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The 8th Pay Commission And The Future Of Wage Governance In India

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ABSTRACT

Pay Commissions have historically played an important role in shaping India's administrative and economic framework by reviewing and revising the salary structures of government employees. Since the establishment of the First Pay Commission in 1946, successive commissions have influenced public service motivation, administrative efficiency, and fiscal planning. As India starts to approach the formulation of the 8th Pay Commission, a critical juncture emerges, one where traditional wage revision mechanisms must contend with the contemporary demands of fiscal wise, performance orientation, and equitable compensation. There is a growing concern that the increasing financial burden resulting from periodic pay revisions, particularly post the 6th and 7th Pay Commissions, has strained both the Union and the State budgets. This article aims to analyze the implications of the 8th Pay Commission through a comprehensive policy review and qualitative analysis. On the basis of historical data from previous pay commissions, government expenditure patterns, and comparative global models, the study identifies the fiscal challenges and governance deficits inherent in the current approach. The paper argues for a shift toward a performance-linked compensation system, greater decentralization in wage decisions, and the establishment of a permanent wage review body. It seeks to offer forward-looking reform imperatives that can shape a fair, transparent, and fiscally responsible public sector compensation system for India.

KEYWORDS: 8th Pay Commission, Wage Governance, Fiscal Federalism, Fiscal Sustainability, Public Sector Compensation, Performance-Based Pay, Pension Reform.

INTRODUCTION

In the context of the Indian public sectors, governance is not only a matter of administrative efficiency but also a tool for maintaining social equity, boosting employee morale, and ensuring accountability in public service. An effective governance framework must balance fair compensation for government employees with the financial sustainability of the state and wider national development goals. Since India's independence, Pay Commissions have been established at regular intervals to review and recommend changes to the pay structures of central government employees. The First Pay Commission (1946) was focused on simplifying the salary structure post-colonial rule. The Second (1957) and Third (1970) Commissions were aimed at rationalizing pay scales. The Fourth Pay Commission (1986) was significantly increased salaries, reflecting inflation and economic changes. The Fifth (1997) and Sixth (2006) Commissions introduced more wider revisions, including dearness allowances, pension schemes, and pay bands. The Seventh Pay Commission (2016) brought significant changes like the introduction of the pay matrix, but it also reignited debates around fiscal stress and growing disparities between government and private sector remuneration.

As the government begins discussions about the 8th Pay Commission, the context is especially critical. With the rising inflation, mounting public debts, and a growing demand for the reintroduction of the old pension scheme, the current wage governance model appears increasingly outdated. Moreover, rapid technological advancements, reforms of administration and a changing demographic structure demand a more changing and flexible compensation system that aligns with global best practices. The central problem lies in the increasing fiscal burden that each new Pay Commission imposes on both the Union and the State governments. While employees demand for timely revisions to maintain purchasing power and ensure parity with the private sector, policymakers must grapple with the long-term financial implications of such decisions.

REVIEW OF LITERATURE

Most of the Scholars have examined the historical development of India's Pay Commissions, which have played an important role in shaping public sector compensation. Each commission has brought structural changes ranging from the introduction of dearness allowance and bonus schemes by the early commissions, to the 6th CPC's emphasis on grade pay and the 7th CPC's shift to a matrix-based structure. Studies such as by Das and Sharma (2017) highlight how these changes were meant to enhance transparency, efficiency, and parity. However, the critics also pointed out inconsistencies in implementation across the states and growing disparities among service cadres.

The key concern in the recent literature is the fiscal stress induced by CPC implementations. The 7th Pay Commission alone led to an important spike in revenue expenditure across the Union and the state governments. Rao and Singh (2022) examine how sudden salary hikes without phased planning can compromise developmental spending, especially in fiscally constrained states like Odisha and other. Empirical assessments post-6th and 7th CPCs have shown a short-term boost in consumption but also long-term risks of widening fiscal deficits.

Bhattacharya (2020) argues that the Indian system tends to favor seniority over performance, undermining the incentive to innovate or serve efficiently. Concepts like pay compression ratio and job-responsibility alignment remain underexplored in Indian reforms. The literature stresses the need to balance horizontal equity and vertical equity. Authors like Mitra and Bandyopadhyay (2021) have analysed how pension obligations have grown disproportionately compared to productivity and revenue growth. While NPS is seen as fiscally prudent, resistance from employee unions and political parties has led to reversals in several states, raising concerns about long-term sustainability.

