

NATIONAL COMMISSION ON LABOURLevel of Living, Cost of Living and Dearness AllowanceI

In dealing with this composite subject it will be useful to give a short description of the first component of it, namely, the level of living and take it out of the way. A discussion on it, though related to other component, is not a part of the other two which pose problems for the Commission to take a view; 'level of living' has to be discussed on a different plane. It concerns the community as a whole and any country will seek to improve it as development proceeds. Different components of level of living have to be expressed in physical terms. In a monetised economy these physical quantities have to be converted to a common unit, the money unit; and this brings in the question of cost of living. Since the cost of items keeps on fluctuating, it is important to have a measure, an index, by which the rise in living costs of different sections of the community could be measured. This index is called the Cost of Living Index; which is now more appropriately called Consumer Price Index. The index shows changes in the price of a fixed basket of goods and services both qualitatively and quantitatively, as compared with a chosen base period cost. This index has been used for a long time as a means for adjusting the remuneration for a worker through a variable allowance; called Dearness Allowance or its other descriptions as dear food allowance, cost of living allowance etc. Thus when dearness allowance is paid as a separate component, the presumption is that workers' real wage is to be protected from erosion which results out of a price rise.

2. The different components of level of living which have acquired international recognition are nutrition, housing, clothing, lighting, health, education, recreation, transport and other miscellaneous items. The requirements of each of these components have been defined as far back as in 1954 by an expert committee of the United Nations in the form of a report on international definitions and measurements of standards and levels of living. This report was considered in great detail in 1955 by two Committees appointed respectively by the International Labour Organisation and the World Health Organisation. The changes as recommended by these Committees were further considered by an inter-agency working party of the United Nations which prepared revised recommendations on components and

their indicators. The United Nations Statistical Commission generally approved these recommendations in 1960.

3. There will be difficulties in translating these norms in their application for different countries at various stages of development. In India, there have been debates in the Parliament about how low the level of living has been as also about the disparities in levels of living. A high level Committee, the Committee on Distribution of Incomes and Levels of Living (The Mahalanobis Committee), appointed in 1960 discussed a part of the problem and is yet to present its conclusions on the other part. But simultaneously with these investigations, there has been some thinking about the minimum needs of a person in the Indian situation. The Perspective Planning Division of the Planning Commission got together a Seminar in 1961-62, to define these needs (in the same spirit as the 15th Indian Labour Conference sought to quantify workers' needs) and if these proved to be beyond the capacity of the country to reach, indicate a phasing by which the minimum standards could be reached. The Seminar concluded that with the price levels as of 1961-62, the bare minimum defined by it was of the order of Rs. 125/- p.m. for a family of five (taking all i.e. agricultural, non-agricultural, organised and unorganised sectors together). That standard, it was concluded, was not within the reach of the country till 1976.\* There has been considerable re-thinking on minimum level of living as also of the targets fixed for planning since then, as indeed on population projections and a re-assessment of the whole situation will be available only after a clearer outline of the Fourth Plan is available. At this stage all that can be said is that each one of <sup>the components of</sup> re-assessment will have a depressing effect on the resultant level of living as at one time envisaged for the year 1976.

4. The indicator used for measuring cost of living, the Consumer Price Index Number, (C.P.I. Number) has had long history in the country starting with the crude indicators which were built in the twenties for cities like Bombay and Ahmedabad in the old Bombay Presidency and some other centres in the country. Since then, mainly as a result of the development of international concepts and methods and the statistical advance in India, the basic work for the compilation of consumer price index numbers has been put on a firm footing; uniformity has been introduced

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\* The terminal year, 1976, was suggested on the basis of the optimistic planning prospects as could be seen in the first year of the Third Plan.

in the manner of inquiry which determines the consumer basket for the working class, the manner of selecting shops from which the price data have to be collected and also the computational method used for determining the average basket and index number which is called Consumer Price Index Number for each centre from month to month. There were some complaints about the outdated nature of the basket and non-uniformity in the base year. These were removed when in 1958-59 an all-India ~~the cost of living for the working class at fifty centres distributed~~ inquiry was undertaken for determining ~~in the whole country.~~ indices have been built up on the basis of these inquiries one for each centre and are published monthly with the prices for the year 1960 as the base. Some of these indices came in for a detailed examination by the Supreme Court more because of the manner they were used for determining workers' claims for dearness allowance. In the process the whole technique of compilation of indices was also challenged but, on the technical side the challenge seems to have been well met by the official series. For linking the two series, one prior to 1960 and the other the current, various contentions were raised; the linking procedure was examined by technical committees and the controversy on them also seems to be set at rest.

