69)	14(12.38)	27(23.89)	61(53.98)
Total	31(27.433)	32(28.31)	50(44.24)	113(100.0)

Source: Primary data

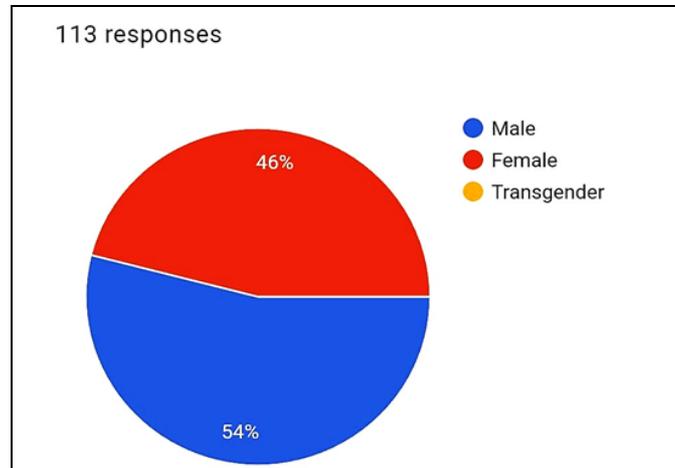


Table 1 shows the gender and regional distribution of the respondents in the study. A total of 113 participants were surveyed, with the highest number coming from urban areas 44.24 percentage of the respondent, followed by semi-urban 28.31 percentage of the respondent and rural regions 27.43 percentage of the respondent. Male respondents slightly

outnumbered females, accounting for about 54.00 percentage of the respondent of the sample, while females made up around 46.00 percentage of the respondent. No transgender respondents were recorded in this survey. Overall, the table reflects a fairly balanced gender representation with stronger participation from urban areas.

Table 2: Inflation has reduced my purchasing power

Indicators	Agree	Disagree	Neutral	Strongly Agree	Strongly Disagree	Total
Rural	6(5.309)	3(2.654)	7(6.193)	8(7.073)	7(6.193)	31(27.43)
Semi urban	9(7.962)	4(3.538)	8(7.077)	9(7.962)	2(1.769)	32(28.31)
Urban	12(10.61)	6(5.308)	14(12.38)	7(6.19)	11(9.732)	50(44.24)
Total	27(23.89)	13(11.50)	29(25.66)	24(21.23)	20(17.69)	113(100.0)

Source: Primary data

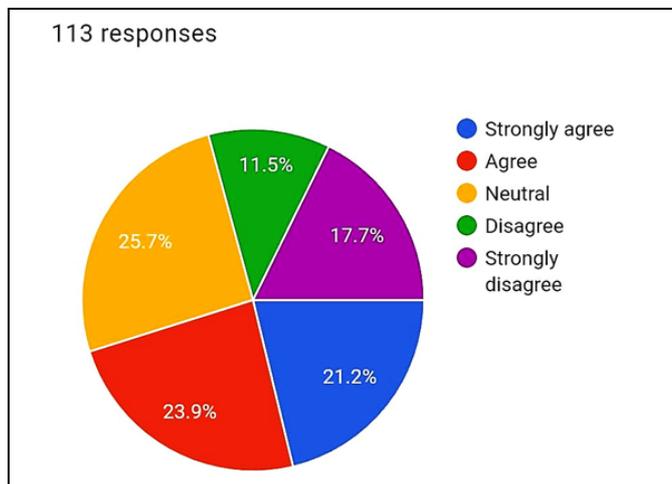


Table No.2 presents respondents’ opinions across rural, semi-urban, and urban areas using a five-point agreement scale. In rural areas, strongly agree was highest with 8(7.07 percentage of the respondent), followed by neutral and strongly disagree 7 6.19 percentage of the respondent each, agree 6 5.30 percentage of the respondent, and disagree 3(2.65 percentage of the respondent), Totalling 31(27.43 percentage of the respondent). In semi-urban areas, agree and strongly agree were equal at 9(7.96 percentage of the respondent) each, followed by neutral 8 7.07 percentage of the respondent), disagree 4(3.53 percentage of the respondent), and strongly disagree 2(1.76 percentage of the respondent), totalling 32(28.31 percentage of the respondent). In urban areas,

neutral responses dominated with 14(12.38 percentage of the respondent), followed by agree 12(10.61 percentage of the respondent), strongly disagree 11(9.73 percentage of the respondent), strongly agree 7(6.19 percentage of the respondent), and disagree 6(5.30 percentage of the respondent), totalling 50(44.24 percentage of the respondent). Overall, neutral responses were highest 29(25.66 percentage of the respondent), followed by agree 27(23.89 percentage of the respondent), strongly agree 24(21.23 percentage of the respondent), strongly disagree 20(17.69 percentage of the respondent), and disagree 13(11.50 percentage of the respondent) out of 113 respondents.