CONCEPTUALIZING THE FRAMEWORK

Wage governance simply refers to the systematic approach through which governments design, implement, and regulate compensation policies for public sector employees. From the administrative perspective, wage governance encompasses the structures, rules, and processes that ensure fair and transparent salary determination, aligning remuneration with job roles, responsibilities, and career progression. According to Pandey (2010), effective wage governance plays a crucial role in motivating civil servants, enhancing bureaucratic efficiency, and sustaining public trust in government institutions.

Two key theories underpin the conceptualization of wage governance in the Indian context. Public Administration Theory and Fiscal Federalism Theory. Public Administration Theory emphasizes the role of compensation in fostering bureaucratic effectiveness, accountability, and equity (Lynn, 2006). This theory argues that wages should incentivize productivity and ethical behavior while maintaining fairness among different cadres and departments. Wage governance thus becomes an instrument to uphold meritocracy and reduce corruption risks.

Fiscal Federalism Theory (Oates, 1972) highlights the division of fiscal responsibilities between central and state governments. Wage governance in India is complicated by this federal structure, as pay commissions recommend central pay scales which states often adopt, affecting their fiscal health differently. The theory stresses that wage policy should consider both vertical and horizontal fiscal equity to maintain balanced development.

HISTORICAL OVERVIEW:

The Pay Commission system of India has evolved as a periodic mechanism to rationalize and restructure the salaries and pensions of central government employees. Since independence, seven Central Pay Commissions have been constituted, each responding to the socio-economic context of its time and aim to balance fairness, administrative efficiency, and fiscal responsibility. Their recommendations have not only shaped government wage structures but also influenced broader wage governance trends at both the Union and State levels. Here is the overview of the evolution of India's pay commissions.

1st Pay Commission (1946) focused on standardizing pay structures inherited from the colonial regime. It introduced a minimum wage based on living costs and emphasized fairness in remuneration. 2nd Pay Commission (1957) aimed at rationalization by linking pay to job responsibilities and qualifications. It stressed the need for simplicity and vertical equity. 3rd Pay Commission (1970) introduced the idea of

compensating for the rising cost of living, leading to the adoption of Dearness Allowance (DA) as a regular feature. 4th Pay Commission (1986) significantly enhanced pay scales and recommended improvements in pensions. It acknowledged the need for parity between different civil services. 5th Pay Commission (1997) was marked by a substantial salary increase and the introduction of time-bound promotion mechanisms. However, it was also criticized for imposing a heavy fiscal load, especially on state governments, many of which struggled to implement its recommendations. The 6th CPC introduced transformative structural reforms by Replacing the earlier system with Pay Bands and Grade Pay, aiming for better career progression and a simpler hierarchy. Recommending a significant hike in salaries, which was accepted with retrospective effect, creating immediate fiscal pressure. Introducing performance-related incentives, although implementation was limited. The 7th CPC replaced the grade pay system with a Pay Matrix, a more transparent structure integrating career progression and annual increments. Rationalization of pay levels for various categories of employees. Enhancing minimum pay and suggesting a uniform fitment factor.

The 8th Pay Commission approaches, policymakers must revisit these lessons acknowledging the need for wage realism, fiscal prudence, and outcome-linked remuneration models. The past trajectory shows that while wage hikes may serve short-term equity goals, sustainable wage governance demands deeper structural and policy-level changes in India.

THE 8TH PAY COMMISSION

The announcement and formulation of the 8th Central Pay Commission (CPC) come at a politically and economically sensitive juncture in India. With general elections, economic recovery still uneven post-pandemic, and inflation exerting pressure on household budgets, the expectations surrounding the upcoming commission are particularly high. Government employees, both at the central and the state, anticipate not only salary revisions but also restoration of benefits, improvements in pension structures, and better job parity across services. However, these expectations are tempered by complex fiscal and administrative realities that pose significant challenges for policymakers.