5. Now the dearness allowance (d.a.); as stated before it is also called dear-food allowance to ~~emphasise the~~ nutrition aspect or cost of living allowance. During the First World War when prices went up, demands were made by textile labour in Ahmedabad to secure compensation for increasing prices. The practice of paying dearness allowance, as distinct from the basic wages as such, started with the discussion on these demands. With the economic recession, the dearness allowance, in ~~Ahmedabad~~ and other centres wherever it was paid had a chequered history in the intewar period.

6. The out-break of Second World War disturbed the then existing equilibrium between wages and price level. Organised labour in various industries demanded compensation for the rise in the cost of living. A few of the demands were mutually settled between employers and employees but majority of them had to be referred to Industrial Courts/Tribunals/Courts of Enquiry. As a result of these awards/recommendations workers got additional sums of money under various new names such as, amenity allowance, grain compensation allowance, and war allowance. The consideration behind keeping these allowances as distinct from wages

was the temporariness of increased cost of living due to abrupt rise in prices. It was considered that these allowances would decline gradually and eventually vanish in due course. However, the phenomenon of rising prices has continued and with it the practice of dearness allowance as a distinct factor in the wage/pay structure.

7. Originally confined to industrial workers, the concept took within its sweep all organised labour whether it is public sector or private sector, whether in industry, trade, commerce or transport as also whether it was in public service or elsewhere.

8. As time passed and price level continued its upward march, and employing interests found it convenient in consequence not to adjust the basic wage structure frequently, dearness allowance became such an important component in the total earnings of workers that during the last two decades basic wage is gradually losing all its meaning where dearness allowance is paid on the basis of Consumer Price Index Numbers. At the same time the soundness or otherwise of this way of compensating wage/salary earners has been gone into by many Committees/Commissions who have, in the absence of any other satisfactory method, supported a linking with some index which shows price rise. The Rau Court of Enquiry (1940), the Gregory Committee (1944), the Rajadhyaksha Award (1945-46), First Pay Commission (1947), Fair Wages Committee (1948) U.P. Labour Enquiry Committee (1946-48), Dearness Allowance Committee (1952), Rajasthan Textile Labour Enquiry Commission (1955), the Bank Award Commission (1955), Second Pay Commission (1959), Desai Award for Banks' employees the Dass Commission (1965) and the Gajendragadkar Commission (1967); Industrial Courts, Industrial Tribunals and many wage settlements between employers and workers are instances\* on the point. Besides these, between 1957 and 1967 the Government of India set up 22 Wage Boards/in respect of 19 industries. In terms of employment the Boards now cover almost the entire plantation sector, about 80 per cent of the mining sector and 40 per cent of manufacturing sectors. Most of these Wage Boards have preferred a link between C.P.I. and d.a. In tripartite discussions also, the conclusions take the same shape.

9. There are, however, three main systems of payment of dearness allowance: (i) flat rate, (ii) a rate linked to Consumer Price Index numbers but which could still be flat and (iii) a percentage increase related to income group. In each one there are variations to suit the requirements of industries/units/services which need not be discussed at length except to mention the general principle that whatever the method, the compensation by way of dearness allowance is more egalitarian in its application in terms of percentage neutralisation of price rise, the lower brackets getting a higher percentage. Since as stated later (ii) is the more common method in terms of employees covered, we may examine its merit as also its extent.

10. The main factors taken into consideration in linking the dearness allowance to consumer price index numbers usually are: the availability of such indices for the centres concerned, and the ability of the industry or units in the centre to pay the allowances on that basis. The rate is fixed at a level which would neutralise the rise in the cost of living to a given extent. The chief merit of this system is that the amount is automatically adjusted to rise or fall in the index numbers according to an agreed scale and it commands the faith of employers and workers.

