ABSTRACT

The paper aims to ascertain whether the existing levels provided under the Employees State Insurance Scheme for industrial injury accidents are efficient, using the primary data on manufacturing industrial workers in Chennai, and the job related injury risk provided by the Chief Inspector of Factories and worker's insurance benefit formulas. If workers compensation is to provide optimal insurance, the marginal wage reduction that workers are willing to accept for higher expected benefits should reflect the terms of trade for insurance. The empirical results strongly support the hypothesis of positive compensating wage differentials for job injuries and negative trade off between wages and compensation benefits. The results also show that benefit level provided by the Employee State Insurance is suboptimal.