The political climate is a key factor shaping the discourse around the 8th CPC. In India, public sector wage decisions often coincide with election cycles, creating the risk of populist measures that prioritize short-term political gains over long-term fiscal health. As observed by Rao and Singh (2020), such decisions may result in financially unsustainable commitments that outlast the governments making them. Political pressure to appease large constituencies of government employees, particularly in Unionized sectors like railways, education, and defense, can lead to recommendations that may not align with economic prudence. Government employees argue that without a regular adjustment of salaries to reflect inflation, real income erosion becomes inevitable. However, this concern must be weighed against stagnant productivity in many public sector domains. Unlike the private sector, where pay is often linked to performance metrics, the public sector continues to rely on time-bound increments and seniority-based promotion systems, leading to misaligned incentives (Moynihan, 2008). The challenge, therefore, lies in designing a wage structure that maintains employee morale without encouraging inefficiency. The

proximity of the 8th CPC's formulation to major elections adds another layer of complexity. History has shown that populist pay hikes can significantly increase government expenditure without corresponding gains in service delivery (Chakraborty, 2017). For example, the retrospective implementation of the 6th Pay Commission's recommendations contributed to fiscal stress at both Union and State levels, raising the wage bill as a proportion of GDP.

India's public sector is marked by horizontal and vertical disparities in pay among various services. While All India Services (IAS, IPS, IFS) often enjoy faster promotion and higher pay bands, other services such as clerical staff and Group C employees face stagnation and poor working conditions. This has led to increasing demands for pay parity, which the 8th CPC will need to address in a politically sensitive manner.

CHALLENGES OF IMPLEMENTING THE 8TH CPC

The implementation of the 8th Central Pay Commission (CPC) is expected to create significant fiscal ramifications for both the Union and the State governments. While the primary aim of CPCs is to ensure fair compensation for public sector employees, the financial burden they impose can disrupt macroeconomic stability, crowd out developmental spending, and exacerbate state-level fiscal stress especially in resource-constrained regions like Odisha.

Estimating the Financial Burden on Union and State Governments: Each Pay Commission has historically led to a substantial increase in the public sector wage bill. The 7th CPC, for example, resulted in an estimated additional ₹1.02 lakh crore annual expenditure for the central government alone (Ministry of Finance, 2016). The states, though not constitutionally bound to follow the CPC, often implement its recommendations under political and administrative pressure, leading to similar fiscal outcomes at the subnational level. Given inflationary trends, rising pensions, and wider employee coverage, the 8th CPC is expected to impose a higher recurring expenditure, possibly exceeding 2.5% of GDP when combined with state-level obligations. This could severely test the limits imposed by the Fiscal Responsibility and Budget Management (FRBM) Act, which mandates keeping fiscal deficits within sustainable bounds (GOI, 2023).

Fiscal Responsibility vs. Welfare State Obligations: The Indian state is constitutionally committed to being a welfare state, ensuring adequate social security, health, education, and employment. However, the rising share of committed revenue expenditure including salaries and pensions threatens the fiscal space available for welfare and infrastructure development. This duality poses a governance dilemma: while fair wages are essential for employee motivation and institutional effectiveness, unchecked wage growth can lead to fiscal indiscipline, forcing cuts in public services and capital investments. Balancing equity therefore, a core challenge that the 8th CPC must navigate.

CASE STUDY: IMPACT OF THE 7TH CPC ON ODISHA'S FINANCES

Odisha presents a compelling example of how state-level fiscal dynamics respond to Pay Commission implementations. After adopting the 7th CPC's recommendations in 2017, the state witnessed a marked increase in its revenue expenditure. According to the Odisha Economic Survey (2020), the state's salary

and pension payments rose by over 35%, contributing to a decline in its capital outlay for health and education. In fiscal year 2019–20, Odisha's committed liabilities (salaries, pensions, and interest payments) formed over 60% of its total revenue receipts, leaving limited scope for developmental expenditure. This scenario underscores a deeper structural challenge: even states with relatively prudent financial practices can face resource compression when wage revisions are implemented without parallel increases in revenue or efficiency.