11. Apart from these three distinct and commonly adopted system of payment of dearness allowance, in quite a few units the allowance is paid on an arbitrary basis, without any fixed system, at rates which vary between workers or groups of workers without being related to income groups. A few examples of this system are: Metal Founding, Agricultural Implements, Cement Factories, Tea Plantations. A study of percentage distribution of workers getting dearness allowance according to various systems in factory industries revealed (in 1958-59)\* that 41 per cent of workers were subject to consumer price index numbers, 28 per cent flat rate, 31 per cent to income group. In view of the fact that most wage boards have linked the wages to the Consumer Price Index and also of the possibility of switching over to C.P.I. system from other systems, at present larger percentage of workers are subject to C.P.I. system.

12. To sum up, the prevailing system of D.A. as a contrivance to protect a fall in real wages of workers having originated as a

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\* Occupational Wage Survey General Report (1958-59).

temporary expedient during war has come to stay as a part of the wage structure. Among the various system of dearness allowance the system linked to consumer price index is most common as it automatically adjusts the wages to rise in general price level. As the degree of neutralisation to increased cost of living varies, labour is protected partially, care being taken to safeguard the lowest paid category of workers. The general standard of living of workers in India which mainly depends upon the level of total earnings has varied differently during last thirty years. The behaviour of real wages has been already discussed in Part I of our Report. The main issues which the Commission has to answer in this area of the inquiry have been posed by the D.A. Commission which reported in May, 1967. The ~~recomm~~ recommendations it made are appended.

## II. Evidence before the Commission

13. For the convenience of discussion, the evidence before the Commission has been summarised under five broad heads: (a) D.A. a separate component and linked with Consumer Price Index numbers; (b) the Choice of the index number; (c) Extent of neutralisation; (d) Limits of variation of index points and frequency of D.A. adjustment and (e) Capacity to pay.

(a) State Governments and employing departments have unanimously favoured the existence of D.A. as a separate component in the wage structure. Some have suggested adjustment of D.A. either after a period of time, say, a year or <sup>half</sup> or when the cost of living index crosses a certain limit. (a variation of the recommendation of the Dearness Allowances Commission). Almost all have suggested linking of dearness allowance to cost of living index. Several employers' organisations including A.I.M.O. have objected to the system of linking wages to cost of living index. In their view it is not conducive to the interest of economy. Some have stated that it is unfair for a section of population to expect protection when it cannot be extended to others. Workers' organisations have all favoured the system of D.A. but have suggested its periodical review and merger with basic pay and adequate neutralisation. The Study Group on Heavy Chemicals Industry has suggested merger of a large portion of dearness allowance with basic salary because it is impossible for the cost of living index to come down to a very low level. The

on Ports and Docks  
labour representatives of the Study Group were of the view that  
" the question of providing fair wages and adequate amenities and  
benefits to the employees and of protecting their real earnings  
should be taken care of in fixing the port charges; provision should  
also be made for neutralising any rise in their cost of living by  
incorporating escalation clauses in the port charges".

(b) Most State Governments have preferred regional index numbers. Orissa and Kerala prefer regional index in the absence of local index, while Jammu & Kashmir, Punjab, Haryana and Delhi have definite preference for local index numbers. Railways, Rajasthan Government (for organised industries), Bombay Port Trust, INTUC (for national wage policy), etc, prefer the all-India index. In general, the respondents have preferred the use of the all-India index, if the concerned industry is homogenous and of an all-India character.

(c) Varying degrees of neutralisation have been suggested by State Governments. Governments of Kerala, Delhi (L.C.), Mysore(L.C.), Rajasthan and West Bengal have suggested cent, per cent, neutralisation at the lowest level. Consensus seems to be that at the lower levels maximum neutralisation should be given and percentage neutralisation should gradually taper off as the pay scales rise. Several employers' organisations have stated that the Gajendragadkar Commission's recommendations may be a very useful guide in respect of the degree of neutralisation. A.I.M.C. were originally of the view that neutralisation should not be more than 75% but later during discussions stated that if the present system of D.A. is continued, 100% neutralisation should be allowed only where a minimum subsistence wage is given as per Minimum Wages Act. So far as workers' organisations are concerned, they have unanimously voiced the demand for cent, per cent, neutralisation.