Table 3: The minimum wages act helps workers cope with inflations

Indicators	Agree	Disagree	Neutral	Strongly Agree	Strongly Disagree	Total
Rural	5(4.424)	8(7.078)	8(7.078)	6(5.309)	4(3.539)	31(27.43)
Semi urban	6(5.308)	7(6.192)	6(5.308)	7(6.192)	6(5.308)	32(28.31)
Urban	17(15.04)	3(2.6544)	17(15.04)	8(7.0784)	5(4.424)	50(44.24)
Total	28(24.778)	18(15.929)	31(27.433)	21(18.584)	15(13.27)	113(100.0)

Sources: Primary data

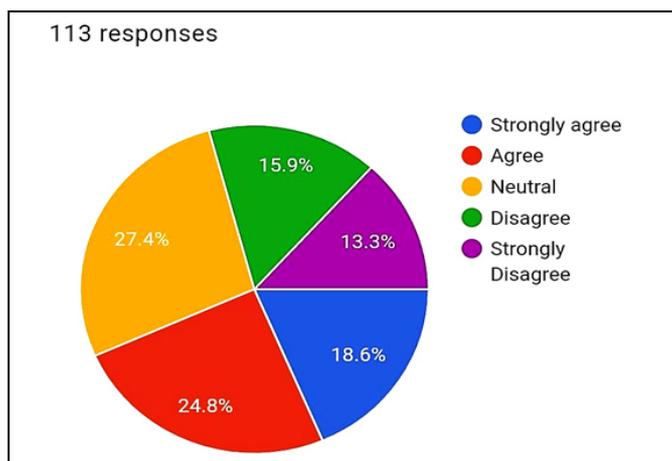


Table No.3 presents respondents’ opinions from rural, semi-urban, and urban areas using an agreement scale. In rural areas, disagree and neutral were highest with 8(7.07 percentage of the respondent) each, followed by strongly agree 6(5.30 percentage of the respondent), agree 5(4.42 percentage of the respondent), and strongly disagree 4(3.53 percentage of the respondent), totalling 31(27.43 percentage of the respondent). In semi-urban areas, disagree and strongly agree recorded 7(6.19 percentage of the respondent) each,

while agree, neutral, and strongly disagree had 6(5.30 percentage of the respondent) each, totaling 32(28.31 percentage of the respondent). In urban areas, agree and neutral were highest with 17(15.04 percentage of the respondent) each, followed by strongly agree 8(7.07 percentage of the respondent), strongly disagree 5(4.42 percentage of the respondent), and disagree 3(2.65 percentage of the respondent), totalling 50(44.24 percentage of the respondent). Overall, neutral responses were highest 31(27.43

percentage of the respondent), followed by agree 28(24.77 percentage of the respondent), strongly agree 21(18.58 percentage of the respondent), disagree 18(15.92 percentage of the respondent), and strongly disagree 15(13.27 percentage of the respondent) out of 113 respondents.

11. Testing of Hypothesis

Table 5 said the hypothesis tested whether inflation has reduced the purchasing power of respondents. Most participants agreed or strongly agreed that inflation affects their ability to purchase goods, while fewer respondents disagreed. This shows a clear perception that rising prices are making everyday expenses harder to manage. Based on these responses, the null hypothesis is rejected and the alternative hypothesis is accepted, indicating that inflation has significantly reduced purchasing power.

Table 6 said this hypothesis examined whether the Minimum Wages Act helps workers cope with inflation. Many respondents chose neutral responses and the level of agreement was only moderate, reflecting mixed opinions about its effectiveness. Some participants felt it helps, while others were unsure or disagreed. Therefore, the null hypothesis is accepted, suggesting that the Minimum Wages Act is not widely seen as a strong solution for dealing with inflation.

12. Conclusion

This study highlights that inflation has a clear and noticeable impact on the daily lives of people by reducing their purchasing power and increasing the cost of essential goods and services. A large number of respondents expressed concern about rising expenses related to food, education, housing, and transportation, showing how inflation directly affects household stability. While the Minimum Wages Act aims to protect workers and support income security, the findings reveal that its effectiveness in coping with current inflation levels is viewed with mixed opinions. Some participants believe wage regulations provide partial relief, but many feel that wage revisions do not always keep pace with the rising cost of living. The study also indicates differences in perception between rural, semi-urban, and urban respondents, reflecting varied economic pressures. Overall, the research suggests a strong need for regular wage adjustments, better policy implementation, and inflation-responsive measures to ensure economic protection and improve the financial well-being of workers.

13. Suggestion

- i). **Revise minimum wages regularly based on real inflation trends:** Wage revisions should happen more frequently so workers' earnings keep up with rising prices and their basic standard of living is protected.
- ii). **Strengthen cost-of-living adjustments like Variable Dearness Allowance (VDA):** Automatic wage adjustments linked to inflation can help workers avoid sudden financial stress when essential goods become more expensive.
- iii). **Use accurate and transparent cost-of-living data for wage decisions:** Policymakers should rely on updated regional price data so that wage revisions truly reflect the actual expenses faced by workers.
- iv). **Increase awareness about wage rights and legal protections:** Many workers, especially in informal sectors, are unaware of their entitlements. Awareness campaigns and easy-to-access complaint systems can

help reduce exploitation.

- v). **Ensure strict monitoring and enforcement of minimum wage laws:** Regular inspections, digital wage tracking, and stronger penalties for violations can prevent underpayment and improve compliance.
- vi). **Provide targeted financial support for vulnerable groups:** Low-income families, rural workers, and informal labourers may need subsidies, food security programs, or temporary financial assistance during periods of high inflation.
- vii). **Promote skill development and access to better employment opportunities:** Training programs and upskilling initiatives can help workers move into higher-paying jobs, making them more financially stable even when inflation rises.

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