IMPERATIVES FOR STRUCTURAL REFORM IN WAGE GOVERNANCE

India moves towards implementing the 8th Central Pay Commission (CPC), the urgency for structural reforms in wage governance becomes more pronounced. The traditional salary revision model based primarily on time-bound increments and inflation adjustment has proven fiscally unsustainable and misaligned with principles of administrative efficiency and economic equity. To ensure the long-term viability of public sector compensation, it is critical to embrace reforms that enhance performance, accountability, and fiscal prudence.

One of the foremost reforms required is the adoption of Performance-Based Pay Systems Performance-Related Incentive Schemes. Unlike the current seniority-centric system, PBPS links compensation to measurable outcomes, institutional goals, and individual efficiency. This model is widely adopted in OECD countries and has been piloted in India in select departments, such as the Ministry of Power and NTPC, under the Second Administrative Reforms Commission (ARC, 2008). Another urgent area of reform is the pension system, particularly the debate surrounding the National Pension System and the Old Pension Scheme. While the NPS was introduced in 2004 to ensure fiscal sustainability through a defined-contribution framework, recent political demands have led some states, including Rajasthan and Chhattisgarh, to revert to the OPS, which is fiscally regressive and actuarially unfunded (RBI, 2023). A reformed model could involve a hybrid pension structure, combining the risk-sharing of NPS with minimum guaranteed returns, thus ensuring financial sustainability without compromising employee security.

Decentralized Wage Governance: A decentralized model of wage governance, allowing states greater autonomy in determining pay scales within a broad national framework, could enhance fiscal flexibility. According to Oommen (2015), fiscal decentralization can help tailor public wage policy to local economic conditions while preserving the spirit of cooperative federalism. This approach would also incentivize states to adopt efficiency-enhancing reforms instead of mechanically implementing CPC recommendations.

The integration of digital tools and Human Resource Management Information Systems (HRMIS) is another essential reform area. Currently, salary processing, leave tracking, and pension approvals in many government departments remain paper-based, opaque, and delay-prone. This not only breeds inefficiency but also opens the door to corruption and policy mismanagement. The successful rollout of systems like the Public Financial Management System and SPARSH (System for Pension Administration-Raksha) in

defense services demonstrates the transformative potential of digital platforms in streamlining wage and pension delivery.

POLICY RECOMMENDATIONS

The upcoming 8th Central Pay Commission offers a critical opportunity to reshape India's public wage system in ways that are sustainable, efficient, and equitable. The recommendations below propose a practical roadmap for this transformation, keeping fiscal limitations, employee morale, and systemic efficiency in mind.

Reforming the Structure and Scope of the 8th Pay Commission: Rather than simply updating pay scales based on inflation or historical precedence, the 8th CPC should be tasked with a broader mandate. This must include examining wage structures through the lens of performance efficiency, inter-service parity, economic capacity, and institutional accountability. Engaging interdisciplinary experts from public policy, economics, and human resources can ensure that recommendations are realistic and forward-looking.

Gradual Implementation to Ease Fiscal Pressure: One of the key reasons for financial strain after previous CPC recommendations especially the 7th CPC was the immediate implementation of revised salaries without staggered planning. To avoid such shocks, the 8th CPC should propose a phased rollout model, wherein salary revisions are spread over two to three years.

Linking Pay with Skill Development and Training: Incentivizing government employees to improve their skills and stay updated with current administrative tools is essential for good governance. One way to achieve this is by linking salary progression with training outcomes and performance evaluation.

CONCLUSION

The journey of wage governance in India highlights the pressing need for a balanced, forward-looking, and sustainable approach to public sector compensation. As the country prepares for the recommendations of the 8th Pay Commission, it is essential to remember that salary structures are not just financial decisions. They reflect the values of equity, efficiency, and accountability within the administrative system.

This article has examined the key challenges associated with the current wage framework, including fiscal strain on governments, inconsistencies across services, and outdated performance models. At the same time, it has outlined much-needed reforms such as linking pay to performance and training, adopting a phased implementation strategy, and institutionalizing a continuous compensation review mechanism. The 8th Pay Commission is more than a routine administrative exercise; it is a critical opportunity to redefine how India values its public workforce. If approached with vision and responsibility, it can pave the way for a compensation system that not only rewards work fairly but also strengthens the very foundation of public service in a democratic society. In doing so, India can set a new benchmark for fiscal discipline, governance innovation, and social justice.

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