(d) While several State Governments, employers' organisations and Railways suggest revision of D.A. after 10 points rise in cost of living, or after six months, some State Governments and workers' organisations suggest that it should be done after 5 points rise in cost of living or after a quarter (if the period is chosen for revision). Some workers' organisations have suggested point by point/month to month adjustment. On the contrary, some employers suggest revision on annual basis. The Study Group on Wage Policy prefers automatic adjustment of dearness allowance with consumer price index numbers but it considers month-to-month adjustments to be undesirable.

The Study Group has stated as follows :

" The management should have some reasonable stability in wage costs without at the same time, imposing too heavy a burden on the workers at the subsistence level. Hence periodic adjustments of wages has much to recommend itself".

(e) Almost all State Governments, employers' organisations and Economic Secretaries of Government of India have observed that capacity to pay is a very important consideration in fixing the amount of dearness allowance. A majority of workers' organisations are of the view that <sup>it</sup> is not a relevant consideration, but the Hind Mazdoor Panchayat, Maharashtra, is of the view that if the burden of full neutralisation will lead to closing down of an establishment, attempt should be to achieve full neutralisation in progressive stages.

### III International Experience

14. The system of payment of dearness allowance as a separate component of wages is a special feature of India and possibly of some other Asian countries. In the Western countries wages themselves are adjusted. The wage agreements provide 'escalator clauses' or 're-opening clauses' or provide for review of wage rate when price index rises above a certain point. Escalator clauses are common in the U.S.A., Belgium, Denmark and Italy, whereas re-opening clauses are included in several central agreements in Norway and Sweden during 1954-58.

15. In several countries of Asia the situation is met by having a separate component of dearness allowance in wages either as lumpsum or linked to consumer price index. In Ceylon, there are several allowances, e.g. cost of living allowance, rent allowance, special living allowance, etc. In Japan, wages include cost of living allowance and rent allowance.

16. In most European countries as also in the U.S.A., Canada and Japan there has been a rise in the real wages of workers in the post-war period. This was due to substantial expansion of their economies, general situation of labour shortage and improvements in productivity. This rise in real wages has taken place inspite of the fact that these countries have faced the effects of instabilities on account of persistent



or recurrent inflation in the sense of rising retail prices. During 1950 to 1962 the rise in the real wages of workers in the manufacturing industries was of the order of 29% in the USA, 32% in U.K., 40% in Norway, 95% in Federal Republic of Germany, 44% in Canada and 60% in France. Most of these have followed significant productivity increases. In absolute terms they present difficulties in comparison e.g. partial recoveries by 1950, in war torn economies of U.K., Norway, Germany and France and the use of higher technologies could be the main reason for such significant increases in real wages.

#### IV - SUGGESTIONS

17. The system of payment of dearness allowance to industrial workers has to be viewed in the broader context of wage policy. In this regard suggestions offered in other topic notes, e.g. "Principles and Objectives of a National Wage Policy", and "Interaction between Wage and Employment Levels" may be referred to. It is clear that the system of dearness allowance has to continue and it is best to link up the dearness allowance component with consumer price index numbers wherever possible. However, some of the ill-effects of the system have to be mitigated and this can be done through the formula adopted for linking dearness allowance with consumer price index numbers. Suggestions on this are made below in respect of each ingredient of the formula.

18. There is little point in keeping the basic wages at the pre-war level and allowing dearness allowance to over-shadow basic wages. A suggestion could be that basic wages in all industries should be brought to the price-level of 1960, wherever they relate to earlier periods. But this will involve the reopening of the whole series of wage agreements, settlements and awards and would mean a colossal task for administration, Employers' organisations and Trade unions, though there could be sound reasons for it viz., (a) it is unlikely that the price-level will ever go below the level of 1960, (b) new series of working-class consumer price index numbers being published are on base 1960 and this will facilitate linking of dearness allowance and (c) if the basic wages are updated to 1960, dearness allowance component of earnings will be cut down to its proper size. A more practical suggestion as a future guide to this aspect of wage policy will be that wage level in an industry/unit should be linked to as near the base period for consumer price index number as possible. All new

revisions of wage levels should be with reference to 1960 or a later date. In fact, it could be a specific direction to the wage fixing authority and a mere suggestion to the parties which want to settle their problems through collective bargaining.

19. Protection against decline in the purchasing power of money is needed mainly by employees in lower income brackets who have generally little manoeuvrability in their pattern of expenditure. Extension of this protection to all employees will be self-defeating in purpose and wrong in principle. Employees in higher income-brackets have to make some sacrifice in common with the vast sections of self-employed population, rural labour, etc., who do not get any compensation for rise in prices. Where to draw a line in the question? A suggestion could be to see how the principles evolved by the D.A. Commission for the classification of quantum of relief for different categories could be adopted for industrial employees.

20. At present working-class consumer price index numbers are available for individual industrial centres and all-India. There is a gap at the level of Regions/States. The Conference on Labour Statistics organised by this Commission has recommended steps for compiling Index Numbers for each State. There is a large body of opinion in favour of using such Regional or State Index Numbers for purposes of linking dearness allowance of employees within a State boundary. Till such Index Numbers become available, the choice is between the all-India index and indices available for different industrial centres. The Central Wage Boards seem to have favoured the use of the all-India Index, though some Boards (e.g. cotton textile and jute industry)\*\* have recommended the use of Centre-indices. There is already a pattern established in this respect <sup>and</sup> also a tradition which is difficult to cast away. To suggest for instance that a city like Bombay or Ahmedabad or Madras or Calcutta or Delhi should be guided by an all-India or a State series will not be practicable, though over a period the series for important centres and the State or Central series will have very close correlation. To convince employers and workers in the existence of such close correlation is an educative process which will take long to establish its utility. Till then it is best to leave it to the wage fixing authority to

choose the appropriate index-series in consultation with representatives of employers and employees.

21. Another point which is often raised is whether the working class consumer price index numbers, which represent price rise for the consumption basket of an average worker, can be taken to regulate the dearness allowance of lowest paid workers. In deciding on this issue it has to be recognised that some "applicability error" will always be involved in linking dearness allowance with consumer price index numbers because "an exact one-to-one correspondence between the group of employees and the index-series is impossible. Obviously it is not possible to maintain separate consumer price index numbers for employees in different wage categories in different centres. All that needs to be ensured is that the "applicability error" is not unusually large. From that point of view it is seen that more than 60% of the families surveyed in 1958-59 for building up the current working class index numbers (base, 1960 = 100) had incomes lower than Rs. 125/- p.m. The index numbers, therefore, predominantly represent workers in lower income-brackets and they can be taken to be a good mean or average for regulating the dearness allowance. There are also two further statistical points: The sample for the inquiry is designed in such a way that it will give an idea of the consumption basket of an average worker. The suggestion that index should be worked out for a worker with the minimum amounts to fresh inquiries by defining the term "minimum wage earner". To extract the budgets of such workers from an inquiry which have been designed for an average worker would be to affect the size of the sample and make it subject to a wider margin of error. The suggestion would also involve maintaining a number of working class indices for the same centre which again is impracticable.

22. The second point is that what the index measures is the price changes. Marginal adjustment of weights (proportions) which the suggestion if accepted, would involve does not affect the index, and even such very minor differences get evened out within the course of a year or two.

23. It is more or less accepted that workers at the subsistence level of wages need better protection against rise in prices and this protection can be less as wages rise above subsistence level.

Subject to the level of physical benefits and amenities enjoyed by the workers, total protection should admit of adjustment. The extent of adjustment should be left to the wage fixing machinery. However one principle can claim acceptance. Percentage neutralisation should be by broad group-ings and once the percentage is fixed the quantum of D.A. should be fixed for reaching that neutralisation to the minimum earner in the group. The quantum so worked out should be uniform for the whole group. The scale of tapering of d.a. as pay./wage ranges become higher is again a matter where ~~Plant~~ <sup>Local</sup> considerations will prevail. This point again could be for the wage fixing authorities to decide according to the circumstances of each case. There should be a general recommendation that the total number of wage/salary groups which are entitled to D.A. should be four or five at the most. And once this is decided, the scheme of tapering off can be worked out.

24. The amount received as dearness allowance should not fluctuate too much at too frequent intervals, as this is inconvenient to both employers and workers. Here the main controversy is as between point to point adjustment or adjustment from slab to slab. The size of the slab whether it should be five points or ten points is also another point. In discussing the alternatives, one consideration has to be borne in mind. The <sup>C.P.I. number is a</sup> statistical measure and as such it is subject to margins of tolerable error. This factor can be cited against making point to point adjustment and in favour of working on the basis of an average over a period. Once the period is so decided the controversy over slab vs point will still be there. Here again, the grooves into which the thinking in some employer/labour circles has struck will be difficult to smoothen. Normally a slab system would work better for reasons which have been explained in the report of the D.A. Commission. On the contrary if a point to point adjustment is made the additional D.A. will not be noticeable by the market with all the keenness the market will watch a dearness allowance increase in lump. The size of the slab will depend upon the time taken to cover the distance between the two extremes of the slab. On the basis of 1960 series a slab of 5 points should not be considered inequitous.

25. Once the main ingredients, as discussed above, are settled, the formula for linking dearness allowance with consumer price index numbers will emerge automatically. It should be incumbent on all

Wage Fixing Bodies to explain in detail the formula recommended by them by spelling out each of the ingredients. In the past, recommendations of some of these Bodies did not clearly specify the reference-year chosen, degree of neutralisation, etc., and as a result the implications of their recommendations were not clear. Nor was the matter which was sent to them finally determined. In such circumstances the Courts have a difficult time to interpret. We have to answer one more points- Does the present arrangement of a separate D.A. tend to be inflationary. In stating that it is not reliance is placed on the small number of persons whose dearness allowance is fixed in this manner (i.e. linked to C.P.I. numbers) and an argument developed that this is so a small a number that its effect on price could be negligible. On the other side the contention is the spirit in the market when increased d.a.'s are announced. In Delhi at least a part of the d.a. is eaten away by further rise in prices when Govt. dearness allowances are revised. The same was the case in Bombay or Ahmedabad when textile workers got better d.a. However statistical proof is lacking in case of either argument.

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APPENDIX

Recommendations of the Dearness Allowance Commission on the Question  
of the Grant of Dearness Allowance to Central Govt. Employees in Future:

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- (1) Our recommendations specifically relate to the payment of additional dearness allowance in future to the employees.
- (2) Our recommendations do not affect prejudicially the dearness allowance which is being paid to the employees at present.
- (3) We recommend:
  - (i) that compensation to the employees for the future rise in prices should be given in the form of additional dearness allowance, as we consider that no alternative form of assistance is feasible and practicable;
  - (ii) that for determining the additional dearness allowance admissible from time to time the All-India Working Class Consumer Price Index (1949=100) be used until such time as the All-India Working Class Consumer Price Index (1960=100) is prepared, published and accepted, with a suitable linking factor;
  - (iii) that increases in additional dearness allowance be made with reference to every ten-point rise in the twelve month average of the said Index;
  - (iv) that additional dearness allowance be paid to such employees as draw basic pays ranging from Rs. 70/- to Rs. 575/- per month, as set out in the table below:  
(Table giving the percentage neutralisation amount of D.A., etc. for employees in different pay ranges is not reproduced).
  - (v) That in the event of a fall in prices, reduction in dearness allowance be made at the same rates and under the same conditions as for the rise in prices;
  - (vi) that any upward or downward adjustment in regard to dearness allowance, as specified in clauses (iv) and (v) above, should be automatic;
  - (vii) that the aforesaid recommendations should remain in force until the expiry of two years from the date of their acceptance or until the twelve-month average of the All-India Working Class Consumer Price Index (1949=100) reaches 245, whichever is earlier;
  - (viii) that at the expiry of two years as aforesaid, or immediately after the twelve-month average of the Index (1949=100) reaches 245, whichever is earlier, the Govt. should undertake the revision of pay scales of all the employees, and sanction suitable interim relief pending such pay revision;
  - (ix) that recommendations (i) to (viii) above are, and form part of, an inte-grated scheme.

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